

Barbecue vs. Gumbo: Economic Traits Tie Neighboring Texas and Louisiana

By Jason Saving and Michael Weiss

Even with a legacy of cultural differences as varied as their native cuisines, Texas and Louisiana still have much in common.

They are geographically contiguous, a roughly 240-mile border running between them, and they adjoin the Gulf of Mexico, from which some of the nation's busiest ports operate. They share a geology that begins in East Texas and extends through Louisiana, with vast deposits of fossil fuels and a regional topography that doesn't rise much above sea level. They also share a few historical traits, having been under the rule of many of the same entities, including Spain and the Confederacy.

Yet the states are perceived in radically different ways. Texas is often depicted as a fast-growing paragon of economic wherewithal, a hotbed of entrepreneurial initiative and opportunity. Louisiana is much less frequently described in such terms, though it's lauded for its unique culture and customs.

Economic and population statistics point up their differences. More than five Louisianas (52,271 square miles) could fit into one Texas (268,820 square miles). While Texas is the nation's second-most populous state (and growing), with 26.1 million residents as of 2012, Louisiana is 25th-most populous, with 4.6 million people, a base it has struggled to expand since Hurricane Katrina struck in 2005.

Texas' economic output, reflected in its real gross domestic product, has more than doubled since 1990; Louisiana's is just one-third larger over the period (*Chart 1*).

Texans' well-being has improved relatively more, with personal income rising 42 percent since 2000 versus 33 percent next door.

Income growth accelerated in Texas beginning in 2010, coinciding with expanding shale oil and gas exploration. Until 2010, personal income in the two states grew similarly—sometimes more in one than in the other, as in Texas during the 12 months immediately after Hurricane Katrina and in Louisiana during the year after that as rebuilding took hold.

In the last 30 years, as energy boomed, busted and boomed again, Texas diversified economically into the service sector and “knowledge” fields such as information technology; Louisiana largely stayed the course, albeit while overcoming the devastation of Katrina, one of the worst natural disasters to hit the U.S.¹ The shale energy revolution, providing new exploration and resource opportunities for both states, may offer Louisiana a new economic impetus for accelerated growth.

As is often the case, broad-brush overviews, while providing useful perspective, may overlook some subtleties.

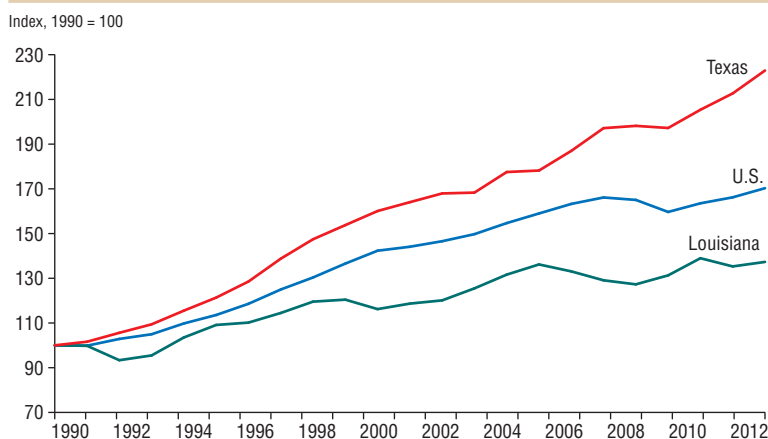
In reality, some of the same factors drive economic growth in Texas and Louisiana. While there are real differences between the two states—barbecue versus gumbo—a closer examination of those factors is particularly revealing.

Assessing Business Climate

One place to start is the states' overall economic environment. All other things equal, economists have generally found that better business climates bring faster economic growth and, thus, more opportunities for workers and firms, though many other factors play a role. How do the two states stack up?

Data support the popular perception that Texas presents its residents with fewer economic constraints than the average state. The nonpartisan Fraser Institute's annual rankings, for example, place Texas second among the states for business-friendly climate. The measurement, derived from a

Chart 1 Real Gross Domestic Product Growth



SOURCE: Bureau of Economic Analysis.

10-point scale measuring 10 characteristics, broadly covers size of government, tax policies and labor market regulations (*Chart 2*).

Texas scores well primarily because of government’s relatively small share of the economy and the relatively small per capita transfer payments disbursed for welfare and nutrition programs, bolstering the amount of resources remaining in the hands of individuals and businesses to consume or invest as they see fit.

