

Lone Star rising

Also in this section

Tex-mix

The state's best and worst sides. Page 3

Work hard. Be nice

A new breed of school for some of the poorest kids. Page 4

Beyond oil

The Texan economy is becoming ever more diversified, but energy remains a favourite. Page 5

The red and the blue

Whisper it softly, but Texas looks set to become a Democratic state. Page 7

The new face of America

Texas is the bellwether for demographic change across the country. Page 8



Thanks to low taxes and light regulation, Texas is booming. But demography will bring profound changes, says Christopher Lockwood

Acknowledgments

Besides those mentioned in the text, the author would like to thank the following:

Angelos Angelou and Carrie Yeats, Angelou Economics; Dan Bellow, Jones Lang LaSalle; Michael Brandl, McCombs School of Business; Terry Britton, Port San Antonio; Robert Cavnar, Milagro Exploration; Susan Combs, Comptroller of Texas; Deirdre Delisi, Texas Transportation Commission; Jim Edmonds, Port of Houston Authority; Marc Farmer, Lubbock EDA; Steven Farris, Apache; Tony Garza, former US ambassador to Mexico; Tori Gaddis, Houston Strategies; Patrick Neal Jankowski, Opportunity Houston; Dana Johnson, Comerica; Elena Marks, Mayor of Houston's Office; Bill Miller, Hillco Partners; Tom Pauken, Texas Workforce Commission; Gregory Rodriguez, New America Foundation; Nestor Rodriguez, UT Austin; Brooke Rollins, Texas Public Policy Foundation; Mimi Schwarz, *Texas Monthly*; Shearwater; Russel Smith, Texas Renewable Energy Industries Association; William Sproull, Richardson Chamber of Commerce; Randall Terrell, Equality Texas; Dan Wolterman, Memorial Herman; Nelson Wolff, Bexar County Judge; Greg Wortham, mayor of Sweetwater; Antonio Zavaleta, UT Brownsville.

A list of sources is at

Economist.com/specialreports

An audio interview with the author is at

Economist.com/audiovideo

A country briefing on America is at

Economist.com/unitedstates

VISITORS to Governor Rick Perry's vast office in the Texas capitol building in Austin (with a dome a mite taller, naturally, than the one in Washington, DC) are sometimes offered a viewing of a triumphalist video. Entitled "The Texaplex", the seven-minute film is a hymn to the successes Texas has achieved in recent years, and they look pretty impressive.

Texas now hosts more *Fortune* 500 companies than any other American state. They include AT&T, Dell and Texas Instruments; oil giants such as Exxon Mobil, ConocoPhillips and Valero; American, Continental and Southwest Airlines; Fluor, a huge construction firm (recently lured from California); J.C. Penney; Halliburton; and 52 others. Texas claims to have been responsible for 70% of all the net new jobs created last year in America's 50 states, though since only a few states created any jobs at all that is not quite as astonishing as it sounds.

True, the film tactfully ignores the recession. Texas followed America into the downturn in September last year, almost a year after the rest. In May it shed a worrying 24,700 jobs, and the Dallas Federal Reserve now forecasts that between 315,000 and 350,000 jobs will go in 2009. But proportionately the May figure was still lower than for the nation as a whole, and Texas's unemployment rate, at 7.1%, was 2.3 points below the American average. Housing re-

possessions are still very rare; the state budget is still in surplus even as California and New York teeter on the edge of bankruptcy. Unlike those fellow states with large populations, Texas levies no personal income tax, and with almost unlimited space on which to build, its houses are big and affordable.

All this has brought people flooding in and made Texas America's fastest-growing state. Net domestic inflows have been running at around 150,000 people in recent years, whereas California and New York have seen net outflows. Next year's national census is expected to show that flourishing Houston has replaced struggling Chicago as America's third city. Of the ten largest cities in America, three are in Texas.

