

Texas Leads Nation in Creation of Jobs at All Pay Levels

By Melissa LoPalo and Pia M. Orrenius

▶ *Even while the state is adding a disproportionate share of jobs, its record of robust employment growth has been clouded by questions concerning the quality of the new positions.*

Texas was among the first states to emerge from the 2007–09 Great Recession, surpassing its prerecession employment peak in late 2011. Meanwhile, the nation as a whole has yet to regain the jobs lost in the recession—as of December 2013, the U.S. remained over a million jobs short of its prerecession high.

Even while the state is adding a disproportionate share of jobs, its record of robust employment growth has been clouded by questions concerning the quality of the new positions. Echoing what appears to be a common perception, one Texas state representative quipped in 2011, “If you want a bad job, go to Texas.”¹

There are several reasons casual observers conclude that Texas creates “bad jobs.” Average wages have historically been lower in Texas, along with median household income. The state also has a large share of workers earning the federal minimum wage. According to the Bureau of Labor Statistics, 7.5 percent of hourly workers in Texas in 2012 were paid at or below the federal minimum wage, compared with 4.9 percent nationally.²

Texas’ share was second only to Idaho’s, at 7.7 percent.

Furthermore, Texas has the ninth highest Gini coefficient—a common measure of income inequality³—and the highest share of residents without health insurance in the U.S.⁴

Given this mixed record on wages and income, it might seem surprising that household survey data indicate Texas creates more high-wage than low-wage jobs and that average wages have risen slightly in real (inflation-adjusted) terms since 2000. The nation’s record is markedly less positive and points to labor market polarization, described by labor economists as a long-run trend that erodes job opportunities for those in the middle of the wage distribution.

Job Growth by Wage Group

There are many ways to measure the quality of a job. Wage rate is one way; fringe benefits and hours worked are two others. Jobs can also be evaluated on working conditions and opportunities for advancement. This analysis focuses on hourly wages (for salaried jobs, weekly earnings divided by hours worked) and uses the Bureau of Labor Statistics’ Current Population Survey (CPS) data to measure hourly wages among workers age 16 and older.⁵ Wages were ranked in ascending order, and the resulting U.S. wage distribution was divided into quartiles for the base year (2000) (*Table 1*). Employment changes between 2000 and 2013 were then calculated for each quartile.

Texas experienced stronger job growth than the rest of the nation in all four wage quartiles from 2000 to 2013, even in the middle two wage quartiles, where growth in the rest of the nation was negative and zero, respectively (*Chart 1*).⁶ In Texas, the two upper wage quartiles grew at 28 and 36 percent,

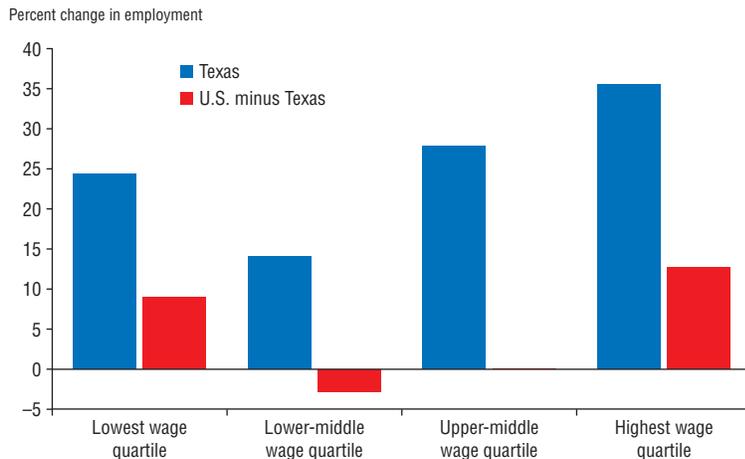
Table 1 | Employment Change by Wage Group Since 2000

Wage quartile	Hourly wages	Change in employment (thousands of jobs)	
		Texas	U.S. minus Texas
Lowest	Less than 11.42	627.9	2,329.6
Lower-middle	11.42–16.92	298.2	–731.4
Upper-middle	16.93–26.04	512.7	11.4
Highest	Above 26.04	618.3	3,398.5
Total		2,057.1	5,008.2
Total percent change		24.9	4.7

NOTE: Wages are in real December 2013 dollars.