Louisiana isn’t far behind, however. Its business climate ranks seventh, scoring above the national average in Fraser’s three general categories—government, taxes and labor relations. However, Louisiana’s scores over the sample period (2001–07) were much more volatile than Texas’, suggesting Louisiana firms faced a somewhat less certain business environment over that period.

Outside of Fraser’s measurement, legal idiosyncrasy can also play a role—though a difficult-to-quantify one—in an area’s business environment. Louisiana’s adherence in noncriminal matters to a form of the Napoleonic Code—not unlike another former French colony, Quebec—gives greater weight to custom and adherence to a broad civil code than does the com-

mon-law framework practiced in Texas and elsewhere in the U.S. The predominant framework relies more on legal precedent.² The difference can present a challenge to doing business in Louisiana without local counsel.

The ‘Skill Premium’

But putting one’s state on a better growth path over time is not simply about trimming government and making the system more transparent. In a global economy characterized by ever-increasing levels of competition, human capital has emerged as an ever-more-important determinant of growth.

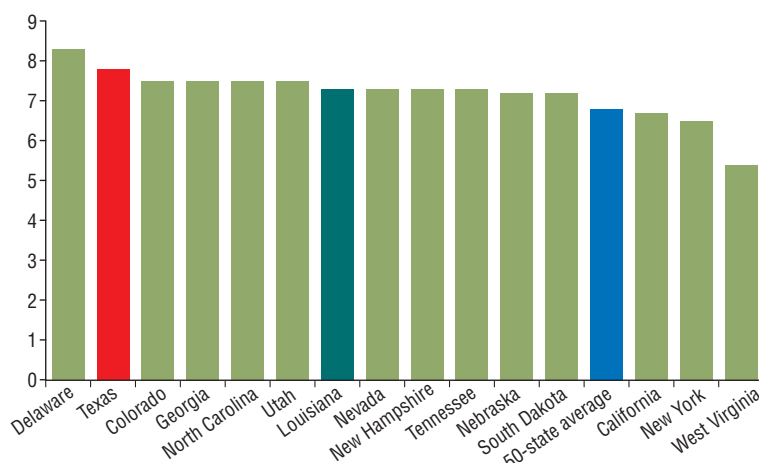
The “skill premium” between highly and less-well educated workers has grown substantially, and there is every reason to believe it will continue to do so. This means the education system (particularly grades K-12), which is primarily state run and state funded, has a profound impact on longer-term growth by directly affecting students’ higher-education outcomes.

U.S. states spent on average \$10,580 per student on K-12 education in 2011 (the last year for which full data are available) (*Chart 3*). Texas spent 18 percent less than the national average over that period, placing it 43rd. Louisiana, on the other hand, spent 1 percent

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Chart 2 | Texas, Louisiana Rate High in Business Climate Index

2010 score (1 to 10 scale)



SOURCE: Fraser Institute.

more than the average, \$10,723, ranking it 23rd. (New York was the highest, \$19,067, and Utah the lowest, \$6,212.)

However, funding is not the only determinant of educational success, and broader measures suggest the states are on more equal footing than might be implied by the spending figures. Despite its above-average per-capita education spending, Louisiana ranks 48th in student performance, as measured by results for fourth-grade math competency in the nation's premier benchmark test, the National Assessment of Educational Progress (*Chart 4*). Texas placed 24th, with scores that almost mirror the national average. (Massachusetts was No. 1 and Mississippi No. 50.)

Infrastructure is another factor helping drive long-run economic growth. Texas, with its sprawling size, spends \$7.9 billion per year on its highways, the second-highest amount in the nation, but its per-capita spending level of \$319.41 puts it 8.5 percent below the national average. By contrast, Louisiana's \$2.1 billion yearly expenditure produces a per capita spending level of \$474.63, nearly 36 percent above the national average (*Chart 5*).