Those three, Houston, Dallas and San Antonio, together with the state capital, Austin, and Fort Worth, make up what the boosters call the Texaplex: a densely packed triangle, with each side measuring about 300 miles, that is home to roughly 80% of the state's population of 24m (second only to California's 37m). This "Texas triangle", containing America's third-largest airport (Dallas-Fort Worth) and its second-busiest port (Houston, despite being 50 miles inland), has emerged as one of the most dynamic regions in all of America.

Joel Kotkin, an urbanologist based in California, recently compiled a list for *Forbes* magazine of the best cities for job ►►

► creation over the past decade. Among those with more than 450,000 jobs, the top five spots went to the five main Texaplex cities—and the winner of the small-cities category was Odessa, Texas. A study by the Brookings Institution in June came up with very similar results. Mr Kotkin particularly admires Houston, which he calls a perfect example of an “opportunity city”—a place with lots of jobs, lots of cheap housing and a welcoming attitude to newcomers.

He is certainly right about the last point: not too many other cities could have absorbed 100,000 refugees, bigheartedly and fairly painlessly, as Houston did after Hurricane Katrina struck New Orleans. With vibrant Asian communities alongside its balanced Hispanic, white and black mix, with no discernible racial tensions, and with more foreign consulates than any American city except New York and Los Angeles, Houston is arguably America’s most enthusiastically cosmopolitan city, a place where the future has already arrived.

Wander round to the Senate side of the state capitol, though, and you will hear a different Texan tale. There, you might encounter Eliot Shapleigh, the Democratic state senator for a district centred on El Paso, on the extreme west of the Mexican border. Mr Shapleigh publishes his own report: “Texas on the Brink”.

His statistics are a lot less rosy. Texas has the highest proportion of people lacking health insurance of all 50 states; the third-highest poverty rate; the second-highest imprisonment rate; the highest teenage-birth rate; the lowest voter turnout; and the lowest proportion of high-school graduates. Mr Shapleigh is not surprised that these figures are so terrible: Texas spends less on each of its citizens than does any other state. Being a low-tax, low-spend state has not made Texans rich, though they are not dirt-poor either; their median income ranks 37th among the 50 states.

These two faces of Texas are hardly a paradox. Texas has one of the most unequal income distributions of any state, a legacy of the days when rich ranch-owners and oil billionaires were served by poorly paid ranch hands and roughnecks; and when Mexican immigrants crossed an essentially open border at will to toil away at sun-scorched farm jobs for pay that “Anglo” (non-Hispanic white) workers would not contemplate. You might call this Texas’s persistent “Southern” side, a contrast to its high-tech, urban and liberal “Western” side. These two aspects of Texas’s character and history still sit uneasily together, just as geographically the vast land-



mass of Texas belongs both to the South and the West.

Historically, a low-tax, low-spend model has served Texas fairly well, though the limitations of dependence on a few commodities (oil, cattle, cotton) were cruelly shown up in the mid-1980s. When the oil price crashed, the property market and then the entire banking system went down with it. Between 1982 and 1993 Texas saw 523 banks go under, and in the single year of 1986 its gross state product slumped by 3.1%. Since then it has been diversifying frantically, with considerable success.

Starstruck

But there are now two big reasons to think that the Texas model will need further revision. One is external to the state: the global economy has become a much more knowledge-intensive place, with even the oil business turning into a high-tech industry, so Texas needs more and better universities and schools. Embarrassingly for the state, only one of its universities (the small, private Rice University in Houston) makes it into the list of the top 20 universities in America, let alone the world.

In contrast to those *Forbes* ratings, the Kauffman Foundation, which promotes entrepreneurship, puts Texas only 18th in its ranking of states’ ability to take advantage of America’s “transformation into a global, entrepreneurial and knowledge- and innovation-based New Economy”. Texas falls down in a number of categories, most of them to do with education.

Kauffman ranks Texas 41st for the education level of its workforce as well as for the average education level of recent arrivals from elsewhere in America, suggesting

that too many of its newcomers are chasing low-end jobs. A committee on education appointed by Mr Perry concluded in January that “Texas is not globally competitive” and gave warning that it “faces a downward spiral in both quality of life and economic competitiveness”.

