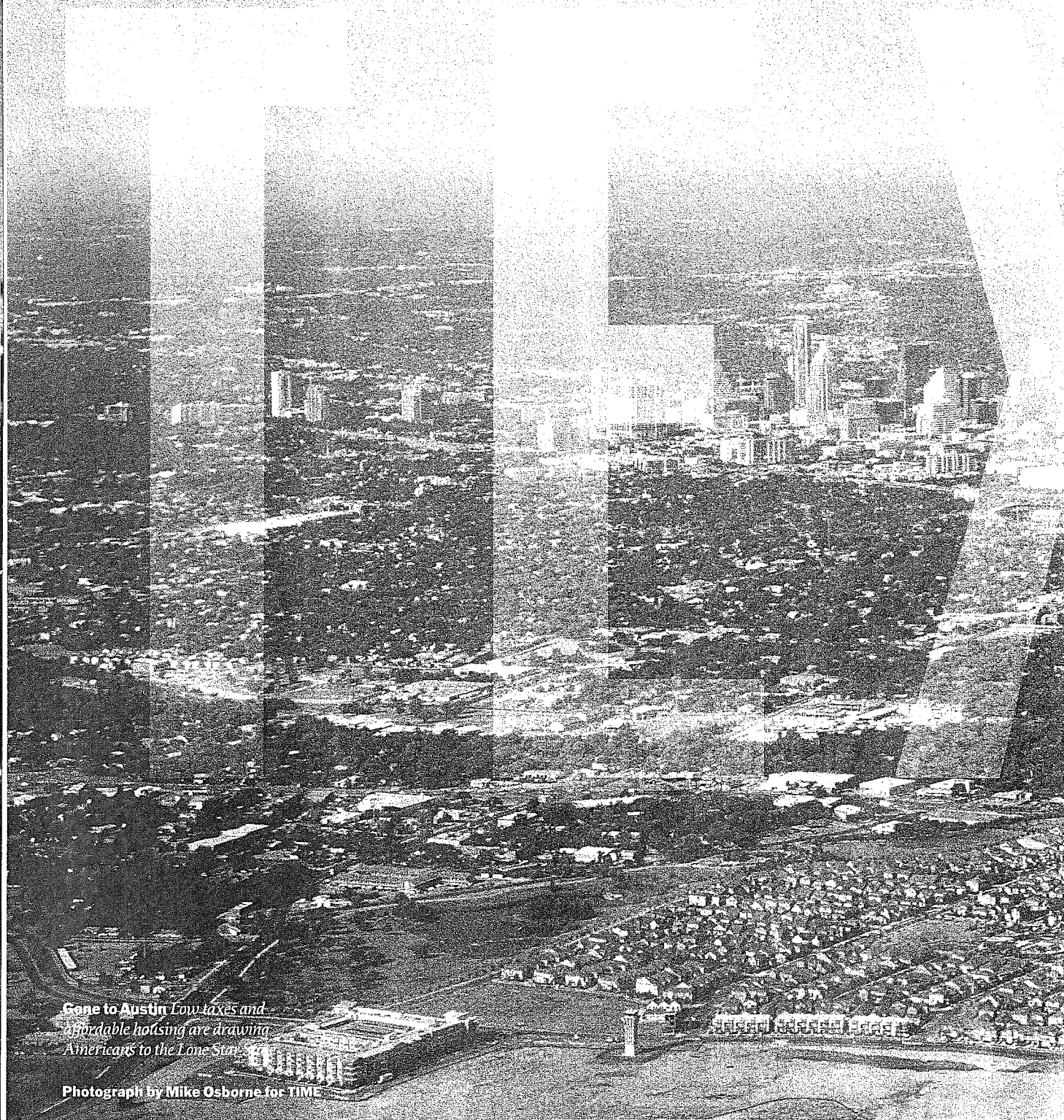


NATION

# WHY

**Gone to Austin** Low taxes and affordable housing are drawing Americans to the Lone Star State.

Photograph by Mike Osborne for TIME





AS TEXAS'S FAST-GROWING CITIES ARE IN TEXAS, IT'S MORE LIKE DESONY. BY TYLER COWEN



IS OUR FUTURE

# THEY SAY THE LONE STAR STATE HAS FOUR

seasons: drought, flood, blizzard and twist-er. This summer 97% of the state was in a persistent drought; in 2011 the Dallas-Fort Worth area experienced 40 straight days in July and August of temperatures of 100° or higher. The state's social services are thin. Welfare benefits are skimpy. Roughly a quarter of residents have no health insurance. Many of its schools are less than stellar. Property-crime rates are high. Rates of murder and other violent crimes are hardly sterling either. A recent report from the FBI found that the home state of Chuck Norris led the nation as the place the most people got punched or kicked to death in 2012.

So why are more Americans moving to Texas than to any other state?

Texas has acquired a certain cool factor recently. The pundit Marshall Wittmann has called it "America's America," the place where Americans go when they need a fresh start. The state's ethnic and cultural diversity has made places like Austin and Marfa into magnets for artists and other bohemians.