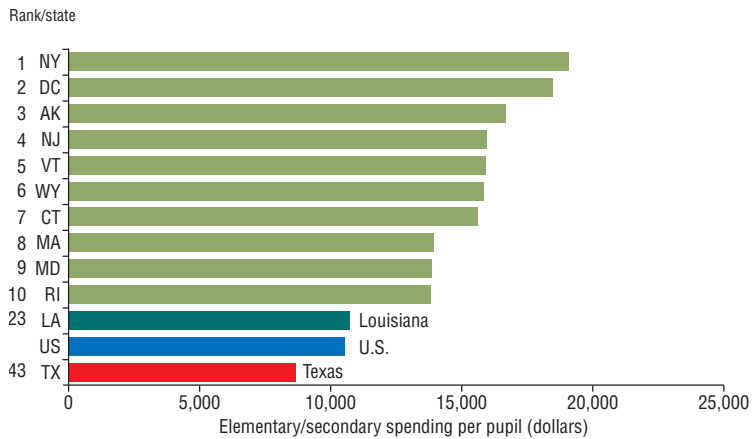
The difference may be partially attributable to Louisiana's costly and numerous elevated roads over marshes and swamplands, such as the 18-mile Atchafalaya Basin Bridge on Interstate 10 between Baton Rouge and Lafayette.

Again, total spending doesn't tell the whole story. The most recent Annual Highway Report finds that Texas roads and bridges were the 11th best in the nation, though its urban congestion was 4 percent above the national average and its overall fatality rate was 17 percent higher than the national norm. Louisiana's state highway system was ranked 35th, with an even higher fatality rate and a 71 percent greater likelihood that any given mile of interstate highway will be in poor condition.

Ports of Plenty

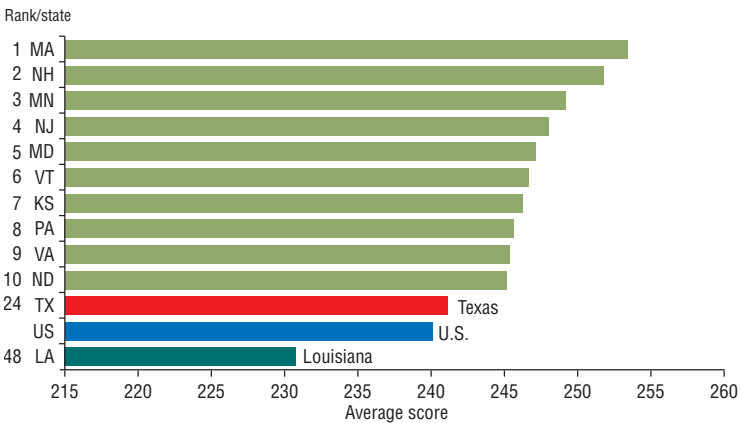
Texas and Louisiana have historically been open to waterborne trade. From the days when cotton was exported from New Orleans and Galveston, to

Chart 3 Texas Trails Louisiana, Nation in Spending Per Pupil



NOTE: Based on rankings of the 50 states plus the District of Columbia.
SOURCE: Census Bureau.

Chart 4 Louisiana Trails Texas, Nation in 4th Grade Math Testing



NOTE: Based on rankings of the 50 states plus the District of Columbia.
SOURCE: National Center for Educational Statistics, 2011.

more recent times, when petrochemicals and petroleum products have flowed from ports along the Gulf Coast, geographic happenstance ensured that waterborne trade would become a key component of both states' economic well-being. This is evident in an examination of port tonnages, with nine of the nation's 12 largest ports—including the two largest—found in the two states.

There are also important geographical differences that bear on the overall trade picture in the two states. Mexico's opening to trade and emergence as a player in the international economy have greatly expanded the

movement of goods in recent years, a trend that has disproportionately benefited its largest trading partner, Texas. Exporters have to some degree also chosen to locate in Texas due to its proximity to Mexico, causing Texas to surpass more-populous California as the nation's largest exporter. Louisiana has participated in this boom to a much lesser extent.

Reflecting these differences, more than one-third of Texas exports flow to Mexico, while Louisiana, which is one state away from the Mexican border, exports more goods to China (13.2 percent) than Mexico (10.7 percent) (*Chart 6*).

The relatively limited trade relationship with Mexico has also contributed to Louisiana exporting a more narrow composition of goods than Texas. For example, over 29 percent of Louisiana exports are petroleum products versus a smaller but still-large 13 percent for Texas. One-third of Louisiana exports are corn and soybean products, many arriving for loading from growing states upstream along the Mississippi River; Texas has comparatively little agricultural pass-through.

Still, both states make a disproportionately large contribution to total U.S. exports—17.1 percent of U.S. exports come through Texas even though only 8.1 percent of the U.S. population resides in the state, and 4.1 percent come through Louisiana even though only 1.5 percent of the population lives there.