The other, even more important, reason to expect change is internal. In 2004 Texas became one of only four states in America where whites are no longer in the majority. On recent trends, Hispanics will be the largest ethnic group in the state by 2015. Since they tend to vote Democratic, this has big implications for Texas’s political make-up and for national politics. And an increasingly assertive Hispanic caucus, in an increasingly Democratic state, also seems sure to demand better schools and health care for the people it represents, who currently lag far behind the Anglos on any social indicator you care to name. Close to half of Latinos in Houston, for instance, fail to graduate from high school.

How Texas responds to these forces will determine its future. Get it right, and the state will remain business-friendly and globally competitive, with high employment and a rising standard of living. Get it wrong, and Texas could follow California (which “flipped” from Republican to Democratic control in part thanks to rapid immigration) down the road of high taxes and excessive regulation. This route has bankrupted California and is prompting a net 100,000 people to leave each year. Many of them head for Texas. One simple statistic tells that tale: it costs nearly three times as much to rent a self-drive van for a one-way journey from Los Angeles to Houston as the other way around. ■

Tex-mix

The state's best and worst sides

THOUGH the Texas model has many critics, its admirers tend to list the same advantages. The low tax burden (second-lowest in America) invariably comes top of the list. Arthur Laffer, inventor of the famous curve, reckons that one of the most important determinants of whether a state does well or badly is not just the overall level of taxes but their structure too. A high, progressive personal income tax, he says, is about the worst incentive-killer you could devise. Americans are highly mobile, so the most able will simply leave for another state. Mr Laffer himself left California for low-tax Tennessee three years ago because he felt that bad taxes were destroying the state's economy.

Progressive taxes are considered fairer, but better to leave it to the federal authorities to impose a progressive income tax, the same for every state. The nine states with a personal-income-tax rate of zero, Mr Laffer finds, had net domestic immigration of 4.5% of their population in the ten years to 2007; the nine with the highest marginal tax rates saw outflows averaging 2.2%. A high state tax on capital gains is also bad because it tends to be volatile, causing big budgetary problems. Texas does not have one of those either.

Next on its list of advantages usually comes the feeble state of its unions. Texas, like 21 others, mostly in the South, is a "right to work" state, so no one can be compelled to join a trade union. Only 4.5% of its workforce is unionised, against 12.4% nationally. Even where unions are well repre-

sented, as at the port of Houston, the management says they behave sensibly.

Then there is tort reform. Texas used to be a plaintiff's dream, with few restrictions on who could sue for what and where. Class-action suits against big corporations used to be heard by juries who made free with the defendants' money. George Bush (who was governor of Texas from 1995 until he headed off to greater things in 2000) partially reformed the system in 1995. Rick Perry, his successor, oversaw a second reform in 2003, concentrating on medical awards that were driving doctors away. Since then malpractice-insurance rates have fallen and the doctors have returned.

The state's sound public finances are often noted too: in the landmark legislative session of 2003 (Texas's legislature meets only every other year, for 140 days) Texas eliminated a budget deficit of close to \$10 billion and has not looked back. It is still in surplus, though only thanks to a large dollop of cash from the federal government. Since 1988 the state has maintained a "rainy-day fund", paid for by taxes on oil and gas companies, which is now worth \$6.7 billion; it can be raided only if two-thirds of both houses of the state legislature agree, and Mr Perry vows not to touch it in the current, arguably rainy, downturn.

A fourth factor is the amount of help that state and local government offers to business. Here purists on the right find common ground with those on the left who complain that companies are given generous tax breaks but education and

health are underfunded. All states these days compete to get businesses to move in; Scott McCown of the Centre for Public Policy Priorities (CPPPP) in Austin calls this "buying dates". Such incentives distort the market and benefit newcomers at the expense of established companies.

Texas's package of benefits is handsome. In 2003 its legislature voted in a Texas Enterprise Fund, with \$295m, since topped up, to spend on luring companies to Texas; that was followed two years later by a \$235m Emerging Technology Fund. These are among the biggest such funds anywhere in America.

