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VOTING WITH THEIR FEET: A Comparative Analysis of Two States and Their Respective Economic Policies' Effects on Their Populations and Economic Growth

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ABSTRACT

Technology today has made people and capital very mobile. To the extent a government's policy environment restricts private businesses and individual incomes, significant numbers of private businesses and individuals migrate. Within this set of mobile emigrants are the entrepreneurs, ideas, and innovative businesses that drive economic growth. Texas and California are two heavyweight economies pursuing vastly different philosophies about businesses and individual incomes. This comparative microeconomic analysis will comprehensively explore existing research on the two states' economic policy effects on these generators of economic growth, and will seek to answer why these two states have chosen nearly opposite policy paths and what the effects of these policies could mean for long-term growth.

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Mercatus Policy Essay

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1. Introduction

In the United States, the varying policies across states serve as a laboratory for democratic policy making. As *The Economist* aptly put it in July 2009, "There is no perfect model of government: it is America's genius to have 50 public-policy laboratories competing to find out what works best—just as it is the relentless competition of clever new firms from Portland to Pittsburgh that will pull the country out of its current gloom."[1] This laboratory seems somewhat limited in scope, for no state pursues significantly more restrictive policies than the freest state (relative to the comparison of the U.S. to North Korea, for example), and it seems impossible to control for all variables. Still, it appears these relatively nuanced policy differences matter for internal migration and states' economic performance.

A. Interstate Migration

Interstate migration can critically indicate the general economic health, growth, and policy environment of a state. Interstate migration splits into two categories: businesses and individuals. Both trend in the same direction—when businesses appear to leave a state, a significant number of individuals do so as well, and vice versa.[2]

If a state pursues especially restrictive policies on businesses and individuals, studies can measure the flight of these drivers of economic growth,[3] most visibly with correlations between economic policies and net migration.[4] While accurately measuring the magnitude of state

[1] *The Economist,* "Rivalry between California and Texas," July 9, 2009.
[2] Robert R. Preuhs, "State Policy Components of Interstate Migration in the United States." *Public Research Quarterly* 52, no. 3 (1999): 527-549.
[3] The analysis defines and uses interchangeably here and throughout the paper "forces of economic growth" or "drivers of economic growth" as "individuals and businesses," because these individuals and groups are the originators of entrepreneurial ideas and competition, and therefore the true drivers of economic growth.
[4] Arthur Laffer, Steven Moore, and Jonathan Williams, *Rich States, Poor States* 2, 2009, ALEC-Laffer State Economic Competitiveness Index, http://www.alec.org/am/pdf/tax/09RSPS/09RSPS_exec_summ.pdf

economic policy effects presents a virtually impossible task, this paper reinforces existing literature that finds state economic policy environments remain a significant influence in fostering or hindering the growth of their economies.

No single factor, such as a job opportunity or family ties, determines whether an individual or business will choose to move from one state to another. Many studies, however, index the states based on their social and economic policy environments. Most of the literature indicates that a stronger correlation exists between interstate migration and state economic policies as opposed to social policies, but recent studies measure social policy effects as well.[5] This analysis, however, will focus on economic policies, including fiscal, spending, and taxation measures, because studies more frequently document the consequences of these policies, and they are more clearly quantifiable than social policies.

Currently, less incentive and ability exists for most individuals and businesses to move entirely outside of the U.S. because of high exit costs.[6] This trend may reverse, however, in favor of more hospitable economies abroad over time as technology makes geographical distance less important and people become more sensitive to the economic restrictions of the places where they reside.[7] For now, the concern among states rests on losing population and any accompanying potential economic growth to another state as opposed to losing their citizenry to another country.

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[5] Richard Florida, *Rise of the Creative Class* (New York: Basic Books, 2002). Florida recently measured the social policy motivations of the "creative class," or entrepreneurs in this recent book.

[6] Taxes, especially on income, are an example of high exit costs to leaving the US. In this discussion, business expansion into other states and countries is specifically not included in the movements of businesses and people.

[7] Chris Edwards and Daniel J. Mitchell, *Global Tax Revolution: The Rise of Tax Competition and the Battle to Defend It,* (Washington D.C.: Cato Institute, 2008); though even now it appears that the US may be driving away capital and high-income earners (and with it productivity), which is being captured instead by tax-friendly countries like Hong Kong.

Given that states wish to attract businesses and people to boost and sustain economic growth, this analysis seeks to identify the theoretical explanations for (1) states' seemingly wide variety of policy behaviors given the very real economic consequences of these policy choices; and (2) why some states boast relatively longer-term stability in fiscal and economic policy versus others. The answers to these questions will also lend themselves to answering the broader question of whether or not economic policies significantly affect economic growth and migration.

B. State Selection

Of the wide array of state economies to analyze, Texas and California are the most appropriate candidates for this analysis both because of their considerably similar characteristics and because of their vastly different economic policy paths. Texas and California signify "the two poles of the Southwest,"[8] and represent the two largest economies within the U.S. People and businesses are flocking to the "Lone Star State;" Texas enjoyed a higher economic growth rate over the most recent ten-year period relative to California.[9] On the other hand, the "Golden State" is losing people and business, and its economic growth slowed in recent years. Critics argue California's losses were relatively negligible for the past decade.[10] However, Texas is gaining at a faster rate than California is losing in terms of population, job growth, and overall economic growth.[11] The analysis does not merely concern California's losses, but Texas' greater

[8] *The Economist,* 13.
[9] Laffer, Moore, and Williams*, Rich States, Poor States*.
[10] Jed Kolko, "California Economy: Planning for a Better Future" Public Policy Institute of California, July 2009, http://www.ppic.org/content/pubs/report/R_709JKR.pdf; "Rhetoric aside, California loses very few jobs to other states. Businesses rarely move either out of or into California and, on balance, the state loses only 11,000 jobs annually because of relocation—that is just 0.06 percent of California's 18 million jobs. Far more jobs are created and destroyed as a result of business expansion, contraction, formation, and closure than because of relocation."
[11] Laffer, Moore, and Williams, *Rich States, Poor States*.

gains in the same period.

According to the World Bank and the U.S. Bureau of Economic Analysis, in 2005 California ranked the ninth-largest economy in the world by GDP (PPP), followed closely by Texas at 12th.[12] Texas and California are the most populated states of the U.S., and additionally trump many countries' population totals, with California boasting 36,756,666 and Texas holding 24,326,974 as of July 2008.[13] The state with the third-highest population, New York with 19,490,297, amounts to just over half of California's population. Additionally, California has been the most populated state since 1963, and Texas has been the second most populated state since 1994.[14]

Besides the sheer size of their populations and economies, they also share a similar history and geographic parallels. Mexico originally claimed both states, with Texas's accession into the U.S. beginning the Mexican War and with California's accession into the U.S. at the end of the war.[15] Given their similar histories, they are also two of several states that consist of a large population of Mexican immigrants, a migratory variable both states share. Nationwide, it appears that while the net number of Mexican migrants entering the United States remains positive, a recent study by the Pew Hispanic Center shows the gap shrinking between migrant inflows and outflows, especially in recent years.[16] This could be due to immigrants' sensitivity to dwindling opportunities in the U.S. overall. In 2002, Texas' population consisted of almost 10

[12] World Bank, "Data & Statistics," 2006, http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP_PPP.pdf; see also: Bureau of Economic Analysis, "News Release: Gross Domestic Product (GDP) by State, 2006," http://www.bea.gov/newsreleases/regional/gdp_state/2007/gsp0607.htm
[13] U.S. Census Bureau, 2008, http://www.census.gov
[14] U.S. Census Bureau, 2008; these years are when both surpassed New York, which once boasted the largest population of any state.
[15] Laffer, Moore, and Williams, *Rich States, Poor States*.
[16] Jeffrey Passel and D'Vera Cohn, "Mexican Immigrants: How Many Come? How Many Leave?" Pew Hispanic Center, July 22, 2009, http://pewhispanic.org/reports/report.php?ReportID=112

percent foreign-born Mexicans, and California boasted almost 12 percent in the same year; in 2009, however, Californian cities and counties, like San Diego, experienced a drop of 9 percent in Mexican immigration, whereas Dallas experienced record gains.[17] The San Francisco-based Public Policy Institute of California indicates that studies over the past several years underscore the notion that economic opportunities drive where immigrants choose to move.[18]

Both California and Texas harbor large international seaports and contain a varied geographic landscape inclusive of plains, forests, and mountains with climates ranging from wet coastal areas to dry and barren desert.[19] The similarities do not end there:

> Both earned their own independence as sovereign republics before joining the United States. Each is blessed with abundant natural resources and a robust population. Both cover a vast landmass with a wide variety of climates and growing seasons. Each was conscious of its role as a policy trailblazer and knew that its choices of governmental structure, tax rates, and regulatory regimes could become a model for the rest of the nation.[20]

It would appear that California and Texas parallel on the variety and expanse of opportunities they offer current and potential citizens, except for what they offer in terms of state government policies.

A point of contention in the comparison of the two states concerns the revenues that the state of Texas receives from oil and gas taxes. Conventional wisdom argues that the amount of revenue that Texas receives from taxes on their rich natural resources substitutes for other forms

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[17] Elizabeth Grieco, "The Foreign Born from Mexico in the United States," Migration Policy Institute, http://www.migrationinformation.org/usfocus/display.cfm?ID=163#3; "California's Population by Age in 2002," http://www.dss.cahwnet.gov/research/res/pdf/GENtrends/CApop/CApop2002.pdf; "Estimated Texas Population by Area; 2002," http://www.dshs.state.tx.us/chs/popdat/ST2002.shtm; numbers are calculated from figures gathered from these sources.

[18] Leslie Berestein and Lori Weisberg, "Immigrant Population Declines in California," *Sign On San Diego,* September 22, 2009, http://www3.signonsandiego.com/stories/2009/sep/22/immigrant-population-declines-california/?metro&zIndex=169985

[19] "State Profiles," Global Edge Database, http://globaledge.msu.edu/states/Texas/, http://globaledge.msu.edu/states/California/

[20] Tom Pauken, "Texas vs. California: Which Model is Right for the Nation?" Texas Workforce Commission, 2009, http://www.twc.state.tx.us/svcs/commrs/081109chr.pdf

of revenue to support state government spending. However, a brief analysis of Texas' revenues from these two alleged "cash cows" over the past 20 years indicates that the revenues received amount to a very small proportion of the total revenues each year. The near 20-year average from 1990 to 2009 for annual combined revenue from oil and gas comprises 3.1 percent of total revenues, and the proportion of oil and gas revenues relative to all revenues ranged between 1.4 and 5.1 percent.[21] Furthermore, the assumption that oil and gas production gives Texas an advantage over other states because it is a large output of the state economy also fails as an argument. According to the Federal Reserve Bank of Dallas, the energy industry shrank as other sectors of the Texas economy grew. Since 1981, when oil and gas output as a share of the Texas' economy peaked at 20 percent of Texas' gross state product (GSP), its share of the GSP steadily declined to six percent as of 2002, with refineries and the petrochemical industries not contributing more than approximately 1.6 percent of GSP.[22] While in the 1980s it would appear that natural resources significantly factored into Texas' economic growth, current figures level the playing field with California.

