Texas Versus California

Idea In Short

Texas and California represent opposing models of governance: low-tax, low-regulation versus high-tax, high-service. Both succeed economically but face similar problems in education, inequality, and immigration. Texas may be a younger California, and both states could learn from each other.

Consultants excel at making sense of disparate, messy, and sometimes conflicting data. This is not a robotic exercise in copying data into a spreadsheet. You must think through the problem. What is relevant? What is valid? Can you find the hidden threads that run through the data and tell a compelling story? What is the insight and the so what?

The Economist excels at telling complex stories simply, much like consulting. They published a special report on the future of the United States seen through a comparison of Texas and California. Both states are big, influential, different, and successful. The question is what this says about the country as a whole. One in five Americans calls Texas or California home, and by 2050 one in four will. Hispanics are around 40 percent of the two states' populations, double the national average. Over the past 20 years, the two states created a third of new jobs in America. If they were countries, they would be the fifth and tenth largest in the world 1.

Opposite Approaches to State Government

The Economist framed the contrast precisely. For the past few decades, the two states have been heading in opposite directions, creating an experiment that reveals whether America works better as a low-tax, low-regulation place where government makes little provision for its citizens, or as a high-tax, highly regulated one where government tackles problems like climate change. The differences are stark across every dimension.

Texas's constitution forbids a state income tax. California levies one of the highest income taxes in the nation. Texas is serious about avoiding government overreach, with the legislature meeting only every other year. California is the standard-bearer for progressive experimentation nationally. Texas has loose environmental regulations. California tries to use its economic might to force the rest of the country to adopt more stringent standards. Texas follows the federal minimum wage of $7.25. California raised its minimum wage to $11 and aimed for $15 by 2023 2.

Texas's uninsured healthcare rate is over 17 percent, the highest in the country. California's uninsured rate dropped from 17 percent in 2013 to 7 percent in 2017. Texas spends $400 million a year of its own money to police the border. California withdrew several hundred National Guard troops from Southern California in a symbolic protest. In 2017, Texas ranked 49th out of 50 in spending per person, shelling out around $3,925 per citizen, 52 percent less than the national average and 68 percent less than California.

They Have Similar Problems

Many of the problems facing the Golden State and the Lone Star State are similar. Neither allocates enough money to education or has a realistic, comprehensive immigration approach. Texas has a largely laissez-faire approach to social services, but California is not better in many ways because of the astronomical cost of living. California, for all its wealth and top-tier technology and entertainment clusters, has widespread income inequality and homelessness.

The tax bases reveal structural vulnerabilities. Texas has a strong reliance on energy, which accounts for around 16 percent of its gross domestic product. California's top 1 percent of taxpayers account for 46 percent of all personal income tax and 35 percent of general fund revenues. CNBC ranked Texas as the most business-friendly state and California as 25th. Education rankings are poor for both: Texas ranked 41st and California 36th out of 51 states including the District of Columbia. California's education code runs 2,590 pages, more than twice as long as the Bible.

Poverty tells a surprising story. Texas has 15 percent of its population in poverty, ranking 10th nationally. California has 19 percent in poverty, ranking first. Inequality rankings are similarly poor, with Texas at 10th and California at 2nd. The high-tax, high-service model has not solved these problems any better than the low-tax approach, which challenges assumptions on both sides.

California's Regulation Can Be Regressive

While California holds itself as a progressive state, some of its government policies lead to a more regressive regime that hurts the poor. Restrictive construction laws contribute to housing costs that are 80 percent higher than the national average. Requirements for specialized refining contribute to gasoline costs that are the highest in the country. The intent of regulation may be noble, but the outcomes can disproportionately burden lower-income residents 3.

This is the paradox of progressive policy. Regulations designed to protect the environment or ensure quality can raise the cost of living to a point where only the wealthy can afford to live in the regulated state. California's housing crisis is a direct result of zoning and construction regulations that limit supply. The state that prides itself on equity produces some of the most inequitable living conditions in the nation.

Texas May Be a Young California

The report's author, Alexandra Suich Bass, posits that Texas and California may be more similar than they think. Texas may be earlier in its maturity cycle and will increasingly experience middle-age state challenges, cultural shifts, and consciousness. Take a closer look and Texas looks like a teenage California. The population of Texas recently reached the level California was at in the late 1980s.

The Golden State was once a pro-sprawl, low-tax, Republican state. Republicans in Austin, feeling the first signs of political competition from Democrats in decades, have begun to focus on their state's shortcomings. The trajectory suggests convergence rather than permanent divergence. As Texas grows and urbanizes, it may face the same pressures that pushed California toward heavier regulation and higher taxes.

What Is the Trajectory of the US?

Immigration remains a major lever. Hispanic populations are approximately 40 percent of the two states' populations and growing. Many companies have relocated to Texas from higher-regulation, expensive states: Toyota, Pizza Hut, Keurig Dr Pepper, Frito-Lay, JCPenney, Kubota, and the PGA. The biggest challenge appears to be the supply of an educated workforce to fill all the openings.

The winner-take-all electoral college system skews real results. It is easy to oversimplify California as Democratic and Texas as Republican, but the voting results in 2016 revealed lots of Democrats in Texas and Republicans in California. The binary red-blue framing obscures the nuance that both states contain diverse political ecosystems. The consultant's lesson is to resist oversimplification and look at the underlying data.

Both States Could Learn From Each Other

In a podcast interview, the author noted that both states could have some humility and learn from each other. Texas has a strategic initiative to woo business. Environmental regulation has a direct consequence on housing and new development. Texas has always argued for state autonomy and local control, but now that cities are going blue and experimenting with policies not historically aligned with Texan values, the state is trying to control the cities. Texas is getting more progressive.

The comparison reveals that neither model is universally superior. Texas excels at business attraction and job creation but struggles with healthcare coverage and education funding. California leads on environmental protection and social services but suffers from housing unaffordability and income inequality. The most effective governance likely borrows from both approaches, calibrating regulation and taxation to the specific needs of the population at a given stage of development.

The Consultant's Takeaway

For consultants and executives, the Texas-California comparison is a masterclass in analytical thinking. It demonstrates how to present two viable cases and explore the grey expanse between them. When someone gives you a choice between option A and option B, the other options include both, neither, and combinations thereof. The binary framing that dominates American political discourse obscures the richer reality.

The Economist's approach is thoughtful and British in its nuance, unlike the condescending and polarizing red-blue state thinking common in American media. For consultants, the lesson is to resist false binaries, examine the data rigorously, and find the hidden threads that connect seemingly disparate outcomes. The best analysis does not pick a side. It illuminates the trade-offs and reveals what each model can teach the other.

- 1California's Economic Growth Is Slipping Behind Texas
- 2Taxation in California
- 3Texas Constitution: Article 8 on Taxation and Revenue

Summary

Texas and California are big, influential, and successful despite opposite approaches to government. Texas forbids state income tax; California levies one of the highest. Yet both face similar problems in education, poverty, and immigration. Texas may be a teenage California. Both states could learn from each other rather than polarizing.