But I believe the real reason Americans are headed to Texas is much simpler. As an economist and a libertarian, I have become convinced that whether they know it or not, these migrants are being pushed (and pulled) by the major economic forces that are reshaping the American economy as a whole: the hollowing out of the middle class, the increased costs of living in the U.S.'s established population centers and the resulting search by many Americans for a radically cheaper way to live and do business.

One of these pioneers is Casey Colando. When he was just 19, he bought—sight unseen—five acres of Big Bend mountain desert country in Texas as an investment. It was just \$300 an acre, far away both culturally and geographically from his native upstate New York. Four years later,

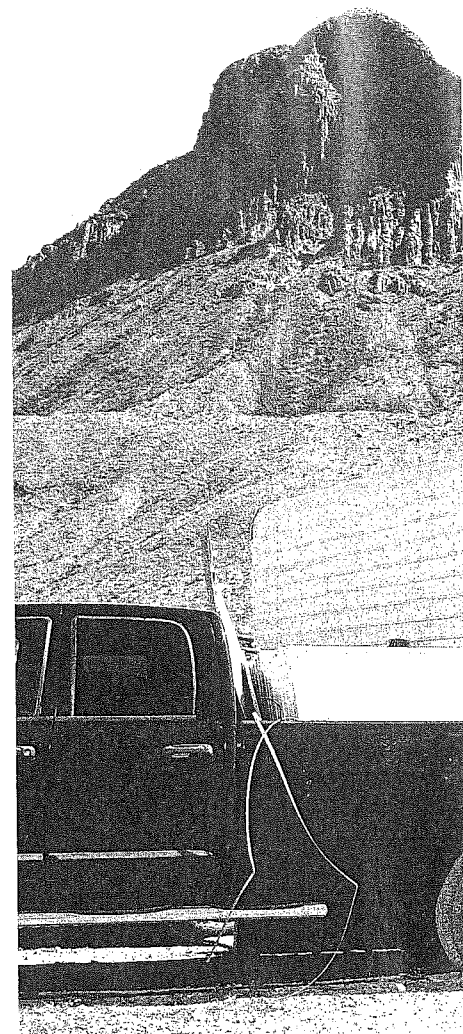
in 2008, Colando moved to his homestead in the magnificent but remote region of West Texas.

A graduate of the State University of New York at Canton, where he studied alternative energy, Colando now lives with his wife Sara some 80 miles from the nearest town (Alpine, pop. 6,000). The couple bought more land adjoining their original property, and they run an alternative-energy business that serves various settlers who have moved to this isolated corner of Texas—helping their neighbors eschew what Colando calls "the big electric company" and live off the grid by installing solar and wind power.

Colando says he first tried to launch his alternative-energy business in upstate New York. "It was difficult work for a small business there," he says. "The costs were higher, and there were fewer business opportunities, more regulations. So I came out West, and I haven't looked back."