Identifying these two states' similarities and differences accounts for attributes which make the comparison between the two more like apples to apples and addresses instances where comparisons become difficult to make. The analysis will not discuss the effects of federal fiscal policies as they should be relatively the same in both states, or in the least, insignificant as an explanation for state economic policy differences. Apart from this, the results of this analysis bear potential implications for the comparison among other states, or for gauging another state's

[21] "Revenue by Source for Fiscal Year 2009" Window on State Government, http://www.window.state.tx.us/taxbud/revenue.html; "Texas Revenue History by Source, 1978-2008," Window on State Government, http://www.window.state.tx.us/taxbud/revenue_hist.html; figures based on author's calculations from data.

[22] Stephen P. A. Brown and Mine Yücel, "Do Higher Oil Prices Still Benefit Texas?" *The Face of Texas Jobs, People, Business, Change*, Federal Reserve Bank of Dallas, October, 2005, http://www.dallasfed.org/research/pubs/fotexas/fotexas_brown.html

relative position to Texas and California. Because of their population sizes and respectively large state economies, the analysis will be relatable not only to other levels of U.S. government, but potentially helpful for countries as well.

2. Theoretical Perspectives

C. Why is there a divergence in policy paths?

The paper seeks to answer several questions. First, why have state policy makers chosen the economic policies they have? More specifically, based on the literature available for these two states, what led Texas to make the certain set of policy choices it did, and what led California to make its set of choices? Institutional theory may offer an answer concerning the institutional arrangements of a given state. If a state remains unconstrained by: (1) the amount it may spend, (2) the budget processes in place, and/or (3) the ability of policy makers to appease the will of the people, then the lack of these institutional structures compared to states that have them may significantly determine policy divergences between states.[23] How much voters influence state economic policies directly or indirectly may also weigh on the institutional structure of a given state.

An implicit question within this theory regards whether the people in each state vote for the government they intend. Economist Mancur Olson identifies a theory which aids in answering why voters approve growth-stunting economic policies. Olson argues that people purposefully organize in coalitions to capture certain, concentrated government benefits (i.e. rent seeking[24]) whose costs spread out over the larger constituency. These larger masses can be

[23] Mancur Olson, *The Rise and Decline of Nations*, (Yale University, 1982): 165.
[24] David R. Henderson, "Rent Seeking," *The Concise Encyclopedia of Economics*, The Library of Economics and Liberty, http://www.econlib.org/library/Enc/RentSeeking.html, "People are said to seek rents when they try to obtain

considered the "forgotten groups," who "suffer in silence" because "large or latent groups have no tendency voluntarily to act to further their common interests" even though they represent the most "vital common interests."[25] Instead, smaller interest groups overcome the collective action problem.

Similarly, public choice theory states politicians may choose policies that redistribute from larger unorganized groups to smaller interest groups. Such interest groups attempt to profit from policies by manipulating the economic or political environment[26] for a competitive advantage in business or livelihood. However, this can result in a negative effect on the economic environment because it shrinks the "economic pie" as it redistributes and may cause businesses and the wealthy to engage in tax avoidance, tax evasion, or move to more hospitable economic environments over the longer term.

Alternatively, and perhaps congruently, economist Anthony Downs theorizes voters tend to vote against their own interests.[27] Bryan Caplan extends this hypothesis in his book, *Myth of the Rational Voter,* in which he describes individuals as blinded by certain economic biases, which coupled with the near-zero cost of casting a biased vote, will lead to harmful and "irrational" policies that negatively affect economic growth.[28] This may help explain how, once an interest group gets a measure on the ballot, it gets approval. In this way, it may not matter if

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benefits for themselves through the political arena. They typically do so by getting a subsidy for a good they produce or for being in a particular class of people, by getting a tariff on a good they produce, or by getting a special regulation that hampers their competitors."

[25] Mancur Olson, *The Logic of Collective Action,* (London: Harvard University Press, 1971).

[26] James M. Buchanan, *Choice, Contract and Constitutions*, 16, The Collected Works of James M. Buchanan, 2001, 258-259; "People find it privately rational to invest resources in efforts to secure differentially favored access to the economic power inherent in bureaucratic discretion."

[27] Anthony Downs, "Why the Government Budget is Too Small in a Democracy," Trustees of Princeton University, 1960.

[28] Bryan Caplan, *Myth of the Rational Voter,* (Princeton: Princeton University Press, 2007).

people in Texas and California differ in their preferences as voters.[29] If people do get what they ask for, then in Texas's case, it would appear the policies and legislators voted for reflect the preferences of the larger constituency and keep people coming to the state. If true in California's case, then it would appear that though voters approve these policies, they may not reflect the preferences of the larger constituency, and an annual minority group of emigrants did not want to continue to work and live under such policies.[30]

We might also see in the data that Texas's high rate of tax-exemption measures may reflect the interests of small interest groups succeeding through lobbying of the state legislature in obtaining legal tax avoidance as opposed to directly increasing tax burden on the larger, unorganized population. In California's case, where a small interest group may obtain several thousand signatures to petition a tax increase or exemption to appear on the ballot, this type of ballot measure occurs more frequently, and needs only a simple majority to pass. This institutional difference of voters between the states may magnify the ability of small interest groups to get away with passing policies with disseminated costs and concentrated benefits. Both institutional differences and interest group size remain two factors that can help to explain the economic policy divergences between Texas and California. The data will reveal the accuracy of these theoretical explanations for the divergences in policies.

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[29] Bryan Caplan, "Standing Tiebout on His Head: Tax Capitalization and the Monopoly Power of Local Governments," *Journal of Economic Literature*, 108, no. 1-2 (2001) via George Mason University, http://econfaculty.gmu.edu/bcaplan/tieburb.doc; Caplan points out that Tiebout's model depends on how well the electoral system works and doesn't work when there is considerable inefficiency in local governments. It is likely that this postulation extends to the state level in the same way that Tiebout's model expands to state-level migration.

[30] Preuhs, 527-549; "…while migration takes place at higher levels in states with lower tax burdens and higher investment policy ratios, it also takes place at higher levels in states with a more liberal mean ideology… it may be that within the parameters of low taxes and a focus on investment, migrants sought states which hold preferences for more liberal ideals on other dimensions" (i.e. civil rights policies).

D. Why do some states have long-term stability versus others?

Why does Texas appear to have a relatively long-term reputation for fiscal stability, while California has not in recent decades? The notion of fiscal stability, which includes low debt, frequent balance surpluses, and low volatility of tax revenue and spending, can be linked to economic policy, such as low level of taxes and spending overall. A state's long-term reputation may matter for migration patterns from state to state. How a state manages the economic burden of a public purse that requires high tax revenues matters for long-term stability.[31] Durable policies like those in Texas appear to affect economic growth and migration differently from those in California.[32]

Public choice theory adds to the discussion of state long-term stability by explaining the motives and incentives policymakers may face when passing legislation, and may help to answer why this could vary among states. The conventional view that the politician works as a

> "benevolent servant that carries out the will of the people" is essentially turned on its head by public choice theory, which "assumes that people are guided chiefly by their own self-interests [even if that includes concern for the well-being of family, friends, and community] and, more important, that the motivations of people in the political process are no different."[33]

If a state establishes a long-term reputation for a stable economic policy environment, through the state's constitution or in the way in which a state's government structure is set up, this can prevent politicians from disrupting this precedent by peer pressure from colleagues and constituents. Stable policies also help to lower risk and increase reliability of businesses' plans.

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[31] Arthur B. Laffer, Stephen Moore, and Peter J. Tanous, *The End of Prosperity*, (New York: Threshold Editions, 2008).

[32] Casey McCracken, "Whether State Fiscal Policy Affects State Economic Growth," Stanford University, 2006; "Regression (1) suggests that a 1 percentage point balanced budget increase in the tax rate yields a .23 percentage point decrease in annual growth. This is a very plausible magnitude for the effects of state fiscal policy since a 1 percentage point increase in the tax rate amounts to nearly a ten percent increase." This would then indicate that fluctuations in a state's budget would have a measurable effect on the economic growth of that state.

[33] William F. Shughart II, "Public Choice," *Library of Economics and Liberty*, http://www.econlib.org/library/Enc/PublicChoice.html

Institutional constraints may prevent a policymaker from implementing the currently popular policy.

The institutional constraints on both voters and politicians thus increase the durability of a state's economic policy stability. The ease with which voters may get economic issues on ballot measures in California could influence some of the economic policy differences between itself and Texas. The policy differences between the two states on spending and budget processes—both freedoms and constraints with the budget that politicians face in each state—are also affected by the institutional structure voters and politicians face. Among other factors, long-term constraints and the ballot referendum process appear to affect a state's fiscal stability. As economist David Primo suggests, constraints on the absolute levels of taxes or expenditures can generate economic policy stability and fiscal stability.[34]

E. Do policies affect economic growth and migration?

Much of public choice theory predicts that government officials will opt for high-tax, high-redistribution policies due to the influence of organized interest groups, rational ignorance, the phenomenon of dispersed costs and concentrated benefits, and the like.[35] The need for governments to compete for wealth and population balances this. Public choice theorist Charles Tiebout describes municipalities within a region as offering various government services at a variety of tax rates.[36] Individuals possess differing personal valuations on these services and varying ability to pay the taxes for them. Hypothetically then, these individuals will move from

[34] David Primo. *Rules and Restraint: Government Spending and the Design of Institutions*, (Chicago: University of Chicago Press, 2007).
[35] Olson, *The Logic of Collective Action*.
[36] Charles Tiebout, "A Pure Theory of Local Expenditures," *The Journal of Political Economy* 64, no. 5 (1956): 416-24.

one location to another until they find the one which suits them on a scale between a high-tax, high-benefit model and a low-tax, low-benefit model.[37]

It is possible that high-tax, high-benefit might fail to drive interstate migration. In fact, it appears states like California attempting to follow the high-tax, high-benefit model find themselves affected negatively by migration patterns because the low-tax, low-benefit model is not comparatively low-benefit after all. There may be a push-pull effect in which California's high-tax, high-benefit model pushes individuals and businesses out of the state while Texas' low-tax, low-benefit model pulls them in. Alternatively, the high-tax, high-benefit model that voters expect tends to turn out as a high-tax, low-benefit model over time because of government inefficiency as public choice theory beyond Tiebout's model would predict.[38] In either case, Tiebout's model appears somewhat limited in determining economic competition as the sole check upon governments. Economic competition is limited by various other mechanisms as well.[39] Caplan cites another perhaps more significant and potentially institutional determinant—the extent to which the electoral system works well:

> If the electoral system works well, it is possible to enjoy the low deadweight loss of property tax funding without risking excess supply of public goods; but as the imperfections in the electoral system increase, the low deadweight loss of the property tax simply makes it easier to inefficiently expand the size of the public sector.[40]

Meaning, property taxes raise revenue so efficiently with minimal burden if government is limited in the amount it may tax asset values that are dissociated with taxpayers' incomes. Caplan argues, however, that policy makers possess significant leeway to supply more public

[37] Preuhs, 527-549; "The logic of state policy as a component of interstate migration is an extension of public choice theory which was originally applied to localities and municipalities…"
[38] Tiebout, 416-24.
[39] Eileen Norcross and Frederic Sautet, "Institutions Matter: Can New Jersey Reverse Course?" (Arlington: Mercatus Center at George Mason University, 2009), http://mercatus.org/publication/institutions-matter-can-new-jersey-reverse-course
[40] Caplan, "Standing Tiebout on His Head: Tax Capitalization and the Monopoly Power of Local Governments," 30.

goods than constituents would desire, whereas income and sales taxes bear a higher burden but more effectively restrain policy makers to providing the desired amount of public goods to the constituents. Data from Texas and California will determine whether these trends emerge as Caplan predicts in testing whether Tiebout's theory stands.

Furthermore, if the electoral system works well, and Tiebout's theory proves correct, states, which find themselves at risk of losing a portion of their population over time because of significantly restrictive and/or redistributive economic policies, also stand to lose a congressional seat or two. Therefore, politicians should mind their states' current economic policies and those policies' effects on the citizenry. In fact, as observed by the House census oversight subcommittee, California could potentially lose a congressional seat after the 2010 census, while Texas may gain one to three seats.[41]

F. Literature and Further Research

Previous research suggests a significant correlation between interstate migration and state economic policies. These more general research findings as well as case studies, particularly focusing on Texas' and California's economic policies, find a negative relationship between interstate migration and economic policies, particularly with certain tax policies.

Adam Smith wrote in the *Wealth of Nations,* "High taxes, sometimes by diminishing the consumption of the taxed commodities, and sometimes by encouraging smuggling, frequently

[41] Richard Simon, "California could lose a House seat after 2010 census," *LA Times*, July 15, 2009, http://articles.latimes.com/2009/jul/15/local/me-california-delegation15; "If the state loses a seat, it could weaken California's clout in Washington and reduce the amount of federal money flowing to the state. It could also set off a game of political musical chairs, forcing two incumbents to run against each other…"

afford a smaller revenue to government than what might be drawn from more modest taxes."[42] More recently, Arthur Laffer identifies "when tax rates get too high they injure the economy and produce less money for the government" as demonstrated by the Laffer curve. Additionally, Laffer and Moore postulate that higher taxes will significantly slow economic growth if current tax policy trends in many states continue to persist. Their book also takes a chapter to analyze California's current financial trouble. Laffer ascertains California engaged in increased spending in good economic times and then found trouble financing these programs in times of recession. Instead of giving businesses and high-income earners a break in a recession, they increased taxes in an attempt to make up for lost revenues, but unintentionally ended up driving people and businesses out as a result, thus losing even more revenue than in absence of a tax increase.[43]

Richard Florida, in his book, *Rise of the Creative Class*, also offers some insights into the reasons why economic growth occurs in some regions versus others and how this can change over time.[44] Florida states the locations creative people choose drive regional economic growth, and these people typically prefer diverse, tolerant places open to new ideas. His theory then differs from the human capital theory for two reasons: "(1) It identifies a type of human capital, creative people, as being key to economic growth; and (2) it identifies the underlying factors that shape the location decisions of these people, instead of merely saying that regions appear blessed with certain endowments of them."[45] He takes the example of a once thriving city as evidence of this migratory pattern exhibited by individuals of promising entrepreneurial abilities:

> Pittsburgh attracts hundreds of millions of dollars per year in university research funding and is the sixth largest center for college and university students, on a per capita basis, in

[42] Adam Smith. *An Inquiry into the Nature and Causes of the Wealth of Nations,* V (London: W. Strahan and T. Cadell, 1776).
[43] Laffer, Moore, and Tanous, 24-25.
[44] Florida, *Rise of the Creative Class*.
[45] Florida, 223.

> the country. It's hardly a cultural backwater . . . In the 1985 Rand McNally survey, Pittsburgh was ranked "America's Most Livable City," and it has continued to score high ever since. Yet the economy putters along in a middling flat-line pattern. Both the core city and the surrounding metropolitan area lost population in the 2000 census. And those bright young university people keep leaving.[46]

The community tried nearly everything to remake itself, but nothing appeared to work. Then companies started to leave. "[Places creative people are attracted to] are not thriving . . . because their local governments have given away the store through tax breaks and other incentives to lure business . . . The physical attractions that most cities focus on building—sports stadiums, freeways, urban malls and tourism-and-entertainment districts that resemble theme parks—are irrelevant."[47] Therefore, states and localities that typically fall into this spending-for-development trap will find their investments won't pay off as they intended in order to keep people around. It is possible that if these states cut spending on such projects and reduce taxes otherwise necessary to fund this government spending, their efforts to retain people would go much further.

A state index, "Freedom in the 50 States," developed by Jason Sorens and William Ruger, demonstrates state freedom by presenting the "first-ever comprehensive ranking of the American states on their public policies affecting individual freedoms in the economic, social, and personal spheres."[48] Their scorings of Texas and California, particularly on economic factors with a focus on tax policy, help to determine the relative economic policy environments of each state. This study additionally merges some of Florida's theories regarding the social policies that attract (or deter) creative people and the economic policies which benefit (or hurt) individuals

[46] Florida, 216.
[47] Florida, 218.
[48] Jason Sorens and William Ruger, "Freedom in the 50 States," (Arlington: Mercatus Center at George Mason University, 2009), http://www.mercatus.org/PublicationDetails.aspx?id=26154

and businesses.[49]

The following studies focus specifically on interstate migration by attempting to explore the factors that influence people to move. Richard J. Cebula and Gigi M. Alexander find that "state income tax burdens, whether expressed in per capita terms or as a percent of personal income, are shown in this study to consistently act as a deterrent to net in-migration,"[50] which is consistent with research by Cebula,[51] A.H. Charney,[52] and I.S. Saltz.[53] Cebula and Alexander make a recommendation to states currently pursuing relatively high income taxes to cover expenditures: "Clearly, in terms of growth and economic development strategies, states with higher state income taxes may have an incentive over the long run to at least investigate alternative revenue sources, sources which might be less likely to create adverse migration effects."[54] The authors present the theories on the effect of income taxes on interstate migration by Charles Tiebout,[55] Gordon Tullock,[56] and J. Riew.[57] They observe in several additional studies, that "net state in-migration should be a decreasing function of state tax burdens in the state, *ceteris paribus*, and an increasing function of public elementary plus secondary school outlays per pupil in the state . . . *ceteris paribus*."[58] Yet reality is not static—not *ceteris paribus*—and a myriad of other effects on net migration work independently of the imposition of taxes. Still, a significant correlation exists between the three variables.

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[49] Florida, *Rise of the Creative Class*.
[50] Richard J. Cebula and Gigi M. Alexander, "Determinants of Net Interstate Migration, 2000-2004," *The Journal of Regional Analysis and Policy*, 36, no. 2 (2006): 116-123, http://jrap-journal.org/pastvolumes/2000/v36/F36-2-1.pdf
[51] Richard J. Cebula, "A Brief Empirical Note on the Tiebout Hypothesis and State Income Tax Policies," *Public Choice* 67, no. 1 (1990): 87-90.
[52] A.H. Charney, "Migration and Public Policy," *Regional Studies* 27, no. 4 (1993): 315-326.
[53] I.S. Saltz, "State Income Taxation and Geographic Labour Force Mobility in the United States," *Applied Economics Letters* 5, no. 5 (1998): 599-604.
[54] Cebula and Alexander, 116-123.
[55] Charles Tiebout, 416-24.
[56] Gordon Tullock, "Public Expenditures as Public Goods," *Journal of Political Economy* 79, no. 5 (1971): 913-918.
[57] J. Riew, "Migration as Investment," *Journal of Regional Science* 12, no. 2 (1973): 65-73.
[58]Cebula and Alexander, 116-123.

Mark Gius researched the effect of income taxes on interstate migration and found that his results compared to the results of other studies: "income taxes have an effect on migration for most races and age groups. Individuals move from states with high income taxes to states with low income taxes; these results corroborate the results obtained from the use of aggregate, state-level data."[59] While the results of this study find state income taxes a significant factor in interstate migration, other studies conclude that other state taxes influence migration more significantly than state income tax.

Shiyuan Chen uses migration data from the US Census over 1990–1991 to 1998–1999 for all 50 states and District of Columbia and found correlation with tax and expenditure data from the World Tax Database:

> The empirical result says that the property tax burden and the sales tax burden have almost the same significant negative impact on the migration rate. The personal income tax has no significant effect . . . and thus has no significant impact on the individual behavior, while the property tax and the sales tax are mostly levied by the state and local governments, which will lead to the difference in tax burden.[60]

Surprisingly, the results of this research conclude personal income tax inexplicably renders no significant effect, and the effect of the property tax and the sales tax lessens as income inequality increases: "the migration pattern is that the rich people migrate to the pro rich states, and the poor people migrate to the pro poor states."[61] Beyond this result, the study found property tax and sales tax appear closely correlated with migration patterns, thus states should wise up to how much of this type of fiscal burden that their constituents would be willing to tolerate.

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[59] Mark Gius, "The Effect of Income Taxes on Interstate Migration: An Analysis by Age and Race," Quinnipiac University (2009), via Springer Link, http://www.springerlink.com/content/m6818845052r8251/
[60] Shiyuan Chen, "The Effects of the Fiscal Factors on the Interstate Migration in US," Georgia State University, 14-15, http://www.allacademic.com//meta/p_mla_apa_research_citation/0/8/6/2/3/pages86232/p86232-1.php
[61] Chen, 13.

