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The U.S. Can Grow If We All Act Less Like California, More Like Texas

By Christopher Helman - October 11th, 2012

Richard Fisher, the outspoken president of the Dallas branch of the Federal Reserve and lonely hawk on the Federal Open Markets Committee, gave a thoughtful (and entertaining) speech yesterday at the Cato Institute. His core point: America can regain a roaring economy, if only politicians would stop kicking the can and remove the uncertainties that prevent business owners from deploying capital. The addendum: to truly spur growth in jobs, we need to act less like California, more like Texas.

He started off bemoaning the sad sack performance of the global economic. Against the rest of the world, U.S. projected growth this year of 2.2% makes the U.S. economy but the “best-looking horse in the glue factory of hapless economies.”

Fisher doesn't think it needs to be that way. He insisted that, given the “proper care and feeding,” the American economy can become like Triple Crown winner Secretariat and pass the rest of the world with a performance akin to Secretariat's 31-length victory at the Belmont Stakes.

It's an optimistic outlook. Where does he get it from?

In part from history. The fall of the Soviet Union ushered in a great expansion of the world economy as the energy wasted in Cold War posturing was redirected into opening up the economic prospects for billions. Then came trade liberalization — NAFTA, the WTO, etc. The freer flow of capital and goods lifted the world's economic ship.

But, says Fisher, the long expansion ended in tears. “Success led to complacency; complacency led to a tolerance and even encouragement of excess.” An endless mountain of debt, Enron, the housing bubble, the banking crisis, the global crash, increasing uncertainty that China will become a center of future demand, the looming fiscal cliff.

As tortuous as this recovery has been, however, Fisher sees some bright spots. “American businesses have emerged from the crisis revamped and hyper-efficient,” he says. Cheap money has enabled corporations to strengthen their balance sheets. What’s more, politicians have thankfully resisted a populist instinct towards protectionism (now if only they would “reboot tax policy” to enable businesses to invest in job creation).

And kind of surprisingly, given Fisher’s role as one of the Fed’s few anti-Q.E. inflation hawks, he sees that the U.S. has “more than enough fuel in reserve to finance a prolonged period of job creation and economic expansion.” What’s that fuel? Fisher points to \$1.4 trillion in “excess private bank reserves” on deposit at the 12 Federal Reserve banks, a bunch of cash “lying fallow” in other financial companies, and \$2 trillion of excess cash that corporations are sitting on.

Then what’s keeping that capital frozen? Fisher gave a bunch of numbers and research about impediments to U.S. job creation. Interest rates and monetary policy isn’t a problem. Neither is access to credit. The problems holding back businesses, concludes Fisher, are the uncertainties of tax policy and government regulation.

“The great inhibitor of job creation is the uncertainty over taxes and spending and regulation that plagues businesses. Even if businesses do not like the rules that govern their behavior, knowing those rules with certainty gives them something to plan around and navigate through. Presently, they haven’t the foggiest idea what the rules will be.”

And short-term fixes to postpone the armageddon of the Fiscal Cliff won’t do it; politicians might be ok with kicking the can down the road, but capital allocators have a lot more at stake. “Short-term fixes only push out the envelope of uncertainty,” Fisher said.

Fisher says the United States does have a model for how to get things going again.

Texas.

The Lone Star state has 50% more jobs than in 1990, compared with only 6% job growth in New York, 8% in Illinois and 14% in California. Americans have been flocking to Texas in droves while fleeing those other states.

What’s the secret? It ain’t social services, which Fisher admits are lacking in Texas relative to other states. “But we excel at creating the single most important driver of human dignity and pride: jobs.”

And don't think Texas is all just oil and gas. Although that sector did generate 37,000 new jobs in 2011, it accounts for just 2.3% of the Texas workforce, says Fisher. Other sectors have grown even more.

To illustrate the real differences between Texas and other states, Fisher finished his talk with a story. (Having gone to school at U.C. Berkeley, worked in New York City and lived the last 8 years in Texas, this story really registers for me.)

“The governor of California is jogging with his dog along a nature trail. A coyote jumps out and attacks the governor's dog, then bites the governor. The governor starts to intervene, but reflects upon the movie Bambi and then realizes he should stop because the coyote is only doing what is natural.

“He calls animal control. Animal control captures the coyote and bills the state \$200 for testing it for diseases and \$500 for relocating it. He calls a veterinarian. The vet collects the dead dog and bills the state \$200 for testing it for diseases. The governor goes to the hospital and spends \$3,500 getting checked for diseases from the coyote and getting his bite wound bandaged.

“The running trail gets shut down for six months while the California Fish and Game Department conducts a \$100,000 survey to make sure the area is now free of dangerous animals. The governor spends \$50,000 in state funds implementing a ‘coyote awareness program’ for residents of the area. The Legislature spends \$2 million to study how to better treat rabies and how to permanently eradicate the disease throughout the world.

“The governor's security agent is fired for not stopping the attack. The state spends \$150,000 to hire and train a new agent with additional special training, re: the nature of coyotes. People for the Ethical Treatment of Animals (PETA) protests the coyote's relocation and files a \$5 million suit against the state.

“The governor of Texas is jogging with his dog along a nature trail. A coyote jumps out and tries to attack him and his dog. The governor shoots the coyote with his state-issued pistol and keeps jogging.

“The governor spent 50 cents on a .380-caliber, hollow-point cartridge. Buzzards ate the dead coyote.

“And that, my friends, is why California is broke and Texas is not.”