To a lot of Americans, Texas feels like the future. And I would argue that more than any other state, Texas *looks* like the future as well—offering us a glimpse of what's to come for the country at large in the decades ahead. The U.S. is experiencing ever greater economic inequality and the thinning of its middle class; Texas is already one of our most unequal states. America's safety net is fraying under the weight of ballooning Social Security and Medicare costs; Texas' safety net was built frayed. Americans are seeking a cheaper cost of living and a less regulated climate in which to do business; Texas has those in spades. And did we mention there's no state income tax? (Texas is one of only seven states in the union that lack the levy.)

There's a bumper sticker sometimes seen around the state that proclaims, I WASN'T BORN IN TEXAS, BUT I GOT HERE AS FAST AS I COULD. As the U.S. heads



**Desert homesteaders** Casey Colando, with his wife Sara, runs an alternative-energy business in a remote part of West Texas

toward Texas, literally and metaphorically, it's worth understanding why we're headed there—both to see the pitfalls ahead and to catch a glimpse of the opportunities that await us if we make the journey in an intelligent fashion.

## AVERAGE IS OVER

THE FIRST THING TO UNDERSTAND ABOUT our more Texan future is what's happening to the American workforce on the whole: average is over.

More and more workers are leaving the middle class—headed both up and down—and fewer workers are moving into it. Median household income has fallen about 5% since the Great Recession ended in 2009; in that same period, 58% of job growth was in lower-wage occupations, defined as those paying \$13.83 an hour or less.

However, it's not that incomes are stagnant generally. Earners at the top have done very well—but the gains have been distributed quite unevenly. Last year the top 1% of earners took home 19.3% of household income, their largest share





since 1928. The top 10% of earners didn't do so badly either, taking home a record 48.2% of household income.

We know the forces driving this: globalization, advances in computing, and automation mean that Americans are facing tougher competition than ever before from workers overseas, machines and smart software. The individuals moving up the economic ladder are the ones who've responded to this competition by upgrading their skills and efforts. The ones moving down are largely those who have failed or been unable to respond at all.

The group struggling the most is the young. People with four-year college degrees earn less today than graduates did in 2000, and over time this will translate into persistently lower earnings. And too many young people today, even if they have jobs, have failed to establish themselves on career ladders. If we look at Americans ages 16 to 24 who are not enrolled in school, only 36% are working full time, 10% less than in 2007. A 24-year-old who is working part time for a website, as a Pilates instructor or in retail may be having fun, but he or she probably won't be receiving strong promotions a couple of decades down the line.

Meanwhile, the cost of hanging on to a middle-class lifestyle is increasing. As a 2010 report by the Department of Commerce found, looking at economic data from the past two decades, "The prices for three large components of middle-class expenses have increased faster than income: the cost of college, the cost of health care and the cost of a house."

Texas isn't immune to any of this, of course. But it just may be the friendliest state for those who worry about their prospects in this new normal. For starters, the job scene is markedly better (more on that in a moment). And more crucially,

**THEY'RE NOT THE  
VAGABONDS AND  
OUTLAWS OF THE 19TH  
CENTURY. BUT THEY'RE  
STILL 'GONE TO TEXAS'**

it's cheaper to live in Texas and cheaper to thrive there too. Don't underestimate the power of that lower cost of living, for it can be the difference between a trailer and an apartment—between an apartment and a home.

#### "... AND I WOULD GO TO TEXAS"

AS DAVY CROCKETT SAID IN 1835, AS HIS political fortunes ran out in Tennessee, "They might all go to hell, and I would go to Texas." The phrase *Gone to Texas* (sometimes abbreviated *GTT*) was the expression once used by Americans fleeing to the Lone Star State to escape debt or the law—posted as a sign on a fence or scratched into the door of an abandoned home.

While today's migrants aren't the vagabonds and outlaws of the 19th century, people are still "gone to Texas." Texas is America's fastest-growing large state, with three of the top five fastest-growing cities in the country, according to *Forbes*: Austin, Dallas and Houston. In 2012 alone, total migration to Texas from the other 49 states in the union was 106,000, according to the U.S. Census Bureau. Since 2000, 1 million more people have moved to Texas from other states than have left.