Research done by economist Yu Hsing found that while a one percent increase in total welfare benefits increases in-migration by 0.4 percent, a 1 percent increase in tax burden reduces in-migration by 1.32 percent.[62] The paper also tests Tiebout's hypothesis, and the results show that voters/consumers prefer to pay lower taxes: "Thus, state and local governments need to show fiscal discipline either to keep taxes level or to reduce taxes so that outmigration will not rise and the population base will remain stable or increase, other factors held constant."[63] While the effect of a state economic policy on net migration appear difficult to measure, like prior studies, this one indicates a significant negative relationship exists between tax burden increases and interstate migration.

All the studies indicate that state tax burden significantly correlates with interstate migration, but debate continues about which tax specifically—income, property, or sales—affects interstate migration the most. While different taxes offer different opportunities for avoidance and evasion, they don't have widely different bases of wealth creation to tax. If states wish to achieve and maintain economic growth by continuing to attract people and businesses, they should pay attention to their policies effects on these drivers of growth. The prior literature presents evidence that even if voters vote for candidates and policies that are ultimately counterproductive to their well-being, how they "vote with their feet" truly determines how they ultimately judge these candidates and policies.

The crux of this paper intends to determine why Texan and Californian politicians chose different economic policies that prompted different economic outcomes. Therefore, while the

[62] Yu Hsing, "The Impacts of Welfare Benefits and Tax Burdens on Interstate Migration," Regional Science Perspectives 25, no. 2, (1995): 16-24, http://www.jrap-journal.org/pastvolumes/1990/v25/25-2-2.pdf
[63] Hsing, 16-24.

policies California's politicians choose might described as the "right" prescription for which voters ask, as consumers they possibly do not like the unintended effects of what they vote for or are not receiving the benefits equal to the high taxes they pay. An indication of this dissatisfaction reveals that more people choose to emigrate rather than immigrate to the state. This paper will attempt to avoid the argument that what the citizenry votes for qualifies as "right" or "wrong"—"If California doesn't want to be Texas, it must find a way to be a better California."[64] The only qualitative judgments made identify policies that appear empirically "good" or "bad" *for* in-migration and economic growth.

Prior literature explains what happened in these two states, but abstains from explaining *why*. This paper attempts to go one step further by examining the evidence and existing literature and seeks (1) to answer *why* these states chose their respective economic policies, (2) to reinforce *how* these differing policies led to two very different economic outcomes, and (3) to confirm that state economic policies do affect state economic growth and net interstate migration.

3. Methodology

To determine the effects of policy on economic growth and migration, the comparison of prior studies help demonstrate the effects of policies in Texas and California. Following that comparison, public choice theory will help determine how policies come about, particularly by looking at voter perceptions and economic ballot measure results that help determine each state's economic policies. A final exploration will examine what makes the policies in each state durable or unstable, which may significantly relate to the institutional structure in each state to which both voters and politicians respond.

[64] William Voegeli, "The Big Spending, High-Taxing, Lousy-Services Paradigm," City Journal 19, no. 4 (Autumn 2009), http://www.city-journal.org/2009/19_4_california.html

G. Voter Behaviors

If Olson's and Caplan's theories prove correct then active voters' preferences matter for determining economic policy. The institutional leeway constituents have to place economic measures on the ballot can make it easier for small interest groups to get policies on the ballot that exclusively benefit the interest group at the expense of the rest of the constituents. And according to Caplan, individuals are blinded by certain economic biases, which coupled with the near-zero cost of casting a biased vote, will lead to harmful and "irrational" policies that in turn negatively affect economic growth. Institutions matter too: these biases affect what appears on the ballot.

Registered voters account for a majority of any state's population. In fact, a significant difference exists between the number of voters that actually participate in a given election, the number of people registered to vote, and the number of people eligible to vote.[65] In Texas, 46 percent, 6 percent, and 26 percent of voters of voting age population turned out for the presidential (2008), constitutional (2007), and gubernatorial (2006) elections, respectively.[66] For California, 75 percent, 21 percent, and 36 percent of voters turned out for the presidential (2008), constitutional (2009), and gubernatorial (2003) elections, respectively.[67] For this reason, an accurate measure of the state policy preferences of all eligible voters seems virtually impossible both in terms of revealed preferences and because of a general lack of "active" voters on state

[65] U.S. Census Bureau, "Historical Time Series Tables," Table A-3, http://www.census.gov/hhes/www/socdemo/voting/publications/historical/index.html
[66] Texas Secretary of State, "Turnout and Voter Registration Figures," http://www.sos.state.tx.us/elections/historical/70-92.shtml
[67] California Secretary of State, "Voter Registration & Participation Statistics," http://www.sos.ca.gov/elections/elections_u.htm; the national voter turnout rate for the 2008 presidential election was 57%. See also: "2008 General Election Turnout Rates," The United States Elections Project, http://elections.gmu.edu/Turnout_2008G.html

issues. However, active voters' opinions actually matter the most for the sake of this analysis, and how they perceive the well-being of their state's economy provides useful feedback.

The difference in voter turnout rates between Texas and California may relate to the nature of each state's economic policies: "In states that spend more on valuable public programs and services that benefit citizens, including education, hospitals, roads, or libraries, the political stakes likely become greater and turn out rates increase."[68] Therefore, not only do voters influence economic policy, but it is suggested that, to a certain extent, economic policies may influence voter turnout as well. A recent study of voter behavior from 1980–2008 found "voter turnout is positively correlated with both government spending per capita and government size relative to state product: this finding is consistent with the theory that increased turnout draws voters from the lower part of the income distribution who are more likely to support redistributive and government spending."[69] The evidence above appears to confirm this theory, and additional information on voter turnout rates in Appendix V appears to validate this. However, this effect is difficult to tease out of the effect of Californians' relative ease to get measures on the ballot, which may influence higher voter turnout as well. Therefore, a point worth addressing for the analysis of voting behavior regards the magnitude of voters on a given issue. The sample size of voters for each question, the general percentage of registered voters, and total state population for the given year appear in Appendix I. a. and I.b.

[68] Garrick L. Percival, Mary Currin-Percival, Shaun Bowler, Henk van der Kolk, "Taxing, Spending, and Voting: Voter Turnout Rates in Statewide Elections in Comparative Perspective," *State & Local Government Review* 39, no. 3 (2007): 131-143, http://www.jstor.org/stable/25130415; "it is important to note that state fiscal policies do not necessarily have to be perceived in positive terms: heavier tax burdens and policies resulting in greater costs that are passed along to citizens increase the political consequences of an election and drive up turnout rates."

[69] Thomas Stratmann and Gabriel Okolski, "Civic Participation and Government Spending," Working Paper No. 10-24 (Arlington: Mercatus Center at George Mason University, 2010), http://mercatus.org/publication/civic-participation-and-government-spending

"Exit polling" by polling aggregates and companies such as Pollster.com,[70] Mitofsky International[71] and National Election Pool[72] reveals not only how people vote, but also how voters perceive the state of the economy both statewide and nationwide.[73] Though the questions vary from election to election, determining some generic patterns of voter satisfaction with their state elected officials and the economy becomes possible. Given limitations on the availability of the data on these questions, the analysis considers only exit poll questions posed in elections between 1990 and 2006 for each state.

Additionally, examining gubernatorial approval ratings reveals attitudes about the governor's performance, and concurrent approval or disapproval of the way a governor handles issues accurately measures the way voters view state economy issues. Voters perceive governors possess significant power to affect the state's economy with economic policies, and constituents often blame governors when a state's economy turns sour.[74] Data on approval ratings of governors in Texas and California for this analysis originates from SurveyUSA.com between 2005 and 2007.[75] Survey questions concerning the general perception of the national economy help to determine how people in Texas and California perceive how their respective states are faring relative to the nation. By looking at concurrent approval ratings of each state's governors and public perception of the economic condition of each state, this may help explain why the two states took different policy paths.

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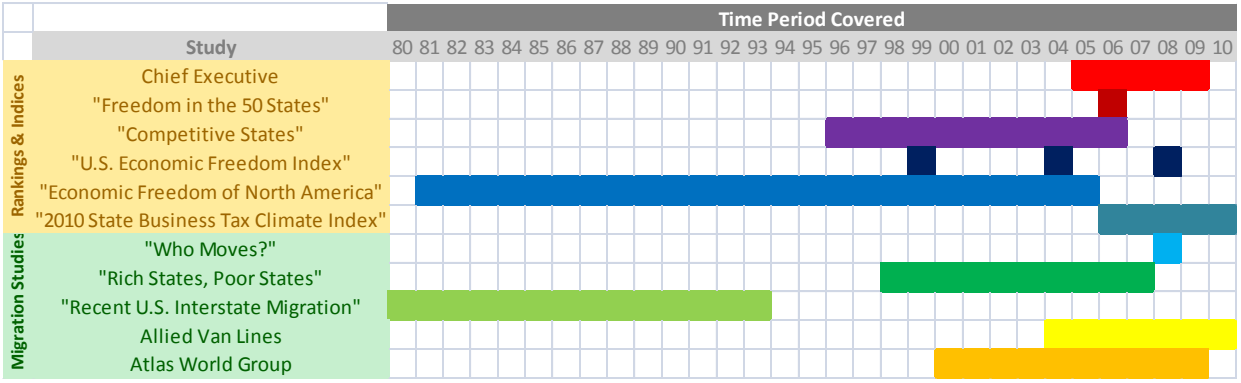
[70] Pollster, http://www.pollster.com/
[71] Mitofsky International, http://www.mitofskyinternational.com/
[72] National Election Pool, http://www.sourcewatch.org/index.php?title=National_Election_Pool
[73] "US Elections," Roper Center Public Opinion Archives, http://www.ropercenter.uconn.edu
[74] Richard G. Niemi, Harold W. Stanley, and Ronald J. Vogel, "State Economies and State Taxes: Do Voters Hold Governors Accountable?" *American Journal of Political Science* 39, no. 4 (November 1995): 936-57, via JSTOR, http://www.jstor.org/pss/2111664
[75] SurveyUSA, "SurveyUSA Statewide Approval Rating Polls," http://www.surveyusa.com/50StateTracking.html

H. Prior Studies

Based on the case studies and literature available that assess the relative economic positions and policy variances in states and discuss their economic policy strengths and weaknesses, the following presents a comprehensive comparison of the studies.

In order to demonstrate the period and comprehensiveness of all the studies considered here, the following table visually represents the time that each study covers:



The total comprehensive coverage begins in 1980 and ends in 2010. Three studies, the "Freedom in the 50 States," the "U.S. Economic Freedom Index" and the Pew Center's "Who Moves?" studies provide only snapshots of nonconsecutive years, but remain useful to compare between the years studied. While the studies tend to overlap not only in years but also in terms of what they focus on, the first six emphasize rankings and indexing of the states, while the second five either incorporate or focus specifically on interstate migration patterns.