The legislature also allows Texas city governments great latitude in designing their own inducements for business. Free land, cheap electricity, subsidies towards the wages of higher-paid workers, funds for training and long tax holidays are now essential weapons in municipal armouries. Most controversial are the "abatements" offered to big investors that exempt them from paying property taxes to the local school districts; in Texas, as in most states, these taxes are the schools' main source of funding.

Sprats and mackerels

Such inducements are helpful for the companies, but they also make business sense for the cities that offer them. Gary Lawrence, who heads the Economic Development Alliance of the city of Lubbock, in the Texas panhandle, explains that one electronics investment he backed cost the city \$4.7m in revenue forgone over ten years. But in return the company undertook to create 165 well-paid jobs, creating a demand for houses that is increasing income from property taxes as well as sales taxes. The \$4.7m should be written off in as little as three years. This kind of deal has put Lubbock on the map.

Mr Perry and the Republicans who have dominated both chambers of the legislature since 2003 can claim some credit for all those boosts to business. But they get none for Texas's biggest advantage: its sheer size. Larger in area than any country in the European Union and than any American state bar Alaska, Texas has huge amounts of space into which its cities can

Advantage Texas



► expand. This has allowed Houston to sprawl over some 600 square miles; it is probably the most spread-out big city in America and has no zoning restrictions, allowing the market to determine the best balance between retail, commercial and residential uses.

California is constrained by its mountains and the ocean, to say nothing of the demands of environmentalists keen to preserve its remarkable natural beauty. Texas, says Michael Lind, a fifth-generation Texan who writes about demography, identity, history and much else, “is flat and ugly. The Sierra Club is not going to kick up a fuss if Houston or Dallas keeps on growing.” He is being a little harsh; most of central Texas is perfectly nice-looking grassland. But there certainly is a lot of it.

Limitless space translates into low property prices; you can buy a 1,500 square foot (140 square metre) starter home for as little as \$100,000 in a decent part of Hous-

ton or Dallas; small rented homes in the grimmer parts of south-east Houston are advertised for as little as \$99 a week. With taxes and prices also lower, an incomer from California might easily save 30% or more of his salary by moving from Silicon Valley to the “Silicon Hills” of Austin.

Learning difficulties

Red McCombs is no bleeding-heart liberal. A lumbering giant of a man and one of Texas’s crop of a couple of dozen billionaires, he built his fortune by buying and selling everything from car dealerships to football teams. But he gets distinctly emotional about the poor performance of Texas’s educational system. “The biggest blight on our state”, he thunders, “is the terrible graduation rate from our high schools. Shame on us! It’s been that way for 30 years, and it’s getting worse. Have we been greedy, ignorant, uncaring? Maybe all of those things.”

Mr McCombs is not alone. Almost everyone interviewed for this report expressed concern about the poor state of Texas’s public schools and the mediocre record of its universities. Stephen Klineberg, professor of sociology at Rice University in Houston, puts it bleakly: “If we fail to turn our education system around, we will find that a whole generation has been locked out of the jobs market.” The drop-out rate from Texas’s schools is high across all three of the main racial groups, white, black and Hispanic, but it is the Hispanic drop-out rate that worries people most.

According to Mr McCown of the CPPP, the only answer is more taxation. “We advocate a state income tax,” he says, “and the emerging majority’s need for better education and health services will eventually produce one. The problem is that if we wait until then, we will lose a generation getting there.” Texas ranks 34th in terms of expenditure per pupil, but Mr McCown ►►

Work hard. Be nice

ACHEERY yellow building in south-west Houston may not look like the centre of an educational revolution, but appearances can be deceptive. Bedecked with upbeat slogans—“People make the difference”, “Think like a champion today”, “Be the constant, not the variable”—the building houses the main offices and assembly area of the KIPP Academy, Houston, the first of a network of 66 schools in 19 states and Washington, DC.

KIPP (Knowledge Is Power Programme) started in 1994 with a simple philosophy, encapsulated in its main motto, “Work hard. Be nice.” It stresses personal responsibility and hard work (even the youngest students can expect a couple of hours of homework a night, and teachers must be available on their mobile phones to help with it) and tells its pupils that “there are no short cuts.”