SOURCE: Authors’ tabulations of Current Population Survey Merged Outgoing Rotation Groups 2000, 2013.

Chart 1 | Texas Creates Jobs Across the Wage Distribution
(Job growth by wage quartile, 2000–13)



SOURCE: Current Population Survey Merged Outgoing Rotation Groups 2000, 2013.

▶ The data show Texas has experienced far greater growth of ‘good’ jobs than the rest of the nation has since 2000.

respectively, over the 13-year period, corresponding to average annual rates of 2.1 and 2.7 percent. The 13-year figures for the rest of the nation were 0 and 13 percent, corresponding to average annual rates of 0 and 1 percent. In sum, the data show Texas has experienced far greater growth of “good” jobs than the rest of the nation has since 2000.

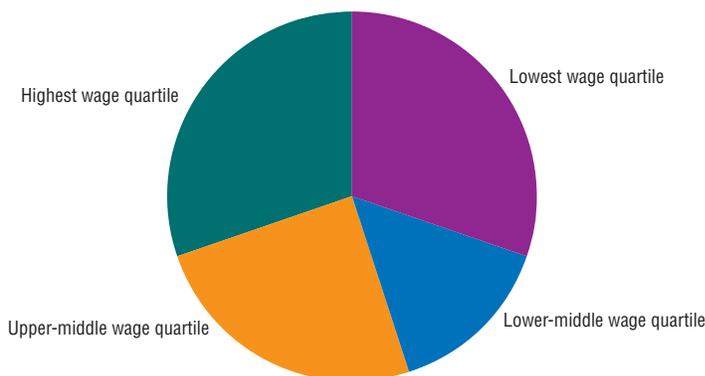
Texas has also created more “good” than “bad” jobs. Jobs in the top half of the wage distribution experienced disproportionate growth (Chart 2). The two upper wage quartiles were responsible for 55 percent of net new jobs. A similar

pie chart cannot be made for the rest of the U.S., which lost jobs in the lower-middle quartile over the period. Between 2000 and 2013, Texas household survey employment overall grew 24.9 percent, while employment in the rest of the U.S. expanded just 4.7 percent.⁷

Labor Market Polarization

Job growth trends in Texas break with the national pattern. Texas has succeeded in producing broad-based job growth in the context of job and wage polarization nationally. According to the Massachusetts Institute of Technology’s

Chart 2 | Upper Wage Quartiles Account for Over Half of New Texas Jobs



SOURCE: Current Population Survey Merged Outgoing Rotation Groups 2000, 2013.

David Autor and other leading labor economists, the American middle class has been “hollowed out” over the past three decades because job growth is increasingly concentrated at the high and low ends of the wage distribution.⁸

The prospects of those at the upper end of the skill distribution continue to improve, while growth in menial, low-paying positions has remained steady. Meanwhile, middle-income job opportunities are shrinking. Explanations for this phenomenon include globalization and technological change, leading to the outsourcing and automating of routine, middle-income jobs⁹ as well as a deceleration in the supply of educated workers, driving an increase in the wage premium for high-skilled workers.¹⁰ Studies suggest that the situation is not limited to the U.S., but is also present in Europe and other advanced countries.¹¹

Worker Characteristics

In Texas, as in the rest of the U.S., workers on the lower end of the wage distribution have much different demographic characteristics than their highly paid counterparts. Those in the lower-income quartiles are much younger, especially in the lowest wage quartile, where nearly a third of workers in Texas were under the age of 26 in 2013 (*Chart 3*). This suggests that many workers in the lowest wage quartile in Texas as

well as the rest of the nation are just getting their start in the labor market and may subsequently move up as they gain experience.

Low-wage workers in Texas also have low educational attainment, though many of them may not yet have completed their educations, given their age. However, workers in the lowest wage quartile in the U.S., excluding Texas, are more educated on average than their Texan peers; 28 percent of Texas workers in the lowest wage quartile lacked a high school diploma or GED in 2013, compared with 19 percent in the rest of the U.S.

In contrast, Texans in the highest wage quartile have more similar educational attainment to their counterparts in the rest of the nation; over 60 percent of workers at the top of the wage distribution hold a bachelor’s or postgraduate degree.