Chief Executive surveys hundreds of CEOs annually on the best and worst places to do business, and ranks them accordingly on many factors.[76] Business retention and attraction issues

[76] *Chief Executive*, "CEOs Select Best, Worst States for Job Growth and Business," March 25, 2009, http://www.chiefexecutive.net/ME2/Audiences/dirmod.asp?sid=&nm=&type=Publishing&mod=Publications::Article&mid=8F3A7027421841978F18BE895F87F791&tier=4&id=D8BB1C4F12AE46EF9B7647E09E3253A6&AudID=F242408EE36A4B18AABCEB1289960A07

are "often at the center of policy debates at the state (and local) level but existing data sources do not provide the necessary information for studying the trend and employment effect of business relocation."[77] This analysis will reaffirm some of the findings of the other indices with more recent and comprehensive data, with a specific focus on businesses. The "Freedom in the 50 States" by Sorens and Ruger gives a snapshot picture of the most recent data available as of 2006 that comprehensively explores economic and social freedoms.[78] "Competitive States" by the Texas Public Policy Foundation provides a comparison of the 2006 state and local tax burdens of Texas and California versus their 10-year economic performance during the years of 1996–2006.[79] The 2008 "U.S. Economic Freedom Index" by the Pacific Research Center also sheds light on fiscal, regulatory, judiciary, government size, and welfare spending of each state for 2003 to 2007.[80] The "Economic Freedom of North America: 2008 Annual Report" also sheds light on state government institutions' effects on economic outcomes in their respective states from 1999 to 2008.[81] Additionally, the "2010 State Business Tax Climate Index" by the Tax Foundation pays particular attention to the tax structures of all 50 states between 2006 and 2010.[82] These studies all help paint a comprehensive picture of state policy environments.

The following set of studies document net migration. "Who Moves?" by the Pew Research Center, gathers information on domestic "movers" and "stayers" about their income,

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[77] David Neumark, Junfu Zhang, and Brandon Wall, "Employment Dynamics and Business Relocation: New Evidence from the National Establishment Time Series," U.S. Census Bureau, http://www.ces.census.gov/docs/caed/abstracts/abs_23_Junfu_Zhang.pdf

[78] Sorens and Ruger, 1-46.

[79] Donna Arduin, Arthur Laffer, and Stephen Moore, "Competitive States: Texas v. California," Texas Public Policy Foundation, (2008): 1-32.

[80] Lawrence J. McQuillan, PhD, Michael T. Maloney, Eric Daniels, Brent M. Eastwood, "U.S. Economic Freedom Index: 2008 Report," Pacific Research Institute Publication, (September 9, 2008): 1-82, http://www.pacificresearch.org/publications/us-economic-freedom-index-2008-report-2

[81] Fred McMahon and Amela Karabegović; with Nathan J. Ashby, Alan W. Dowd, and Russell S. Sobel, "Economic Freedom of North America: 2008 Annual Report," Fraser Institute, http://am.eri.ca

[82] Kail M. Padgitt, "2010 State Business Tax Climate Index," Tax Foundation *Background Paper*, no. 59 (September 2009): 1-60.

education, and reasons for choosing to move or stay put.[83] *Rich States, Poor States* by Arthur Laffer, Stephen Moore, and Jonathan Williams considers the data on net migration between 1998 and 2007, the different economic policies chosen (particularly tax and fiscal policy), and the economic growth during the time the selected data covers. "Ebbs and Flows in Recent U.S. Interstate Migration" by Gary A. Manson and Richard E. Groop, also reveals the migration pattern of California and Texas prior to the 1990s. Additional studies include the Allied Van Lines Annual State Magnet Report and Atlas World Group's review of migration patterns from 2000 to 2009.

I. Limitations of the Analysis

Each analysis carries weaknesses resulting from their individual scopes as well as strengths in their variant focuses that make this analysis more robust in identifying policy differences and their effects on economic growth. Despite Texas's and California's similarities, nuanced differences abound between them, as between any two state comparisons, that could affect some of the results of this particular analysis. Lag time exists between economic policies and movements of individuals and businesses to more conducive environments. Additional causal factors include, for example, other variables that may make a certain location more attractive to move to rather than the necessity to leave, or make an individual's value of a location may outweigh economic policies in the decision to move.[84] Finally, we can only track the movement of entrepreneurs and entrepreneurial activity through the net movements of individuals and businesses *ex post*.

[83] Taylor, Morin, Cohn, and Wang, 1-43.
[84] Florida, *Rise of the Creative Class*.

A final omission regards tax incentive programs. These programs intend to attract certain groups of individuals and businesses to a particular state, but such programs are outside of the scope of this analysis. Prior studies also exclude them as an indicator of economic prosperity. Instead, this analysis focuses on statewide trends rather than individual incentive projects.

4. Research Results

A. The Difference in Economic Policies

As the theory explains, voters can both directly affect the economic policies of their states and indirectly affect the institutions within which voters and politicians operate when developing economic policy. The evidence shows that voters significantly contribute to the way in which economic policies diverge in the states—to the extent that institutional constraints let them. Californians possess more institutional leeway to get measures on a ballot, which leaves them exposed to small interest groups gaining support by petition to put concentrated benefit, spread cost measures on the ballot. In both Texas and California, what gets on the ballot matters for determining economic policy regardless of the larger constituent preference, because the constituents who get the benefits are more likely to vote than the ones who bear the dispersed costs.

i. Ballot Propositions

For the purposes of this paper, the economically relevant ballot issues break down into the following categories:[85] taxes,[86] bond and spending issues,[87] and budget.[88] Given the

[85] Ballotpedia, http://www.ballotpedia.org/wiki/index.php/Main_Page; this regards direct observations of the state literature by author and Ballotpedia.org on each proposition considered. Ballotpedia originally began with the Citizens in Charge Foundation on May 30, 2007. The Sam Adams Alliance employed a small staff of project writers who contributed content to Ballotpedia in 2008-09. Additionally, the Lucy Burns Institute has been Ballotpedia's organizational sponsor since July 1, 2009. "Ballotpedia is a free, collaborative, online encyclopedia about elections,

limitation of data available, the propositions considered here for each state occur from 1990 to 2009, but this period is expansive enough to cover nearly the last two decades. Texans typically vote on ballot propositions every two years, with some exceptions in the period studied here. A review of all of the ballot measures in Texas and California that fall into the three categories determined the measures listed in Appendix I. There is significant room for further research on the different categories and the addition of the less-common regulatory ballot measures, but they fall outside the scope of this study. Below is a summary of each type of economic ballot measure for each state.

	Taxes		Spending and Bond		Budget Issues		Total	
State	Approved	Disapproved	Approved	Disapproved	Approved	Disapproved	Approved	Disapproved
Texas	27	3	31	6	2	1	60	10
California	15	19	43	28	1	8	59	55

A measure may appear on the ballot in several ways depending on the institutional structure of a state's referendum process. Texas, for instance, authorizes only legislatively-referred constitutional amendments[89] (LRCAs) on a ballot. In California, however, citizens and policy makers have several ways to initiate ballot measures, including LRCAs, legislatively-

ballot measures and access, petitions and ballot law, recalls, school and local ballot measures, and state legislatures…" The author checked the Ballotpedia's reliability by sampling its data and comparing it with the government data resource from which it draws.

[86] Ballotpedia, Taxes cover a broad range of potential ballot measures, including a tax increase or reduction (sales or property tax, for example), taxation reform, or tax limitation.

[87] Ballotpedia, "A bond issue as it applies to ballots is when a state government, or a local unit of government (city, county, school district) places a question before the voters as a ballot measure, asking them to approve or deny additional proposed spending." The category 'spending' concerns spending cap ballot measures.

[88] Ballotpedia, "Ballot measure governing state budgeting procedures;" Sometimes these issues can overlap with other broader categories that encompass economic issues regarding how Ballotpedia categorizes them, so the analysis for this paper has re-categorized any of the broader labels on economic propositions into one of the four categories mentioned above.

[89] Ballotpedia, "A legislatively-referred constitutional amendment is a proposed constitutional amendment that appears on a state's ballot as a ballot measure because the state legislature in that state voted to put it before the voters."

referred state statutes,[90] initiated state statutes,[91] voter-initiated constitutional amendments,[92] veto referendums,[93] and recalls.[94] This distinction between the two states may help to explain the greater volume of ballot measures proposed in California.[95] Arguably, the differences in the number and content of the ballot initiatives in California and Texas result from the very different ballot initiative systems, rather than a reflection of differences in voters' views, as conventionally assumed. Because small interest groups may find it harder to get measures on the ballot in Texas, voter approval might reflect the nature of the referendum process rather than differences in voter opinion. For more information on the ballot measures considered, refer to Appendices I. a. and I. b. at the end of this analysis.

a. Tax Ballot Measures

In the category of taxes, the majority of Texas's ballot measures proposed consisted of tax exemptions. In fact, 20 of the 30 tax ballot measures proposed tax exemptions, and Texan voters approved all measures in this category but three. Naturally, voters as consumers tend to support those tax breaks which would reduce their tax burden. Seven tax ballot measures related to tax limitations, all of which voters approved. Legislators proposed only one tax increase,

[90] Ballotpedia, "A legislatively-referred state statute is a statute that appears on a state's ballot as a ballot measure because the state legislature in that state voted to put it before the voters."
[91] Ballotpedia, "An initiated state statute, also known as an initiative statute, is a new law that a state adopts via the ballot initiative process. The most common form of initiated state statute is when groups collect signatures and once those signatures are collected, election officials place the measure on the ballot for a vote."
[92] Ballotpedia, "An initiated constitutional amendment is an amendment to a state's constitution that comes about through the initiative process."
[93] Ballotpedia, "Veto referendum is a synonym for citizen referendum or statute referendum. It is also sometimes called a popular referendum."
[94] Ballotpedia, "Recall is a process available in most jurisdictions whereby an elected official can be removed from office either for malfeasance or in some jurisdictions for any action the recall language specifies. For recalls, most state laws have set the highest signature threshold for any type of petition - most often requiring 25 percent of all registered voters or 25 percent of voters in the last election for the recalled office to sign a recall petition."
[95] For additional detailed information on the ballot measures considered in this analysis, refer to Appendices I. a. and I. b. at the end of this analysis.

regarding the imposition of an *ad valorem* tax in rural fire prevention districts, which voters approved. Voters also approved a final ballot measure regarding a tax incentive program for economic development.