To get a sense of who these migrants are, consider Tara Connolly. In 2005 the New York City native was sharing a 500-sq.-ft. apartment with her then boyfriend in Cobble Hill, Brooklyn—a gentrified neighborhood where studio apartments rent for about \$2,000 a month and sell for about half a million dollars. Feeling stressed, restless and in need of a change, she read an article about Austin and decided to pack up and move, with little more than the hope of finding a job in her field, graphic design.

Eight years later, Connolly is in her mid-30s and works at a hip marketing company in Austin, and she's the owner of a vintage midcentury home twice the size of her old New York City apartment. It comes with a mortgage payment half the size of her big-city rent. "Buying a house was not something I was thinking about when I came to Austin," Connolly says. "But here you have people in their 20s buying houses."

When Connolly announced that she was moving to Austin, she was met with looks of alarm from her Bronx-born family. But she says that after visiting her and seeing her new home, her family has changed its tune. "They say they can't believe how green it is," she says. "They thought it was all tumbleweed."

Connolly's story is hardly unique. And the general pattern is by no means a new one, according to Bernard Weinstein, an economist and associate director of Southern Methodist University's Maguire Energy Institute. Weinstein has been observing the Texas economy for more than 30 years and says that "whenever the economy is bad in the rest of the country, that pushes people to the Sun Belt." Along with the affordable housing and a warm climate, newcomers are drawn by the notion that in the case of Texas, jobs are plentiful. Texas' unemployment rate is currently 6.4%—high for Texas but below the national rate of 7.3%.

And as Connolly's story shows, these pilgrims aren't coming just from places like Michigan, where a major industry has collapsed, but also from more prosperous states like New York and California. Over the past 20 years, more than 4 million Californians have moved to Texas, according to Weinstein. "That's two cities the size of Houston," he notes.

Jed Kolko, chief economist for San Francisco-based real estate website Trulia, says that from 2005 to 2011, 183 Californians moved to Texas for every 100 Texans who moved to California. "Home prices, more than any other factor, cause people to leave," Kolko says.

Why is California, for instance, so expensive and Texas so cheap? "God wanted California to be expensive," Kolko says, with its ideal climate and attractive but limited real estate squeezed between the mountains and the ocean. The demand for a piece of the California dream was destined to be expensive, and lawmakers passed strict building codes to add to the bottom line.

Texans might argue that they have some beautiful real estate too, but in the wide-open spaces surrounding the state's major urban areas, there is no ocean to constrict growth, and there are far fewer stringent rules. There are no zoning laws in many unincorporated areas beyond the booming urban centers, where Texas has lots of land.

The lower house prices, along with a generally low cost of living—helped along by cheap labor, cheap produce and cheap gas (currently about \$3 a gallon)—really matter when it comes to quality of life. For instance, the federal government calculated the Texas poverty rate as 18.4% for 2010 and that of California as about 16%. That may sound bad for Texas, but once adjustments are made for the different costs of

