the TEXAS economy

O’NEIL CENTER FOR GLOBAL MARKETS AND FREEDOM SMU COX exas gives the private sector

By W. Michael Cox and Richard Alm

exans tout their state’s prowess in creating jobs—with good reason. From January 2000 to June 2016, the Lone Star State led the nation with a net employment gain of nearly 2.4 million workers. Texas accounted for one in every five U.S. jobs added in the period.

Americans who live elsewhere don’t always take kindly to Texas braggadocio, and they may protest that the employment tally just reflects Texas’ size. So let’s take away this advantage by putting the gains into percentage terms. Texas still looks like a job-creation star, with the state third behind North Dakota and Utah in job growth as a percentage of 2000 employment levels.

The skeptics might persist by arguing that Texas prospers because of an oil industry that simply pumps wealth out of the ground. That view, however, bumps into an inconvenient fact—the state’s job-creation machine has continued to churn upward after oil prices fell by about 70 percent in 2014-15 (see The Texas Economy,March 2016).

If not size or oil, then what?

Our research points to the state’s high degree of economic freedom. By keeping taxes relatively low and government relatively small, Texas gives the private sector more room to work. Market signals guide decisions on starting companies, expanding output, introducing new technologies, redesigning products, staying competitive and, if necessary, going out of business. Economic freedom is good for companies, of course, but it’s good for workers, too—as we shall see.

Economic freedom may seem a subjective concept, tricky to quantify. In recent decades, however, economists have made great strides in using hard data to produce objective measures of economic freedom—first for nations, then for states. The annual Economic Freedom of North America (EFNA) report, co-authored by Dean Stansel, our colleague in the O’Neil Center, uses

regulations that impact pay rates, hiring practices, employment conditions, union membership, occupational quali cations and the procedures for cutting jobs or closing facilities when business conditions falter. These measures may be well-intentioned or self-serving; they may make some better off and others worse off. Yet, they interfere to some degree with the freedom of employers and individual workers to set terms of employment.

The EFNA report shows that state interventions erode labor-market freedom—but does it matter? To nd out, we’ll examine the relationship between labor-market freedom and state-level employment growth. Then we’ll turn to real wages to ask whether states with

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again look at the employment gains in percentage terms. The 10 states with the greatest labor-market freedom saw job growth of 18.6 percent since 2000 (