California, often both plagued and blessed by the ability of its constituents to initiate ballot measures, went through many more measures in all categories in the same period. California legislators and citizens proposed 34 tax ballot measures in the given period. One was a tax limitation that voters approved. Out of nine tax exemptions, voters approved eight. Of the 19 tax increases introduced, Californians approved 5 of them—3 of which were voter initiated. The legislature proposed six of the tax increase measures through LRCAs; voters initiated the remaining measures by petition, or vote initiative. Voters passed a low-income property tax postponement, a renter's tax credit, a local government sales revenue sharing program, and rejected both the only tax decrease and a measure combining a four-year tax hike with a spending cap

b. Spending and Bond Issues

Within the period of the study, Texas's voters encountered 37 LCRAs concerning bond issuances and spending increases, and passed 31 of them. In addition, Texan voters passed two LCRAs that reduced spending for superconductor colliders and the amount of state debt payable from the general fund. Finally, Texans approved one exemption for schools from the obligation of unfunded mandates.

In California's case, four of the 71 bonds and spending ballot measures proposed to place limitations on spending, and only two of these voters approved. Voters also rejected the one state spending issue regarding the use of three percent of the general funds on state and local

infrastructure. The remaining 66 measures fell into the bond issues and issuances category, 41 of which voters approved.

c. Budget Ballot Measures

In the last category, budget issues, voters can affect how government spends and acquires money, as opposed to just authorizing the government to tax or spend. Texas legislators proposed only three measures, two of which voters approved, including requiring the Turnpike Authority to repay certain monies to the Texas Department of Transportation, and expanding the investment authority of the Veterans' Land Board.

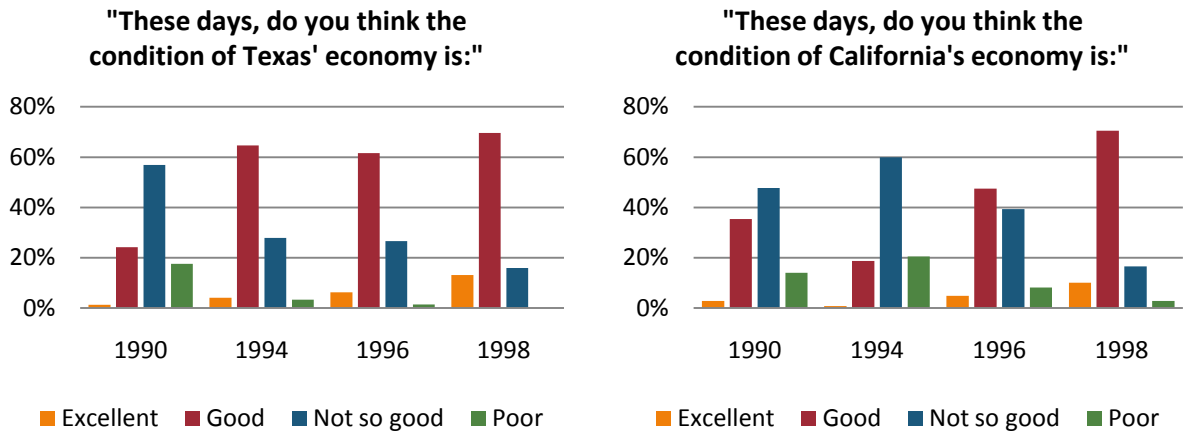
In California, legislators proposed nine budget ballot measures, only one of which voters approved, keeping local sales and property tax revenues in the hands of local governments. The rest of the budget ballot measures concerned the way the state spends certain revenue, and some measures concerned freeing up money if other propositions left any money unused. All of the rejected budget ballot measures intended to raise or free up extra money for the state.

These numbers reveal that while Texans appear more willing to approve measures, they deal largely with tax exemptions and spending initiatives. Californians approve more of a mix of tax increases, few tax exemptions, and plenty of spending initiatives. When correlated with their state rankings, it would appear that Texans ask for less government spending relative to Californians, consistent with Texas having more limited government. Whether voter preferences or institutional constraints weigh more on the divergence of economic policies between the states is unclear, but the differences between Texas and California voter preferences and institutional constraints are clear. The mix of economic measures on Texas' ballots appears to affect policy outcomes differently than those in California. The content voted on matters in part for the

outcomes of the states' economic growth, which in turn affects the net migration patterns of the states as well.

ii. Voter Perceptions in Exit Polls

Voter perception, though a rough estimate of the general mood of each state given the range of error imbedded in surveys of this nature and the limitation of the data available, remains a valuable window into how voters approve of state economies and state legislators. It may help to explain why Texas has recently experienced net in-migration and has attracted businesses, while California has lost people and businesses over the same period. Given the available exit poll data available for the span of the 1990s, Texans appear slightly more optimistic about their economy versus Californians in the exit polls:



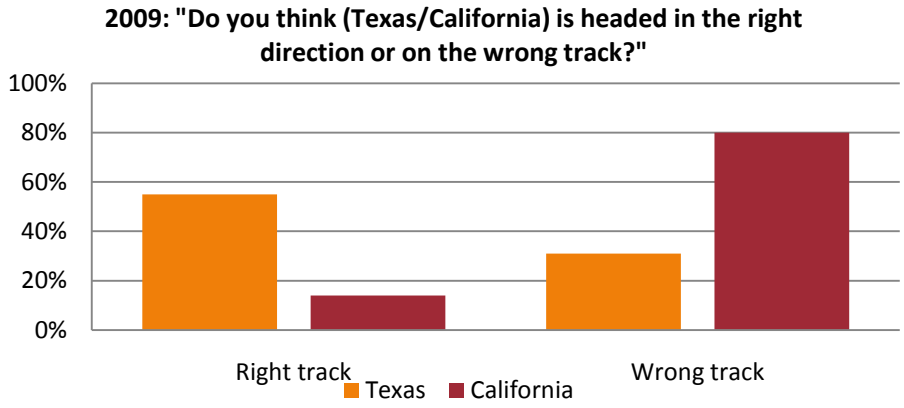
Source: Voter News Service Election Day Exit Poll Surveys, accessed through Roper Center Public Opinion Archives.[96]

The contrasts in the graphs above demonstrate that both Texans and Californians felt pessimistic in 1990, but this trend changes for Texas by 1994, with a vast majority of surveyed voters believing the Texas economy was "Good" or "Excellent." Compared to what Texans and

[96] "State Election Day Exit Polls 1978-2006," Roper Center Public Opinion Archives, http://www.ropercenter.uconn.edu

Californians thought about the condition of the nation, both voter populations held a rosier picture of their respective state economies.[97] A large majority of Californians perceived the state of their economy as "Not so good" or "Poor" in 1994, and nearly half believed this in 1996. By 1998, it appeared that Californians felt nearly as optimistic as Texans did about their respective economies.[98] From thenceforth, exit polls refrained from asking both states that exact question, which makes the comparison of voter perceptions across the two states more difficult for the next decade. More recently, polling services took new interest in voter perceptions on the condition of their respective states.

As recently as 2009, however, there appears an even greater divergence of Texans' and Californians' opinions on the state of their respective economies:



Source: Texas Credit Union League conducted Texas' poll; Los Angeles Times/USC conducted California's poll.[99]

[97] This regards exit-polling results on the question regarding voters' perceptions of the condition of the national economy in years 1990 and 1992.
[98] For additional information about how polling companies conduct exit polls, weighted, and other concerns, refer to Appendix II at the end of this analysis.
[99] *PRNewswire*, "Poll: Texas Voters Rate State Official Job Approval, the Economy, and Who is to Blame for Economic Crisis," United Business Media, June 2009, http://www.prnewswire.com/news-releases/poll-texas-voters-rate-state-official-job-approval-the-economy-and-who-is-to-blame-for-economic-crisis-61976332.html; see also: Cathleen Decker, "California's Best Years Have Passed, Voters Say," *LATimes*, November 8, 2009, http://www.latimes.com/news/local/la-me-poll8-2009nov08,0,958773.story. "Asked whether California was headed in the right direction or was on the wrong track, only 14% said the state was moving in the right direction. That was the lowest such finding since October 1992, when an equal percentage expressed dismay." These are not exit polls, but the sources above executed this polling.

As of 2009, even in the midst of a recession, Texans appear far more confident in the direction their state economy by a large margin over California. Moreover, in 2010, 43 percent of Texans polled believe that the state's economy is on the right track, while 37 percent think it is on the wrong track. Furthermore, "More than half of Texans—56 percent—think the country is on the wrong track, while 31 percent think things are going in the right direction."[100] Californians, on the other hand, 19 percent believe the state's economy is going in the right direction, while 74 percent believe it is going in the wrong direction.[101] Apart from their own economy, Californians also thought that the country was going on the wrong track, to the tune of 55 percent, while 35 percent thought it was on the right track.[102] A clear distinction exists between the two states' respective voter perceptions from past years regarding their respective states, but they share the same view about the state of the nation.

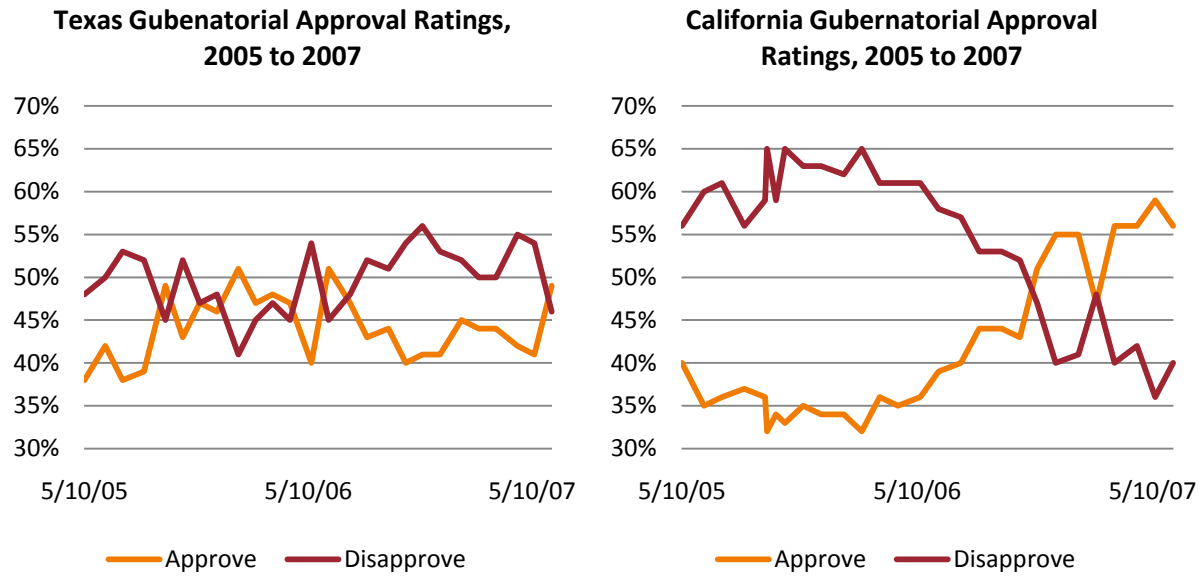
These exit polls reveal that voters remain keenly aware of the economic positions of their respective states and the nation. However, *how* they vote on economic ballot measures demonstrates their uncertainty of what would increase or hinder growth, and economic biases may prevent these voters from voting in their own interests, which makes the type of economic policy that gets on the ballot all the more critical to determining economic policy.

iii. Gubernatorial Approval Ratings

Data availability on gubernatorial approval ratings is very limited prior to 2005, but the following charts provide a fluid picture of approval ratings between 2005 and 2007 as polling

[100] Ross Ramsey, "Texas Tribune: Poll Finds Economy, Jobs Top Concerns for Texans," *El Paso Times*, http://www.elpasotimes.com/business/ci_14406080
[101] Mark Baldassare, Dean Bonner, Sonja Petek, Nicole Willcoxon, "Californians & Their Government," Public Policy Institute of California, (January 2010), http://www.ppic.org/content/pubs/survey/S_110MBS.pdf
[102] Decker, "California's Best Years Have Passed, Voters Say."

companies survey voters every month or two. Unfortunately, Texas lacks data coverage on approval ratings compared to California, which tracks data through 2010. For the sake of equal comparison, the analysis omits California's data on gubernatorial approval ratings after 2007.