## ON THE MOVE

As middle-class incomes stagnate, Americans are seeking a cheaper cost of living

**U.S. income  
vs. cost  
of living**

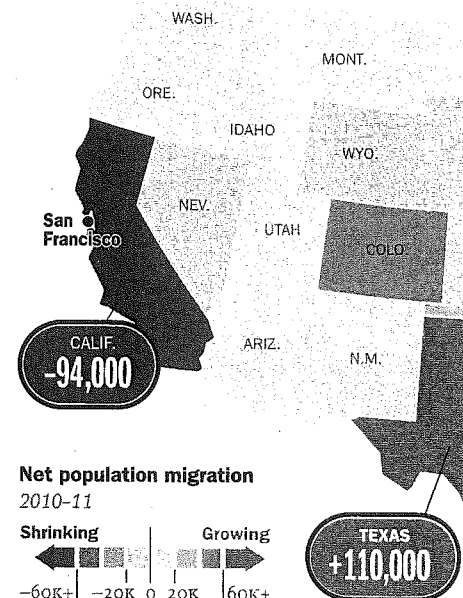
Change  
in prices,  
1990-2008

**+56%**  
HOUSING

**+60%**  
FOUR-YEAR  
COLLEGE

**+20%**  
FAMILY  
INCOME

**+155%**  
HEALTH  
CARE



### HOME PRICES

**\$300,000  
will buy  
you ...**



living across the two states, as the federal government does in its Supplemental Poverty Measure, Texas' poverty rate drops to 16.5% and California's spikes to a dismal 22.4%. Not surprisingly, it is the lower-income residents who are most likely to leave California.

On the flip side, Texas has a higher per capita income than California, adjusted for cost of living, and nearly catches up with New York by the same measure. Once you factor in state and local taxes, Texas pulls ahead of New York—by a wide margin. The website MoneyRates ranks states on the basis of average income, adjusting for tax rates and cost of living; once those factors are accounted for, Texas has the third highest average income (after Virginia and Washington State), while New York ranks 36th.

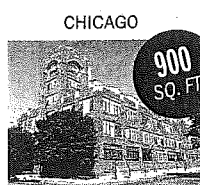
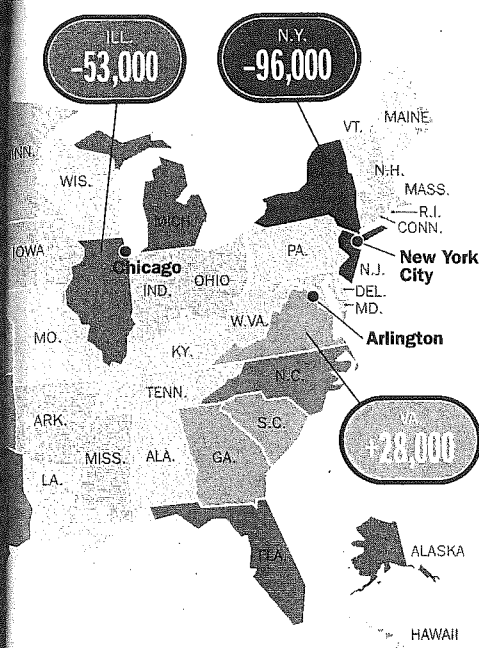
### THE TEXAS MODEL

OF COURSE, IT'S NOT JUST CHEAP LIVING that draws people to Texas. It's also jobs. In the past 12 months, Texas has added

274,700 new jobs—that's 12% of all jobs added nationwide and 51,000 more than California added. In a Moody's Analytics study, seven of the top 10 cities for projected job growth through 2015 will be in Texas. Four Texas cities topped the list: Austin, McAllen (in the Rio Grande Valley), Houston and Fort Worth. "For the past 22 years, Texas has outgrown the country by a factor of more than 2 to 1," Dallas Federal Reserve president Richard Fisher tells TIME, echoing an April speech in which he laid out the story of Texas growth at some length.

"My uninformed friends usually say, 'But Texas creates low-paying jobs.' To that I respond, You are right. We create more low-paying jobs in Texas than anybody else," Fisher says. "But we also created far more high-paying jobs." In fact, from 2002 to 2011, with 8% of the U.S. population, Texas created nearly one-third of the country's highest-paying jobs.

"Most importantly," Fisher says, "while the United States has seen job destruction



**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?

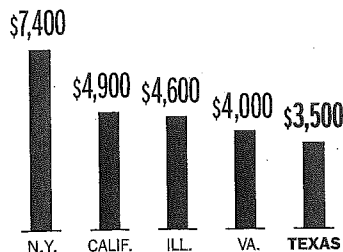
Texas Monthly senior editor Erica Griender credits the "Texas model" in her recent book, *Big, Hot, Cheap, and Right: What America Can Learn From the Strange Genius of Texas*. "The Texas model basically calls for low taxes and low services," she says. "In a sense, it's just a limited-government

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."

