

Unlike the 1980s, Texas Keeps Growing with Oil Prices Low

By W. Michael Cox and Richard Alm

While much of the rest of the United States struggled, the Texas economy bounced back smartly from the financial crisis and recession of 2008-09. The state added more than 1.5 million jobs from 2009 to 2014—about half of the nation's total employment gains in the period.

The Texas economy was humming along nicely in 2014—then falling oil prices put the good times in jeopardy. The benchmark West Texas Intermediate (WTI) price dropped below \$100 a barrel in late July, then continued to spiral through \$90 in October, \$80 and then \$70 in November, \$60 in December, \$50 in January 2015, and \$40 by year's end. WTI hit a low point just below \$30 a barrel in February 2016. It rebounded to \$40 by mid-March, but the overall slide exceeded 60 percent.

Remembering Texas' history, many feared the worst—for good reason. In the mid-1980s, a sharp plunge in oil prices sent the Texas economy into a tailspin, with many a fortune lost. As the oil money ran dry, real estate values plummeted, and just about all the big Texas banks went belly up.

Texas fell into a steep recession at a time when the overall U.S. economy was shifting toward higher growth. State GDP fell 3 percent in 1985-86, accompanied by a decline of 252,000 jobs, or 3.8 percent, between November 1985 and January 1987.

In percentage terms, the current oil-price collapse has been larger than the one in the mid-1980s—but outcomes for the Texas economy have been starkly different. As expected, oil-industry activity and employment have declined as crude prices fell over the past 20 months. The overall economy,

The Texas economy shrugged it off and bounced back, growing at an average annual rate of more than 4 percent from 1986 to 2005.

however, has continued to grow, adding 428,100 jobs.

The job figures highlight a momentous change in the Texas economy. In the eight decades after that fateful gusher at Spindletop in 1901, Texas was driven largely by the oil business—for good and ill. What's different now is that the state keeps moving forward without the boost from high oil prices.

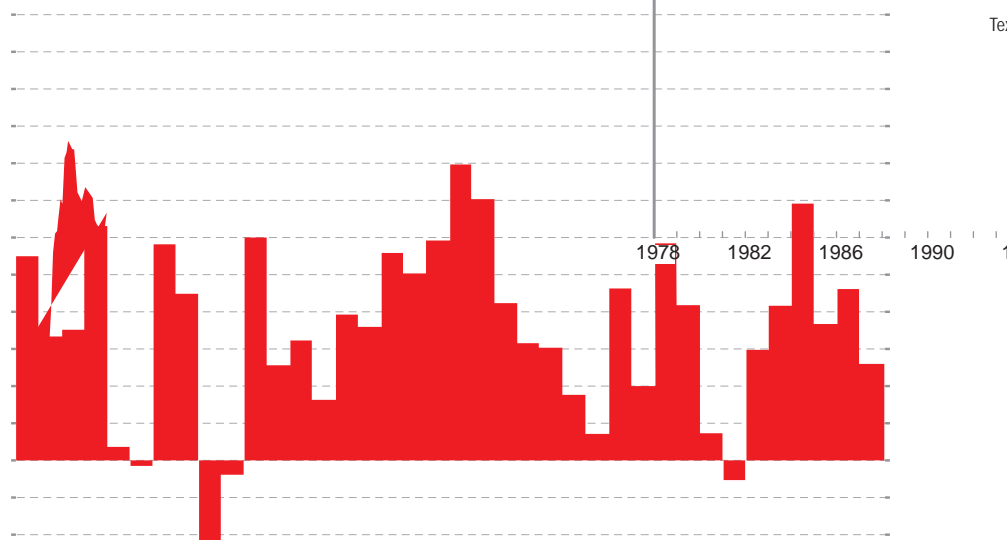
History doesn't repeat itself

Inflation-adjusted oil prices have been volatile over the past four decades,

notably soaring in 1979-80 and 2007-08 and plunging in 1985-86, 2008-09 and 2014-15 (see chart below, black line). Texas' inflation-adjusted state GDP growth, the broadest measure of the state economy's performance, clearly shows the oil bust's heavy toll in the mid-

Today, Texas' non-oil economy is 14.2 times larger than it was in 1980. Continued on page 2

OIL PRICES FALL—BUT NO REPEAT OF TEXAS' 1980



important part of the state economy. However, the business that had symbolized Texas for so long has become far less dominant as the state's entrepreneurs and businesses expanded other industries, giving the state economy a wider, sturdier foundation.

Let economic freedom ring

Commentators outside Texas like to portray the state as being just plain lucky, living off the bounty of the ancient seas that left behind the deadthe state's

has freed the Texas economy from the heavy hand of government, giving greater scope to markets to efficiently reallocate resources, create jobs and drive growth. Texas' business-friendly policies have attracted companies and migrants from other states and the rest of the world. From 2004 to 2014, net in-migration to Texas totaled 1.34 million, doubling the gains of second-place Florida.

States that rank low in economic freedom, like New York and California, saddle the companies of New York, like New York, with high taxes and regulations, sapping incentives for business expansion and job creation. These heavy burdens slow economic growth and lead to out-migration. New York and California lost a combined 2 million from 2004 to 2014.

More than 1 million Californians left the state to Texas than any other place. Most ex-New Yorkers headed to Florida.

People "voting with their feet" may signal a preference for greater economic freedom—but less-free states remain reluctant to emulate Texas. It's easier for them to attribute Texas' boom to oil rather than acknowledge the superiority of the state's model of greater economic freedom.

Housing prices are a key component of differences in the cost of living in major

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