Despite the gap in data coverage, a large divergence existed in Texas's voter perceptions of their state leader versus Californians' perceptions between 2005 and 2006, and given the snapshot data available in February 2010, there is an even greater divergence. Texas gubernatorial approval appears to be more stable. Until 2007, Texas' governor had higher approval ratings, but in 2007, California's governor did. In 2010, this apparently reversed again.

In February 2010, Texas Governor Rick Perry garnered an approval rating of 56 percent with 42 percent disapproval.[103] This reveals a striking difference when compared to California's most-recent ratings for Governor Schwarzenegger amounted to 19 percent approving and 80

[103] Rasmussen Reports, "Election 2010: Texas Governor," April 19, 2010, http://www.rasmussenreports.com/public_content/politics/elections2/election_2010/election_2010_governor_elections/texas/election_2010_texas_governor

percent disapproving.[104] Interestingly, Schwarzenegger's ratings fell to the statistically equivalent approval ratings of Governor Davis in 2003 shortly before his recall by California voters.[105] California grants voters the right to recall a policymaker while Texas does not. It appears in spite of this, Schwarzenegger will serve out his term.

When faced with a constituency that appears to favor economic policies tending to inhibit economic growth, politicians must communicate to their constituents, particularly voters, the bad consequences of those policies when making tough decisions. Much of the solution will concern institutional constraints that prohibit politicians from giving in to practices like spending beyond the budget even though voters may demand it. In a state like Texas, the institutional constraints appear to exist, or at the very least, those constraints remain untested by voters simply because the majority of Texans appear to prefer a low-tax, low-benefit model. In this way, the establishment of a free society in the long run remains intact with an institutional structure that makes economic policy that hinders growth more difficult to pass. In this manner, a state may prevent self-undermining practices by attracting voters with competing high-tax, high-benefit values to a relatively economically freer state if institutional constraints prevent state practices from leading to slower growth policies in the long term.

B. Long-Term Fiscal Stability Performance

States with precedents for stable economic policies and continued fiscal stability enjoy higher and relatively more stable economic growth.[106] Texas seems to have more durable, institutional constraints that affect budget decisions. A long-standing precedent could make a

[104] SurveyUSA, "Results of SurveyUSA News Poll #16276," http://www.surveyusa.com/client/PollReport.aspx?g=a212599f-4d07-42e5-a9ff-a094c267baf5
[105] *The Huffington Post*, "Schwarzenegger Approval Rating Falls To Gray Davis Recall Level," March 21, 2010.
[106] David Primo, *Rules and Restraint*; see also: Laffer, Moore, and Williams, *Rich States, Poor States*.

state's policy commitment more credible, so another year of fiscal stability in Texas may demonstrate a bigger effect than a year of fiscal stability in California.

Both states passed tax and expenditure limits [TELs], which limit the amount a government can increase taxes or spend relative to a predetermined growth rate, but California's two TELs don't seem as effective as Texas's one. California passed its first TEL in 1979 on appropriations limited to personal income growth and population.[107] Within the same year, it passed a second TEL, limiting appropriations on tax proceeds.[108] This second TEL, also known as the Gann limit, has since been subject to several voter approved proposition which exempt certain taxes and significantly increased the limit.[109] Texas passed its first and only TEL in 1942, limiting appropriations to personal income growth.[110]

> TELs are designed to limit excessive growth in government, while increasing overall budget stability. Historically, the growth in overall state spending has been significantly more volatile in California than Texas. For instance, between 1996 and 2005, the standard deviation in state spending in California was 4.5 percent, compared to 2.4 percent in Texas.[111]

In spite of having two TELs, California still appears unable to keep spending under

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[107] "Tax and Expenditure Limitation in California: Proposition 13 & Proposition 4," Institute of Governmental Studies University of California, 2005, http://www.igs.berkeley.edu/library/research/quickhelp/htTaxSpendLimits2003.html; "Only once since Proposition 13's passage have voters relaxed that requirement. In November 2000 they passed Proposition 39,* authorizing the passage of school construction bonds by a 55% vote."

[108] Scott D. Pattison, "Budget Processes in the States," National Association of State Budget Officers, (Summer 2008): 40-77.

[109] "Tax and Expenditure Limitation in California: Proposition 13 & Proposition 4." "Proposition 99* (1988) and Proposition 10* (1998) exempted new tobacco taxes from the Gann limit. Proposition 98* (1988) required public schools to receive a share of revenues exceeding the Gann limit. That share was changed to a flat 50 percent by Proposition 111* (1990). Proposition 111 also added three exemptions to the Gann limit: capital outlay spending, appropriations supported by increased gas taxes, and appropriations resulting from national disasters. Most significantly, Proposition 111 changed the formula used for calculating annual adjustments to the Gann limit. Under Proposition 111, the population factor is based on a weighted average of population and K-14 school enrollment growth (instead of population only), and the cost of living factor is based solely on California per-capita personal income growth (and no longer takes into account the Consumer Price Index)."

[110] Scott D. Pattison, 40-77.

[111] Laffer, Moore, and Williams, *Rich States, Poor States* 21.

control. Additional ballot measures weakened the TELs over time. Another reason for California's spending struggles could relate to the volatility of its revenue resources from income taxes on capital gains and stock options. Conversely, Texas's relatively stable revenue from sales taxes appears to prevent volatile changes in the ability to spend on current government programs.[112]

Budget Practice	Texas	California
Appropriations		
State Appropriates Federal Funds	Yes	X
State Appropriates All Non-Federal Funds	Yes	X
State Appropriates All Funds to Public Universities	No	–
State Has Permanent/ Continuous Appropriations	No	X
Budget Reflects GAAP	No	–
Statutory Procedures If No Budget Passed by Beginning of FY	No	X
Tax and Expenditure Limitation (TEL)		
Tax and Expenditure Limitation	Appropriations limited to personal income growth	Appropriation limited to personal income growth and population
Year TEL was enacted	1942	1979
TEL created by voter initiative	Yes	Yes
TEL Constitutional or Statutory	C,S	C
Votes Required to Pass Revenue Increase	majority	2/3 elected
Debt		
Policy to Limit Debt Service	Limit of 5 percent general fund revenues for previous 3 years.	No
Policy to Limit Authorized Debt	Limit of 5 percent general fund revenues for previous 3 years.	No
Balanced Budget		
Governor Must Submit Balanced Budget	No	Yes
Nature of Requirement	None	C
Legislature Must Pass Balanced Budget	Yes	Yes
Nature of Requirement	C,S	C
Governor Must Sign Balanced Budget	Yes	Yes
Nature of Requirement	C	C
May Carry Over Deficit	No	Yes

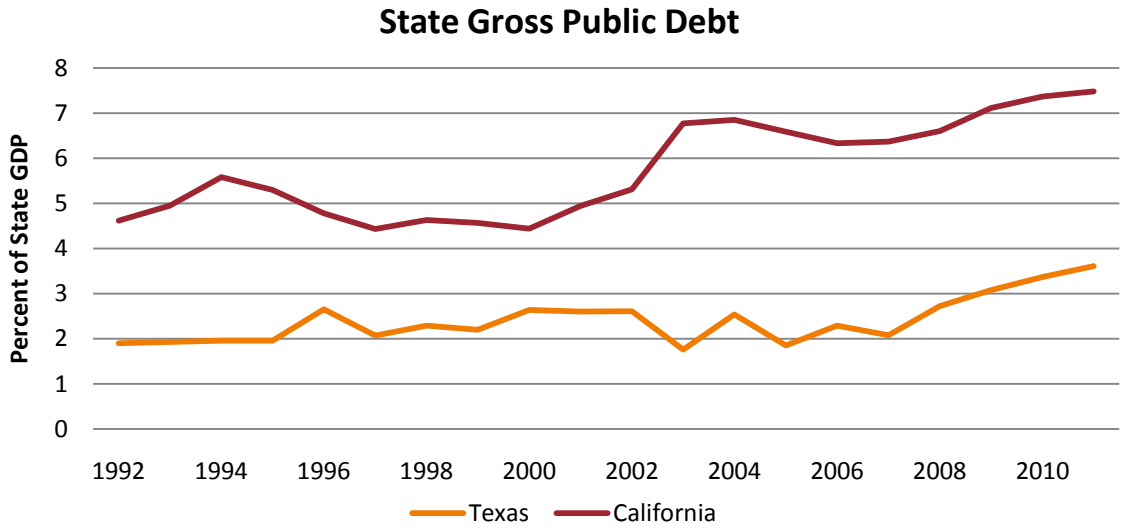
Source: "Budget Processes in the States," National Association of State Budget Officers, (Summer 2008).

Another two of the many divergences in the way California and Texas formed their budget processes concerns their balanced budget requirements and debt limits. California "may

[112] R. Alison Felix, "The Growth and Volatility of State Tax Revenue Sources in the Tenth District," Economic Review, Third Quarter, 2008, Federal Reserve Bank of Kansas City, http://www.kansascityfed.org/Publicat/Econrev/PDF/3q08Felix.pdf; "Sales tax revenues, both general and selective, have been the least volatile tax instruments."

carry over deficit from current year to budget year. However, the budget for any year must be balanced when enacted."[113] Texas lacks the same flexibility; only seven states including California can carry over deficits.

Regarding debt limits, Texas includes a policy to limit debt service and a policy to limit authorized debt to "5 percent general fund revenues for previous 3 years" in both cases.[114] California possesses no limitations of any kind on debt service and authorized debt.



