It’s no secret that Texas’ economic growth has led the nation during the economic expansion and helped drop the state’s unemployment rate to a six-year low. Without the 1.1 million jobs created in Texas since December 2007, the nation would still be 350,000 jobs below its prerecession employment peak. However, improvement in the state’s fiscal picture lagged behind, and in mid-2011, state lawmakers confronted a $20 billion budget shortfall and reduced Texas outlays by 10 percent.

With the memory of those painful cuts still fresh in our minds, it is reassuring to learn that the state’s fiscal outlook is solid even as total spending reaches all-time highs, senior research economist Jason Saving notes in this issue of Southwest Economy. Texas’ 8 percent revenue growth in the first half of the year—bolstered by an annual contribution from sales tax that is larger than all of Texas’ other taxes combined—is nearly double the average 4.2 percent revenue growth for the rest of the states.

Without the revenue growth, the state cannot pay for education and the rising costs of health care (which together represent 75 percent of the state budget). The state’s population has grown to 26.5 million, and a workforce of 11 million Texans produces $1.5 trillion worth of goods. As the economy prospers and the population grows, legislators must strike a delicate balance between investing in important state services and projects while not sacrificing the low-tax, lightly regulated business climate that has helped propel Texas’ superior economic performance.

Heading into the final quarter of the year, the Texas and U.S. economies are poised to finish strong. And although fiscal challenges and difficult choices remain, Texas’ ability to balance its fiscal responsibilities with available resources stands as an example to our national leaders of the benefits of prudent stewardship.

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