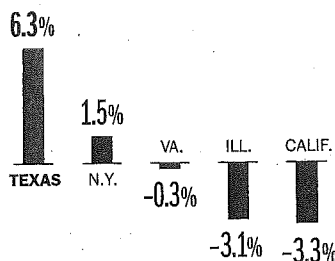
#### TAXES

State and local tax revenue per capita, 2011



#### JOB

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

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.

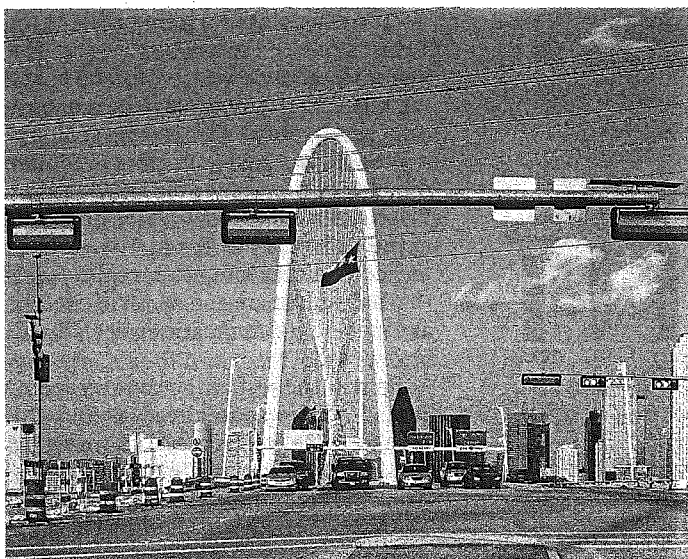
The Americans heading to Texas and other cheap-living states are a bit like the mythical cowboys of our past—self-reliant, for better or worse.

#### THE NEW COWBOYS

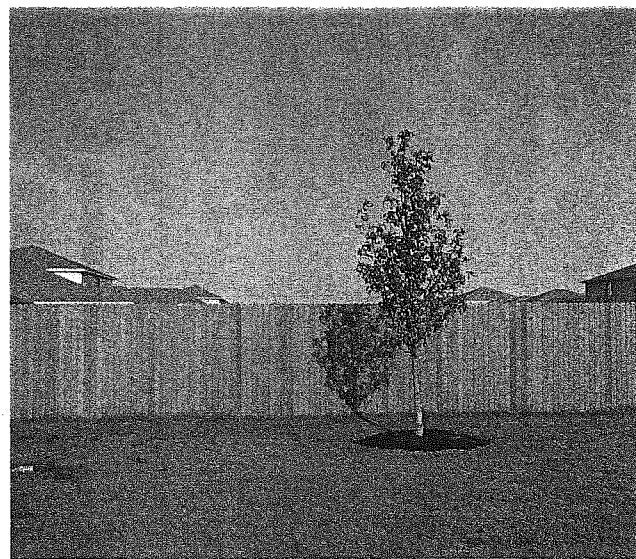
FOR AMERICANS HEADING TO THESE PLACES, the likelihood is that they'll be facing slow-growing, stagnant or even falling wages. Yet it won't be the dystopia that it may sound like at first. Automation and globalization don't just make a lot of goods and services much cheaper—they sometimes make them free. 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.





**Big D icon** A new bridge connects downtown and West Dallas



**Hot town** Manor, just east of Austin, is luring new residents

Some will give up trying so hard—but it won't matter as much as it used to, because they won't have to be big successes to live relatively well.

"The world of work is changing, and what we are learning is it's no longer about the 9-to-5, it's about the work itself," says Gary Swart, CEO of oDesk, a global job marketplace that sells tools to allow businesses to hire and manage remote workers. "Millennials, they are about how to make an impact ... They want freedom in their lives, and they care more about that than they do the financial rewards."

For an example of one of these "new cowboys," take Joe Swec. For most of his life, Swec, 32, has lived in beautiful (and, he notes, expensive) places. Born in the San Francisco Bay Area, he graduated from California Polytechnic State University with a degree in structural engineering and went to work in Healdsburg, working on the construction and restoration of several Sonoma County wineries. Then he headed south to work in Malibu. But he was not content.