The KIPP schools are the most striking example of a movement that is improving education across America: the rise of “charter” schools. These are paid for by state governments and free for the students, open to anyone and, crucially, independent of often badly-run school boards. Head teachers have wide discre-

tion in the hiring and firing of teachers and are free to pay by results as they think fit. Charter schools are a mixed bag, but the best of them are achieving results most board-run schools can only dream of and are heavily oversubscribed.

Central to the KIPP programme is the contract that all students (or KIPPsters) sign before they join the school, which commits pupils, parents and teachers to do everything in their power to ensure that the pupils complete their courses and go on to a university. Critics say that this, in effect, excludes children from the most deprived families of all.

Still, around 70% of the academy’s students come from low-income families, and around 95% are either Hispanic or African-American. Typically, says Elliott Witney, the head of the academy, only about 7% of students from low-income families graduate from college; KIPP’s rate so far has been over 90%, though it has not yet quite achieved its goal of 98.6% (“body temperature”).

KIPP’s successes may be due to exceptional leadership, but according to Mr Witney there is no reason to think that they cannot be widely replicated. The rapid ex-

A new breed of school for some of the poorest kids

pansion of KIPP schools across the country is proof of that, and Mr Witney says these days there is no shortage of highly motivated young people who want to work as teachers in such schools. KIPP can hardly be the answer to all of Texas’s problems, let alone America’s. But along with the five campuses operated by YES (Youth Engaged in Service), with a very similar philosophy, it is an important part of it.



And play hard too

► reckons that it needs to spend more than the average, not less, because of the high proportion of its students that do not speak English at home, or at all.

Others disagree. If money were everything, California's children would have much better test scores than Texas's, but a recent study by McKinsey, a consultancy, shows the opposite. As it happens, Houston is the birthplace of two independent or "charter" school movements that are now taking America by storm: KIPP (the Knowledge Is Power Programme—see box, previous page) and YES (Youth Engaged in Service).

Neither requires increased spending; in fact, their costs per pupil are generally lower than those of the school districts in which they operate and compete. Their results have been phenomenal, with typical drop-out rates of less than 5%. But the number of charter schools in Texas is currently capped at 215, and a mere eight new ones were authorised last year. And only well-motivated parents tend to send their children there. However, there is some evi-

dence that their presence is encouraging the school districts to up their game.

For Texas's universities, there is probably no substitute for digging deep and spending more money, and the state government is trying to do just that. Embarrassingly, Texas has only three "tier-one" universities (generally defined as meaning that a university undertakes at least \$100m-worth of research a year). California has nine tier-one universities and New York state seven.

Buying brainpower

Texas's three are the University of Texas at Austin; A&M at the small town of College Station; and the tiny (and private, hence expensive) Rice at Houston. So none of Texas's three largest cities has a big tier-one university to its name. A bill passed by this year's legislative session commits the state to help no fewer than seven tier-two universities reach tier-one status. If voters agree in a referendum, up to \$680m could be available. Texas should also be saving money by cutting administrative costs at

the universities, which are way too high.

Other efforts are under way. Francisco Cigarroa, the chancellor of the University of Texas system and the first Hispanic ever to hold this prestigious job, says his board has authorised a \$150m fund to bring leading academics to Texas. The system, made up of 15 centres of learning, now has a \$3 billion fund (approved in a 2007 referendum that would surely have failed in just about any other state) to establish a world-class cancer foundation. It has just recruited a Nobel laureate as its chief scientist.

David Dewhurst, Texas's lieutenant-governor and president of the Senate (jobs that arguably make him the most powerful person in the state), says that Texas is still adding to its university enrolment whereas California's is contracting. "If you aren't making money, you can't expand," he says. That, in a nutshell, is the philosophy of Texas today. But allowing the state's schools and universities to improve enough to meet its future needs, while keeping the low taxes that businesses find so attractive, will be a tricky balancing act. ■

Beyond oil

The Texan economy is becoming ever more diversified, but energy remains a favourite

HIGHWAY 84, as it descends from Lubbock through Snyder to the small town of Sweetwater, is a road worth taking. Spread across the vast plain are thousands of windmills, gently turning in a favourable wind; not too slow, not too fast and, above all, fairly consistent.