Those in the highest wage quartile in Texas and the rest of the nation are concentrated in jobs requiring extensive training, such as management and legal occupations, while workers in the lowest wage quartile primarily occupy positions in labor-intensive jobs such as food preparation.

Workers in the middle two quartiles in the state and nationally are concentrated in office, administrative support and sales jobs. However, in Texas,

they are much more likely to work in construction and oil and gas extraction than their counterparts in the rest of the nation, indicative of Texas’ expansive energy industry.

Finding the ‘Good Jobs’

Most Texas economic sectors contributed to the expanding numbers of “good jobs” since 2000. Employment growth in sectors paying above the median wage reflects the state’s expanding population and need for more schools and hospitals, the recent strength of the energy sector and the diversification of the Texas economy.

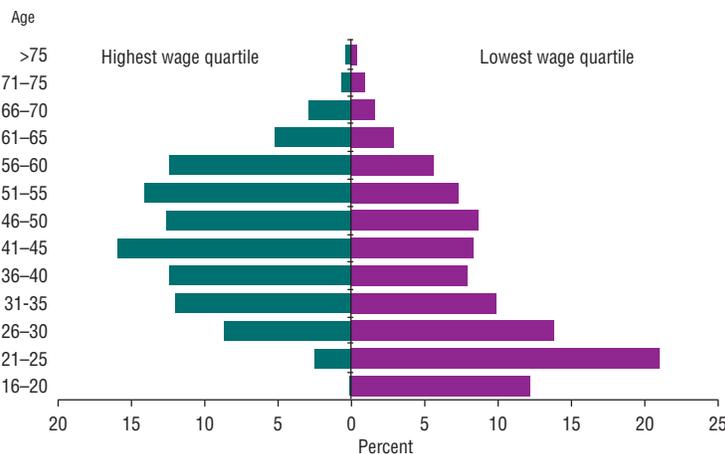
Education and health services contributed 42 percent of net new high-wage jobs due to growing demand for teachers, doctors, nurses and other positions requiring a college degree (*Chart 4*). The mining industry, which in Texas consists mainly of oil and gas extraction and support activities, also contributed strongly (15 percent) to expansion in the top half of the wage distribution between 2000 and 2013. Payroll employment in oil and gas extraction and support activities for mining in Texas more than doubled between 2000 and 2013, according to the Bureau of Labor Statistics’ Current Employment Statistics. Interestingly, the oil and gas sector pays above-average wages although many oil and gas jobs do not require a college degree.

The category of finance, insurance and real estate together with the professional and business services sector are ranked third and fourth in contributing to high-wage job growth in Texas since 2000. They include jobs in high-paying service sector occupations such as consulting, banking, accounting, legal and engineering. They serve the booming construction and housing industries and support energy activity and expanding health and high-tech industries.

Lessons Learned

Critics of the Texas economic model often contend that Texas’ exceptional job growth has not produced a high standard of living for its residents due to the low quality of the new positions. However, Texas’ job growth since 2000 has been much more proportional than in the rest

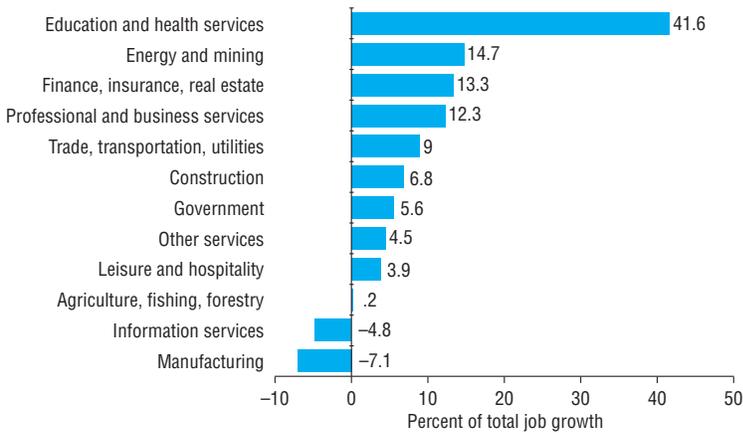
Chart 3 Low-Wage Texas Workers Much Younger Than High-Wage Counterparts



NOTE: Quartiles based on 2000 U.S. wage distribution.
SOURCE: Current Population Survey Merged Outgoing Rotation Groups 2013.