"I wanted a career change," he says. "I wanted to do something more creative, and I would fantasize about being an artist."

So five years ago, Swec moved to Austin. "My friends thought I was crazy—why would I move to Texas?" he says. "They also wondered why I would leave a six-figure job. I saw it differently. I wanted my job to give me a happy life."

After moving, Swec first worked as a

bartender, then as a waiter. Then he got a job doing silk screens for a design company. Inspiration came along when he came across papers his grandfather had collected—scrapbooks filled with calligraphy and hand lettering. He found he had an affinity for the art of lettering, and as he worked on an outdoor mural, he wondered why he didn't do this for a living. So he took up a career as a sign painter.

His hand-lettered signs now appear on the walls and doorways of some of Austin's newest, liveliest restaurants and pubs. "My friends out in California don't understand why I like it here," Swec says. "But I have just developed a fondness for the local way of life."

In the coming decades, some people may even go to extremes in low-cost living, like making their home in micro-houses (of, say, about 400 sq. ft. and costing \$20,000 to \$40,000) or going

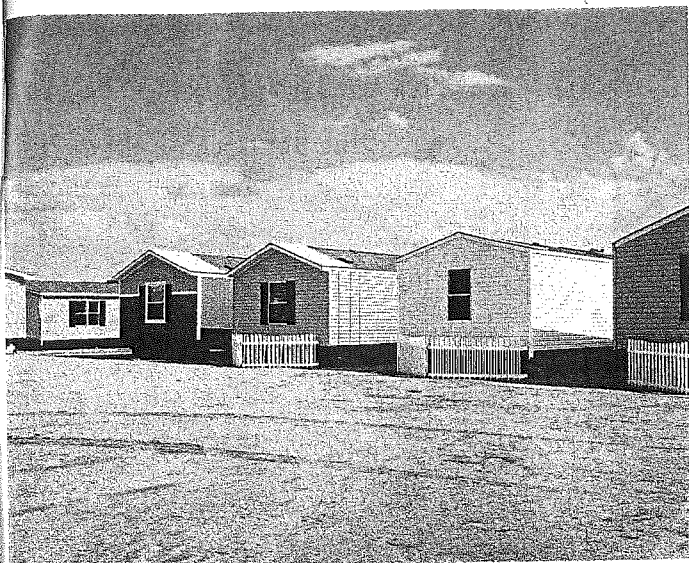
off the grid entirely. Brad Kittel, owner of Tiny Texas Houses, blogs about his small homes built from salvaged materials at [tinytexashouses.com](http://tinytexashouses.com). His business, based in the small rural community of Luling, east of San Antonio, offers custom homes, plans, and lessons on how to be a salvage miner. So far he has built about 75 tiny homes, and he has plans for a tiny-home community built around a sort of central lodge house. Kittel, 57, is a former Austin developer who pioneered the gentrification of a crumbling East Austin neighborhood in the late 1980s. These days most of his buyers are baby boomers. "Downsizing was just a whisper. Now it's turning into a mantra," Kittel says. "My generation, we were accumulators—big houses, big cars. But now we have no big resources."

The micro-home trend is being watched by traditional homebuilders as well. Texas-based developer D.R. Horton, a member of the New York Stock Exchange and one of the largest homebuilders in the country, built 29 micro-homes sized from 364 to 687 sq. ft. in Portland, Ore., last year for an average price of \$120,000 to \$180,000—admittedly far from the company's headquarters in spacious Fort Worth.

In some ways, the new settlements of a Texas-like America could come to resemble trailer parks—culturally rich trailer parks, so to speak. The next Brooklyn may end up somewhere in the Dakotas. Fargo, anyone?