Only as you draw near to one do you realise that these towers are the height of 40-storey buildings; their blades are the length of a jumbo jet's wing. They are clever too. Without human intervention, they can turn their heads and alter the pitch of their blades to make the most of the wind. They cost about \$5m apiece.

Sweetwater calls itself the windpower capital of America, and with roughly 3,300MW of installed capacity within a 50-mile (80km) radius the claim is not extravagant. Already endowed with oil and gas, Texas is blessed with a fair wind as well. Even stronger and more consistent winds are to be found further north along the "wind corridor" that stretches from the west Texas plains up through the panhandle and into Oklahoma and beyond. But for now these areas are too remote to

be connected to any of America's three main grids: the eastern, the western and Texas's very own ERCOT grid.

Another five transmission lines to ERCOT are therefore being built. Texas has already exceeded threefold a target it set itself in 1999 for the amount of power to be generated from renewables, almost wholly thanks to wind. And much more is planned: T. Boone Pickens, a famous local corporate buccaneer, plans eventually to install 4,000MW-worth of windmills in the panhandle, and to build his own transmission line to the main grid.

Wind is inherently variable, so it can never compete with the cheap and dirty coal that generates half of America's electricity. But powering up a coal station takes half a day, so electricity companies get their baseload from coal or nuclear sources and rely on something else to handle variations in demand. Most use natural gas; the latest gas generators can power up or down in five minutes. Wind makes an excellent substitute for some of that gas, and some of the most interesting "power plays" in Texas involve a mix of the two.

John Crew, manager of Republic Power Holdings in Dallas, says he is aiming to provide 6,000MW through a mixture of gas, wind and clean coal up in the panhandle.

Lucky Texas has abundant natural gas, too. Though it has seen no significant onshore oil finds for decades, it has done well with gas in the past few years. This is a matter of technology as much as geology. Since the turn of the millennium engineers have perfected the art of drilling horizontally through hard shale. One main vertical shaft can now branch out into as many as a dozen "legs", each perhaps 5,000 feet (about 1,500 metres) long; all this at depths of 8,000-13,000 feet.

As well as saving money, this makes it possible to extract gas from below urban areas—and, as with the lucrative Barnett shale, from under the Dallas-Fort Worth airport. East Texas also saw extensive provings in 2008. The Haynesville shale, which extends into Louisiana, is a huge find.

The search is now on for alternative uses for the fuel. The obvious one is to power vehicles with compressed natural gas (CNG). That would mean creating a ►►

► network of filling stations for private users, but public transport and some other commercial users could operate their own, and since CNG is much cheaper than petrol they could save money.

The environmentalists' holy grail is "clean coal" which does not produce greenhouse gases. That means capturing and sequestering the carbon dioxide released when the stuff is burned. With present technologies that is uneconomic. But what if there is a market for the CO₂?

The easily available oil from West Texas's Permian Basin, the richest oilfield in America, is mostly gone now. The best way to extract the remainder is to pump gas down to force the oil out. Oil companies use CO₂; once pumped down, it is trapped there. It may be economic to establish a clean-coal plant in or near the Permian Basin, trucking in the coal from Wyoming and selling the CO₂ to nearby oil operators. Several firms are now pursuing this idea in and around the oil town of Odessa.

Multi-trick pony

But hydrocarbons these days are only a small part of what drives Texas's resilient economy. Work by the Dallas Federal Reserve suggests that the economy's sensitivity to changes in the oil price has diminished to only one-sixth its level in the 1970s and 1980s. That helps to explain the relatively muted impact on the state of the oil-price crash at the end of last year.

A 2004 paper by Robert Gilmer, an economist with the Dallas Fed, has an interesting take on some of the forces that have helped Texas diversify. He argues that the four main cities of the Texas triangle should be seen as a vast single economic entity, separated only for geographical and historical reasons and complementing rather than competing with each other.

