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The Texas Omen

By PAUL KRUGMAN

These are tough times for state governments. Huge deficits loom almost everywhere, from California to New York, from New Jersey to Texas.

Wait — Texas? Wasn't Texas supposed to be thriving even as the rest of America suffered? Didn't its governor declare, during his re-election campaign, that "we have billions in surplus"? Yes, it was, and yes, he did. But reality has now intruded, in the form of a deficit expected to run as high as \$25 billion over the next two years.

And that reality has implications for the nation as a whole. For Texas is where the modern conservative theory of budgeting — the belief that you should never raise taxes under any circumstances, that you can always balance the budget by cutting wasteful spending — has been implemented most completely. If the theory can't make it there, it can't make it anywhere.

How bad is the Texas deficit? Comparing budget crises among states is tricky, for technical reasons. Still, data from the Center on Budget and Policy Priorities suggest that the Texas budget gap is worse than New York's, about as bad as California's, but not quite up to New Jersey levels.

The point, however, is that just the other day Texas was being touted as a role model (and still is by commentators who haven't been keeping up with the news). It was the state the recession supposedly

passed by, thanks to its low taxes and business-friendly policies. Its governor boasted that its budget was in good shape thanks to his “tough conservative decisions.”

Oh, and at a time when there’s a full-court press on to demonize public-sector unions as the source of all our woes, Texas is nearly demon-free: less than 20 percent of public-sector workers there are covered by union contracts, compared with almost 75 percent in New York.

So what happened to the “Texas miracle” many people were talking about even a few months ago?

Part of the answer is that reports of a recession-proof state were greatly exaggerated. It’s true that Texas job losses haven’t been as severe as those in the nation as a whole since the recession began in 2007. But Texas has a rapidly growing population — largely, suggests Harvard’s Edward Glaeser, because its liberal land-use and zoning policies have kept housing cheap. There’s nothing wrong with that; but given that rising population, Texas needs to create jobs more rapidly than the rest of the country just to keep up with a growing work force.

And when you look at unemployment, Texas doesn’t seem particularly special: its unemployment rate is below the national average, thanks in part to high oil prices, but it’s about the same as the unemployment rate in New York or Massachusetts.

What about the budget? The truth is that the Texas state government has relied for years on smoke and mirrors to create the illusion of sound finances in the face of a serious “structural” budget deficit — that is, a deficit that persists even when the economy is doing well. When the recession struck, hitting revenue in Texas just as it did everywhere else, that illusion was bound to collapse.

The only thing that let Gov. Rick Perry get away, temporarily, with claims of a surplus was the fact that Texas enacts budgets only once every two years, and the last budget was put in place before the depth of the economic downturn was clear. Now the next budget must be passed — and Texas may have a \$25 billion hole to fill. Now what?

Given the complete dominance of conservative ideology in Texas politics, tax increases are out of the

question. So it has to be spending cuts.

Yet Mr. Perry wasn't lying about those "tough conservative decisions": Texas has indeed taken a hard, you might say brutal, line toward its most vulnerable citizens. Among the states, Texas ranks near the bottom in education spending per pupil, while leading the nation in the percentage of residents without health insurance. It's hard to imagine what will happen if the state tries to eliminate its huge deficit purely through further cuts.

I don't know how the mess in Texas will end up being resolved. But the signs don't look good, either for the state or for the nation.

Right now, triumphant conservatives in Washington are declaring that they can cut taxes and still balance the budget by slashing spending. Yet they haven't been able to do that even in Texas, which is willing both to impose great pain (by its stinginess on health care) and to shortchange the future (by neglecting education). How are they supposed to pull it off nationally, especially when the incoming Republicans have declared Medicare, Social Security and defense off limits?

People used to say that the future happens first in California, but these days what happens in Texas is probably a better omen. And what we're seeing right now is a future that doesn't work.



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