Nonetheless, America, a historically

**WILL THE REST OF  
THE COUNTRY FOLLOW  
TEXAS' LEAD? PEOPLE  
ARE ALREADY VOTING  
WITH THEIR FEET**



**The price is right** *Manufactured homes on display in Austin*



**On the prairie's edge** *A new apartment complex in North Dallas*

flexible nation in cultural and economic terms, will adjust. One of our saving graces may end up being just how wasteful we've been in the past. It will be possible for many consumers to cut back significantly on spending without losing too much in terms of material well-being and happiness.

The new frugality born of the Great Recession is unlikely to give way to the old conspicuous consumption anytime soon, if consumer studies are to be believed. Nick Hodson, a partner and member of the consumer and retail practice at Booz & Co., points to his company's 2012 study of 2,000 grocery shoppers across the country. The study found that "value-seeking behavior" was here to stay.

"The recession caused about 20 to 30% more shoppers to adopt these behaviors as they adjusted to straitened personal circumstances or simply followed a set of perceived 'acceptable' frugal behaviors," the study concluded. "Today, 75 to 90% of consumers are exhibiting these frugal shopping behaviors. What's important is that a majority—perhaps two-thirds—of the newly frugal shoppers report that they will not revert to their previous behaviors as the recession ends."

## THE TRAIL AHEAD

THERE ARE, OF COURSE, MAJOR DOWNSIDES to the future I'm describing here. A lot of health care will become more expensive and harder to access. Many Americans will have to downsize their living quar-

ters involuntarily. People in the shrinking middle class who want to have more than one child may find the costs too high. There is no longer the expectation, much less the guarantee, that living standards double or even increase much with each generation.

But it's not all bad news—especially if we take the right steps to prepare. The flood of Americans moving to Texas shows us where we need to focus our attention; what these migrants have found in Texas shows us ways many of our cities and states can improve.

Most critically, across the country, our K-12 education system needs to be much more rigorous, so that more Americans will be prepared to succeed in the new high-tech era to come. Right now, labor markets and jobs are changing faster than schools, and that means graduates are being left behind. Education at all levels needs to be cheaper and easier to access—and family support for students needs to be much stronger as well.

There are also many small but important ways in which states and cities can adjust in order to incorporate some of the lessons Texas has to teach.

For instance, states could deregulate building so that rents and home prices could be much lower. Housing is one of the biggest costs in most people's budgets, and it will be difficult to bring those costs down without greater competition and significantly higher urban density. In other words: San Francisco needs

to become more like Houston when it comes to zoning.

Likewise, it would be a tremendous boon for low-skilled workers if we scaled back much of the occupational licensing that exists at the state and local levels. There's no reason a worker should need legal permission to become, say, a barber or a cosmetologist, as is currently the case in many states. Is there any good reason that Nevada, Louisiana, Florida and the District of Columbia should require interior designers to take 2,190 hours of training and pass an exam before having the legal right to practice? By relaxing these and many other requirements, we could create a lot more decent jobs and lower prices for consumers at the same time.

A little more freedom in strategically targeted areas—that is, a little more Texas—could go a long way.

Don't be scared. As Tara Connolly found, Texas is a welcoming place: "Everyone is just so friendly, and they look you in the eye." And she wouldn't even think of going back to New York City. "The constant stress doesn't seem appealing," she says. "The cost was insane, and it was time to start fresh. This was a good place to try." —REPORTED BY HILARY HYLTON/AUSTIN ■

*Cowen is a professor of economics at George Mason University. He is the author of Average Is Over: Powering America Beyond the Age of the Great Stagnation (Dutton, 2013).*



## Why Texas Is Our Future Discussion Questions

1. What are some of the crime, education, and social benefit trends found in Texas?
2. Why are more and more Americans seemingly headed to Texas?
3. Why did Casey Colando head to Texas?
4. How many states in the USA do not use the state income tax?
5. What is meant by “average is over” in relation to our workforce?
6. What group will struggle the most in the future USA?
7. Why does Texas offer hope to the youth?
8. Why are more and more Californians headed to Texas?
9. What kinds of jobs are being created in Texas?
10. How will globalization and downsizing impact the job choices for Millennials?
11. What are micro-homes? Why might they change the Texas landscape?
12. How will Texas schools need to change in the future?