Chart
4

High-Wage Texas Employment Growth Is Broad-Based
(Contribution to job growth above the median wage by sector, 2000–13)



NOTE: Quartiles based on 2000 U.S. wage distribution.
SOURCE: Current Population Survey Merged Outgoing Rotation Groups 2000, 2013.

of the nation, where net new jobs have been concentrated at the bottom and top of the wage distribution and the middle has shrunk further.

Texas still has a high share of minimum wage jobs, partly due to the state’s relatively low minimum wage (set equal to the federal minimum wage). A low minimum wage and plenty of low-skilled workers ensure that Texas will have a high share of minimum wage jobs. On the other hand, a relatively low cost of living in Texas ensures that workers’ earnings here will go further than in other large states.

Texas has produced hundreds of thousands of well-paying jobs across most industries since 2000, making Texas the top destination for domestic migrants since 2006.¹² That said, the same broad trends—globalization, technological change, a slowdown in educational attainment—that are causing the national labor market to polarize are also present in Texas. Until now, a combination of other factors has prevailed, and the state has outperformed the rest of the nation in every category of employment growth.

To the extent that these “other factors” include some growth engines that may sputter in the future, however, the state would do well to make the changes now—such as investing in higher education—that will bolster economic opportunity down the road.

LoPalo is a research analyst and Orrenius is a vice president and senior economist in the Research Department at the Federal Reserve Bank of Dallas.

Notes

The authors thank Madeline Zavodny, professor at Agnes Scott College, for her comments on an earlier draft of this article.

¹ Rep. Garnet Coleman in an interview with the *Huffington Post*. See “Rick Perry’s ‘Texas Miracle’ Includes Crowded Homeless Shelters, Low-Wage Jobs, Worker Deaths,” by Jason Cherkis, *Huffington Post*, Aug. 8, 2011.

² See “Characteristics of Minimum Wage Workers: 2012,” U.S. Bureau of Labor Statistics, Feb. 26, 2013.

³ See “Pulling Apart: A State-by-State Analysis of Income Trends,” by Jared Bernstein, Elizabeth McNichol and Karen Lyons, Center on Budget and Policy Priorities, Washington, D.C., January 2006.

⁴ See “Income, Poverty, and Health Insurance Coverage in the United States: 2012,” by Carmen DeNavas-Walt, Bernadette D. Proctor and Jessica C. Smith, U.S. Census Bureau, Current Population Reports, P60-245, September 2013.

⁵ We use the monthly outgoing rotation group extracts from the National Bureau of Economic Research. The Bureau of Labor Statistics (BLS) interviews 50,000–60,000 households monthly, and every household is interviewed for four months, dropped for eight months, and then interviewed for another four months. The monthly outgoing rotation group data capture households leaving the survey after the first and second four months of interviews.

⁶ The results are robust to using the 2013 distribution to create cutoffs and to eliminating outliers in the wage distribution. The calculations are conditional on being employed with positive wages and exclude the self-employed.

⁷ Payroll employment grew 21.9 percent in Texas and 4.8 percent in the U.S. from December 1999 to December 2013.

⁸ See “The Polarization of the U.S. Labor Market,” by David H. Autor, Lawrence F. Katz and Melissa S. Kearney, *American Economic Review*, vol. 96, no. 2, 2006, pp. 189–94.

⁹ See “The Polarization of Job Opportunities in the U.S. Labor Market: Implications for Employment and Earnings,” by David Autor, Brookings Institution’s the Hamilton Project and Center for American Progress, April 2010.

¹⁰ See *The Race Between Education and Technology*, by Claudia Goldin and Lawrence F. Katz, Cambridge, Mass.: Belknap Press of Harvard University Press, 2008.

¹¹ See “Job Polarization in Europe,” by Maarten Goos, Alan Manning and Anna Salomons, *American Economic Review*, vol. 99, no. 2, 2009, pp. 58–63.

¹² See “Gone to Texas: Immigration and the Transformation of the Texas Economy,” by Pia Orrenius, Madeline Zavodny and Melissa LoPalo, Federal Reserve Bank of Dallas, November 2013.