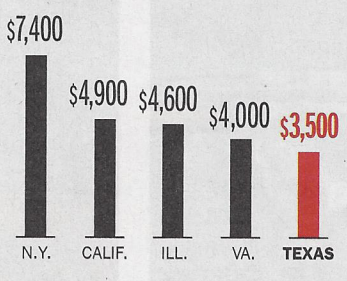


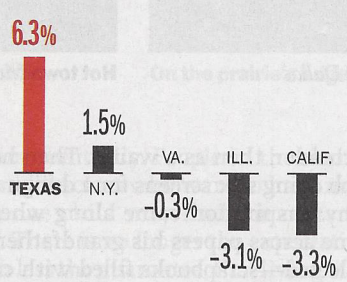
TAXES

State and local tax revenue per capita, 2011



JOBS

Change in employment Since 2007



Note: Income is for two-parent, two-child family; health care includes premiums and out-of-pocket expenses; four-year colleges are public and include tuition, fees and room and board
Taxes include property, sales, personal-income and corporate-income taxes
Sources: U.S. Commerce Department; *Governing* magazine; Zillow; Tax Policy Center; Economic Policy Institute



CHICAGO
Apartment
1 bed, 1 bath



AUSTIN
House
4 bed, 3 bath

in the two middle-income quartiles, Texas has created jobs for those vital middle-income workers too." From 2001 to 2012, the number of lower-middle-income jobs in Texas grew by 14.4%, and the number of upper-middle-income jobs grew by 24.2%. If you look at the U.S. without Texas over the same period, the number of lower-middle jobs grew by an anemic 0.1%, and the number of upper-middle jobs shrank by 6%.

"The bottom line," says Fisher, is that "we have experienced growth across all sectors and in all income categories ... If you pull Texas out of the puzzle of the United States, the rest of the country falls down!"

How did Texas do it? *Texas Monthly* senior editor Erica Griender credits the "Texas model" in her recent book, *Big, Hot, Cheap, and Right: What America Can Learn From the Strange Genius of Texas*. "The Texas model basically calls for low taxes and low services," she says. "In a sense, it's just a limited-government

approach." *Chief Executive* magazine has named Texas the most growth-friendly state in the nation for nine years in a row. The ranking is based on survey results from its CEO readership, who grade the states on the basis of factors such as taxes and regulation, the quality of the workforce and the living environment. Cheap land, cheap labor and low taxes have all clearly contributed to this business-friendly climate. But that's not the whole story.

"Certainly since 2008, the beginning of the Great Recession, it's been the energy boom," SMU's Weinstein says, pointing to the resource boom's ripple effect throughout the Texas economy. However, he says, the job growth predates the energy boom by a significant margin. "A decade ago, before the shale boom, economic growth in Texas was based on IT development," Weinstein says. "Today most of the job creation, in total numbers, is in business and personal services, from people working in hospitals to lawyers."

Of course, not everyone's a fan of the Texas model. "We are not strong economically because we have low taxes and lax regulation. We are strong economically because of geography and geology," says Scott McCown, a former executive director of the Center for Public Policy Priorities who is now a law professor at the University of Texas. "We've built an economy favoring the wealthy ... If that's the ultimate end result of the Texas model in a democratic society, it will be rejected."

So will the rest of the country follow Texas' lead? People are already voting with their feet. The places in the U.S. seeing significant in-migration are largely in relatively inexpensive parts of the Sun Belt. These are, by and large, affordable states with decent records of job creation—often with subpar public services and low taxes. Texas is just the most striking example. But Oklahoma, Colorado, the Carolinas and other parts of the South are benefiting from the same trends—namely that California, New York and the other high-tax, high-cost states are no longer such good deals for much of the U.S.'s middle and lower-middle classes.

The Americans heading to Texas and other cheap-living states are a bit like the mythical cowboys of our past—self-reliant, for better or worse.

THE NEW COWBOYS

FOR AMERICANS HEADING TO THESE PLACES, the likelihood is that they'll be facing slow-growing, stagnant or even falling wages. Yet it won't be the dystopia that it may sound like at first. Automation and globalization don't just make a lot of goods and services much cheaper—they sometimes make them free. There is already plenty of free online education, graded by computer bots, and free music on YouTube. Hulu and related online viewing services are allowing Americans to free up some money by cutting the cable cord. Facebook soaks up a lot of our free time, and it doesn't cost a dime. The near future likely will bring free or very cheap online medical diagnosis.

This suggests that wages and GDP statistics may no longer be the most accurate gauges of real living standards. A new class of Americans will become far more numerous. They will despair at finding good middle-class jobs and decide to live off salaries that are roughly comparable to today's lower-middle-class incomes.