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ECONOMY

Dance with the One Who Brung Ya

How Texas' economy can flourish after the wreckage of COVID-19 and low oil prices.

story by **W. MICHAEL COX AND RICHARD ALM**

TEXAS STRODE INTO 2020—A NEW YEAR AND a new decade—brimming with optimism. The economy had been on a roll for decades, and it seemed the state could overcome the potential storms on the horizon, including further weakening of oil prices or a fizzling out of the longest expansion in U.S. history. But just a few months into the new year, the global COVID-19 pandemic and ensuing shutdown policies clobbered economies everywhere, taking a secondary swipe at Texas by driving already depressed oil prices to lows not seen in decades. By mid-year, the state's economy was reopening but still reeling, and January's optimism had given way to uncertainty and maybe even pessimism.

Data on how badly the pandemic hit Texas' economy are still coming in, COVID-19 still

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lurks, and restrictions on business remain and could come back. With those caveats in mind, employment data probably give the best snapshot of what happened in Texas' economy.

The state had been adding jobs fairly steadily for decades, with total employment on the cusp of 13 million for the first time ever in February. By mid-March, however, the medical emergency caused governments to shut down businesses not deemed essential, leading to mind-boggling job losses. According to Federal Reserve Bank of Dallas' data, the knockout punch came in April—an employment decline of about 1.3 million jobs. Total employment fell below 11.7 million. With all the job losses, unemployment jumped to 13 percent, up from 3.5 percent in January and February. Every sector of the Texas economy lost jobs; hardest hit were leisure and hospitality, down 47 percent, and oil and gas, down 33 percent.

Many Texans worked from home while essential employees reported for duty, but the state's key labor-market measures still had their worst month on record—by far. The same could be said for just about all other states. Compared to Texas, the pandemic's first blows hit some states harder (Nevada, Michigan, Hawaii) and some states less hard (Oklahoma, Wyoming, South Dakota). With the collateral damage in the energy sector, Texas found itself in the middle of the pack in terms of the pandemic's labor market damage.

LOOKING TO A RECOVERY

The Texas economy will bounce back. The timing and strength of the recovery, however, will depend on what nobody really knows—how long it will take to get the pandemic under control, so governments can lift all restrictions and allow a return to normal economic activities. It might require the wide availability of a vaccine. What's happening to economies outside the state will matter, too. To prosper, Texas will need customers for its goods and services, including oil.

A middling economy seems almost un-Texan. Devastated by the oil bust of the mid-1980s, the state proved resilient by seizing new opportunities outside the energy industries. Out of the oil bust came today's more diverse Texas economy—for three decades, a leader among states in growth and job creation, with a knack for weathering downturns better than most other places.

Take a look back at the long, deep Great Recession. Bureau of Labor Statistics data put Texas' job losses from expansion's peak to recession's trough at 3.5 percent, compared to the nation's 6.3 percent. Texas also recovered more quickly. It took the U.S. economy more than four years to get employment back to its pre-recession level. Texas recouped its job losses and began to set new employment records after just 21 months.

The pattern holds for the 1990 and 2001 U.S. recessions—they were less severe and shorter in Texas. The reason wasn't the natural blessings found beneath the ground. The energy industry is generally pro-cyclical; it rises and falls along with the general economy, and oil and gas prices weren't particularly high—and they fell—in the three most recent recessions.

PRESERVING THE TEXAS MODEL

So, what was it, then? Texas has outperformed the nation in good times and bad because of the Texas model of economic freedom, with its embrace of free enterprise. The state keeps taxes relatively low and limits governments' role in the economy. The welcoming business climate gives companies room to grow while attracting workers and employers from out of state. A flexible, innovative private sector, attuned to markets' nuances and free to try new ideas, adjusts quickly to new realities, seizes new business opportunities and innovates to stay competitive.

The current recession arises from the COVID-19 pandemic and policies imposed to fight it. It's a medical issue, not any defect in the Texas model. Perhaps the greatest danger lies in policy blunders that would increase taxes or impose restrictions on economic activity. Once the disease abates and normalcy returns, Texans will have messes to clean up—public finances and corporate debt, for example—but the state's economy should be ready to roll again.

What propelled Texas' prosperity and past recoveries hasn't been lost; the wealth, skilled labor, entrepreneurial drive, and dynamism of economic freedom—all still exist. Bits of Texas' colloquial wisdom often find expression in country songs, and one refrain goes something like this: "Dance with the one who brung ya." That's the Texas model of economic freedom. D

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OUTLOOK

Muddling through may be the best Texas can do.

Texas and its big cities gradually lifted restrictions on businesses in May, allowing many workers to return to their jobs. The Dallas Fed's data indicate employment rebounded with an off-the-charts gain of 521,000 jobs in May and June. Optimistic Texans may see the spark of a recovery, but so much uncertainty remains, particularly after a resurgence in COVID-19 infections in July.
If nothing else, the May/June snapback suggests Texas' economy isn't fundamentally broken. Given the pandemic's persistence, muddling through may be the best Texas can do. Another broad economic shutdown can't be ruled out—but it seems unlikely under Gov. Greg Abbott's watch. The state's employment and other indicators should improve over the rest of this year and into the next—although perhaps not without some ups and downs.

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