Investing in the Future

Texas and Louisiana are geographic neighbors that share many characteristics and face many common challenges. From their roots as southern states whose fortunes were closely tied to export markets, each has in its own way emerged as an important player on the global economic stage.

Perhaps the single-largest challenge ahead for both states lies in investing in human capital by improving and expanding education. As globalization and technological change skew U.S. labor demand toward high-skill

occupations, state education systems will need to rise to the challenge.

Especially in Louisiana—a state that receives relatively little domestic in-migration and also relatively few immigrants—policymakers will face substantial pressure to improve the K–12 education system or watch jobs leave to neighboring jurisdictions.

Such short-term pressure is somewhat less in Texas due to the large number of well-educated immigrants it receives from other states and nations and to the relatively high number of immigrants from points south who are willing and able to enter lower-skill occupations. But Texas will also need to improve the quality of its public

schools over the long run if it is to move up the value-added ladder.

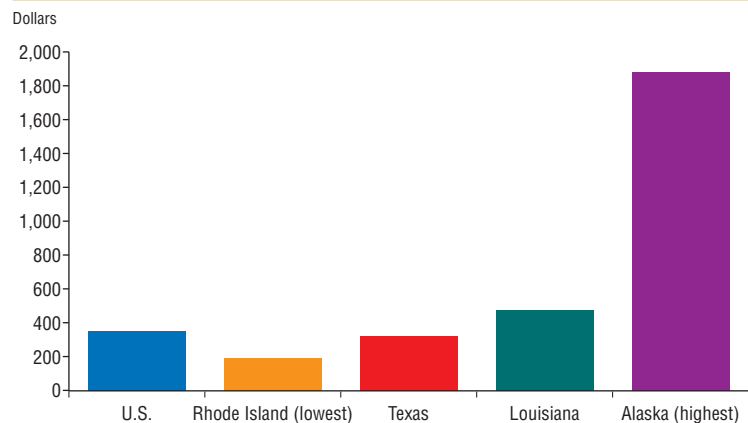
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Notes

¹ See “The Economic Aftermath of Hurricane Katrina,” by Jacob Vigdor, *Journal of Economic Perspectives*, vol. 22, no. 4, 2008, pp. 135–54.

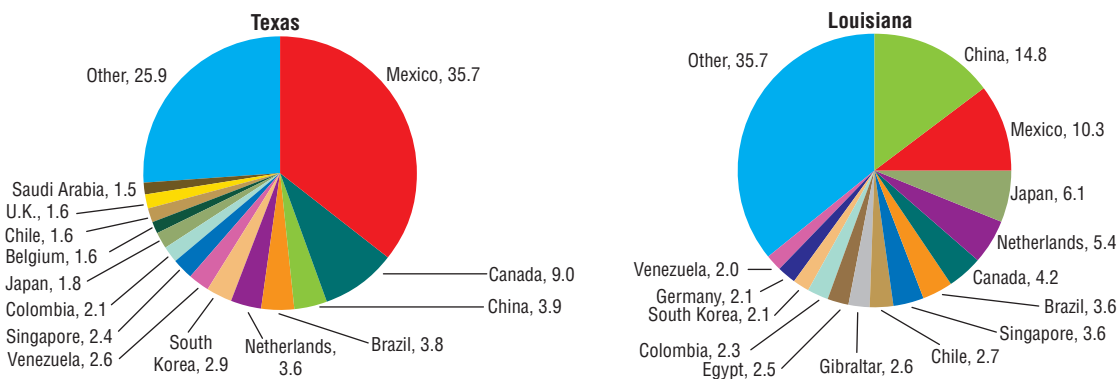
² See “The Civil Codes of Louisiana,” by A.N. Yiannopoulos, *Civil Law Commentaries*, Tulane University Law School, vol. 1, Winter 2008. Also, “Louisiana Begins to Slip Its Legal Ties to France,” by Lis Wiehl, *New York Times*, Oct. 13, 1989.

Chart 5 Louisiana Tops Texas in Per Capita Highway Spending



SOURCES: Census Bureau; Federal Highway Administration.

Chart 6 Top Export Destinations: Texas vs. Louisiana
(Value of total exports, percent)



SOURCE: Census Bureau, 2013.