Thus, San Antonio handles trade with Mexico, which has been a huge boon to Texas since the creation of the North American Free-Trade Agreement in 1994: Texas has been America's biggest exporting state every year since 2002. Toyota's decision in 2003 to put a huge new factory and supplier park there had a lot to do with the Latin American market.

The Dallas metroplex is strong in telecoms, aerospace, distribution (four interstate highways converge there) and banking. Houston has oil and gas, but also NASA and the Texas Medical Centre, an agglomeration of 47 not-for-profit hospitals, medical schools and other institutions. Austin, as well as housing the machinery of state government, has developed into a



Austin's weird and wonderful side

thriving high-tech cluster. Inevitably there is overlap, and conflict; San Antonio has not forgiven Dallas for luring AT&T away last year. But Mr Gilmer argues that the cities are not so much rivals as partners.

A few conclusions can be drawn from all this. First, the role of government, at all levels from federal to local, has been surprisingly strong for a state that likes to think it typifies rugged individualism. The decision to put Mission Control in Houston back in 1961 kick-started that city's non-oil economy. San Antonio has boomed thanks to the presence of three large military bases, and the well-managed closure of a fourth in 2001 has created a vast new air- and rail-distribution port, mainly serving Mexico. Much of Dallas's electronics industry began with defence contracts.

The University of Texas at Austin, one of America's largest single campuses, has helped that city become a leading high-tech centre. Dell, one of America's 40 biggest companies, started life at the university in 1984, and smart industrial policy brought Sematech, a consortium involving the government as well as 14 big chip firms, to Austin in 1988. Scores of other tech firms have followed.

Second, Texas has benefited from transplants. Cheap property and low taxes have attracted corporate headquarters and startups alike. At a round-table organised for *The Economist* in Austin by Angelou Economics, a consultancy that specialises in matching "new economy" businesses with cities that want them, only two of the 12 entrepreneurs taking part were native Texans. Most of them cited non-economic as well as commercial reasons for being in

Austin. "Quality of place" is a phrase you hear a lot in Texas.

The Greater Houston Partnership, an alliance of hard-nosed businessmen that looms large locally, has worked well with Bill White, Houston's business-minded but green mayor, to support his clean-up of the city's air and water. Dallas, fearful of being outdone by Houston's top-notch Wortham arts centre, will soon have a spanking new opera house and a big theatre complex. The opera house was paid for by 300 families, each ponying up \$1m. A big part of Austin's draw is its music, and particularly its SXSW festival. Austin is a remarkably laid-back place, with all the advantages of being a blue city in a red state.

Third, geography counts for a lot. Texas's importance as America's leading trading state, and one of its main distribution centres, is bound to grow. Governor Perry's plans for a "Trans-Texas Corridor", a mighty new highway running north from Mexico across the state, was turned down as too expensive and disruptive, but large parts of it will be built anyway. Once the widening of the Panama Canal is completed in 2014, Houston will become an attractive port for Asian goods being shipped to the central and eastern states; it is already, in effect, the principal export port for prosperous northern Mexico.

Dallas-Fort Worth's enormous airport lies at the centre of a large number of logistics and distribution centres. Again, having oodles of space to expand into is crucial; Los Angeles, New York and Chicago, America's other big logistics centres, are all hemmed in.

Fourth, the memory of the 1980s banking crisis is still strong. Whereas banks in the rest of America have reeled, those in Texas remain in reasonable shape. Richard Fisher, the president of the Dallas Fed, puts it down to his state's particularly effective regulation. He is biased, no doubt; but Texas law does cap the loan-to-value ratio of mortgages at 80%. Without a big property boom this time around, prices did not have so far to fall.

And financial services in Texas, having been almost wiped out in the 1980s, are now expanding. Dimensional Fund Advisors, which has \$99 billion under management, moved from Santa Monica to Austin in 2006. Comerica, America's 23rd-largest bank, according to *Fortune*, moved its headquarters from Detroit to Dallas a year later. Texas is not about to become a big national banking centre, but these are further signs that an economy of cotton, cows and drills has become a lot more diverse. ■