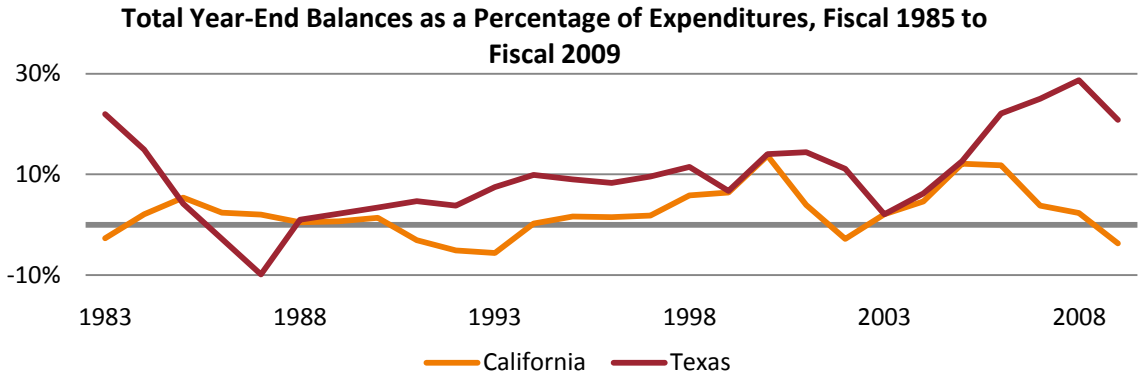
Source: USGovernmentSpending.com[115]

The graph above demonstrates each state's debt as a percent of their respective GDP. Texas has consistently lower debt levels compared to California, and the distance between their debt levels is widening. This is consistent with Texas's restrictions on debt service and authorized debt, and California's lack of similar institutional constraints may be attributable to its generally higher debt to GDP ratio, among other contributing factors in the state economy and its

[113] Scott D. Pattison, 40-77.
[114] Scott D. Pattison, 40-77.
[115] Christopher Chantrill, "State Gross Public Debt," USGovernmentSpending.com; for more information about data sources, refer to http://www.usgovernmentspending.com/art13_government_spending_data_sources.html. Graph does not include local debt, and 2009-2011 figures are projections.

budgeting processes.

All states except for Vermont (which balances the budget out of habit) constitutionally mandate annual balanced budgets. In order to gain a better idea of how California and Texas fare at balancing their budgets at year's end, reviewing how much remains after balancing the budget helps. The following graph displays total budget balances for Texas and California from 1983 to 2009. The annual Fiscal Survey of the States Report from the National Association of State Budget Officers defines total balances for each state as including "both ending balances and the amounts in states' budget stabilization funds; they reflect the funds that states may use to respond to unforeseen circumstances after budget obligations have been met."[116]



Source: The National Association of State Budget Officers, "The Fiscal Survey of the States: Archives"[117]

It appears that Texas experienced a negative balance for the 1986–1988 period, and then remained in surplus ever since. It also appears that California fell below balance several times, including in 1983, 1990–1994, 2002, and again in 2009. Yet because of how a state may define its expenditures and revenues and because of the differences in how they formulate their budget

[116] Raymond C. Scheppach, "The Fiscal Survey of the States: December 200," National Governors Association and the National Association of State Budget Officers, (December 2009): 1-26, http://www.nasbo.org/Publications/FiscalSurvey/FiscalSurveyArchives/tabid/106/Default.aspx

[117] Author's aggregation based on source. Fiscal 1983 to 2008 are actual figures and fiscal 2009 are preliminary actual figures.

processes, this graph fails to reveal the kinds of measures a state may take to execute a seemingly balanced budget.

In fact, many methods exist for states to engage in opaque budget practices to make their budgets look balanced. Opaque budget offenses most often include: floating bonds, "rolling payments over into future fiscal years, borrowing from trust funds such as pensions, and making rosy predictions about revenue growth that cause budgets to deceptively appear balanced."[118] For this reason, looking at the graph above falls short of telling the whole tale about how states fare fiscally. A deeper look into the literature concerning what Texas and California enacted to balance their budgets helps to understand their fiscal positions.

i. California

In the case of California, voters largely passed tax increases and many large bond issuances in the time period considered, perhaps because of economic biases. Alternatively, it may be because the voters at the polls approving these economic ballot measures believe the propositions and state legislators they choose will personally help them if they belong to a special-interest group benefitted by the measure.

This may make it difficult for current and future Californian legislators to pass reforms and cut spending in order to attract sources of economic growth to the state because legislators would be at odds with voter demands if they attempt to do so. The Pew Center on the States' Government Performance Project suggests that California's "powerful and active citizen-

[118] Emily Washington, "Ripping the Band-Aid off budget gaps," *The Daily Caller*, March 9, 2010, http://dailycaller.com/2010/03/09/ripping-the-band-aid-off-budget-gaps/

initiated process has produced several measures that further hamper spending flexibility."[119] While Californians appear willing to increase taxes as evidenced by the many propositions passed in the timeframe of this analysis, a limit appears to exist for the high-tax, high-benefit model that a majority of Californians is willing to support.

Given the measures the state government employed to balance the budget, voters cannot take full responsibility for California's current crisis: "From 1990 to 2008, California's revenues increased 167 percent, but total spending soared 181 percent."[120] Legislators approved additional spending on top of what voters approved, and these additional spending programs strained the budget. Furthermore, no institutions appear to exist that politicians can point to and tell their constituents that they cannot spend beyond the budget, so a pressure to continue to satisfy voter wants may exist. The state's reliance upon income taxes, and particularly capital gains taxes, begot spending programs in spite of the high volatility in this form of revenue.[121] The states that struggled the most in the current recession include those that relied most on income and capital gains taxes, which shrank significantly in the financial crisis.[122]

> California's debt per capita has increased substantially in recent years, mostly as a result of a heavy reliance on borrowing to fund accumulated operating deficits . . . The state has a chronic structural deficit that shows no sign of improving and faces a $14 billion shortfall for the coming fiscal year. The state has used deficit bonding, short-term borrowing and nonroutine fund transfers in attempts to close budget gaps.[123]

This issue is not new for California. For example, the state borrowed $15 billion in long-term

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[119] "California," Government Performance Project: Grading the States 2008, The Pew Center on the States, 2008, http://www.pewcenteronthestates.org/uploadedFiles/PEW_WebGuides_CA.pdf
[120] Shikha Dalmia, Adam Summers and Adrian Moore, "Don't Blame Voters for California's Budget Woes," *The Wall Street Journal,* October, 9 2009, via Reason, http://reason.org/news/show/dont-blame-voters-for-californ
[121] Laffer, Moore, and Williams, *Rich States, Poor States*.
[122] Joseph Henchman, "State Budget Shortfalls Present a Tax Reform Opportunity," *Special Report – Tax Foundation*, February 2009, http://www.allbusiness.com/government/government-bodies-offices-regional-local/11797907-1.html
[123] "California," Pew Center on the States.

bonds to pay for short-term operating expenses in 2004.[124] This will make the immediate future rough for the Californian economy, and net migration may likely remain negative for some time until California figures out an improved long-term plan for fiscal stability without footing its businesses and high-income earners with the additional spending programs on the state's tab.

Considering the most-recent data in 2009, California's budget remained unbalanced for a decade. The latest figures estimate the gap at $15 billion in 2010 and $25 billion in 2011, in spite of a $103 billion annual general fund budget.[125] Future data on net migration will help indicate the length of time it takes before the state's budgetary process and long-term fiscal stability help the state become magnetic for business and individuals once more. In order to attract people and businesses they must restrict the pattern of spending beyond the state's budget, because budget revenues appear neither stable nor static.

ii. Texas

Texas's budget procedures largely center on performance-based measures in order to help combat waste and duplication. Studies on performance-based measures find that performance information in the budget process does not alter the decision process but rather adds value to the process; they find that performance measures "create a more informed environment that leads eventually to better decision-making by individuals."[126] "State agency executive directors in Texas agree that performance measures are utilized for critical decision-making in government,"

[124] Henchman, "State Budget Shortfalls Present a Tax Reform Opportunity."
[125] Henchman, "State Budget Shortfalls Present a Tax Reform Opportunity."
[126] Michelle Romero, "A Utilization Assessment Of The Texas Performance Measurement System," Texas State University, (2004), 17, http://ecommons.txstate.edu/cgi/viewcontent.cgi?article=1026&context=arp; see also: Gerasimos A. Gianakis, "The Promise of Public Sector Performance Measurement: Anodyne or Placebo," *Public Administration Quarterly*, (2002): 35-64; see also: Julia Melkers and Katherine Willoughby, "Budgeters' Views of State Performance-Budgeting Systems: Distinctions across Branches," *Public Administration Review* 61, no. 1, (2001): 66-73.

but they find the measures more often used for internal agency decisions, rather than for legislative budget allocation.[127] Still, Pew Center on the States finds that "transparent financial transactions and unfettered public access to fiscal information have become two of the leading indicators of a state that is functioning well in this area."[128] Texas is considered to be a "leading state" in transparency initiatives, receiving a "B" on the Transparency Scorecard, while California is deemed an "emerging state" with a grade of "D" on transparency efforts.[129]

Furthermore, the state also instituted a Sunset Advisory Commission, which by mandate, reviews all state agencies periodically to assess whether the agency needs to exist. The commission recommends its assessments to the Legislature, which the Legislature approves. Since 1978, the Commission eliminated 58 government agencies and consolidated another 12.[130] The Commission typically reviews 20–30 agencies every year. As performance-based measures are high priority, the commission measures its own performance as well claiming, "Estimates from reviews conducted between 1982 and 2009 indicate a potential 27-year revenue savings of approximately $783.7 million, compared with expenditures of $28.6 million for the Sunset Commission."[131] However, this figure is extremely small compared to the state's biennial budget—$167.8 billion in 2008–2009[132]—but redirects government resources away from duplicative or wasteful procedures.

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[127] Romero, 78.
[128] "Texas," Pew Center on the States.
[129] Kari Wohlschlegel and Phineas Baxandall, "Following the Money: How the 50 States Rate in Providing Online Access to Government Spending Data," OSPIRG Foundation, April 2010: 30, https://pincdn.s3.amazonaws.com/assets/dccc757c96d01b9f7579cf89469e9bec/Following-the-Money---OSPIRG-Foundation.pdf
[130] "Frequently Asked Questions (FAQs)," Sunset Advisory Commission, http://www.sunset.state.tx.us/faq.htm
[131] "Frequently Asked Questions (FAQs)," Sunset Advisory Commission.
[132] David Dewhurst and Tom Craddick, "Fiscal Size-Up," 2008-09 Biennium, Legislative Budget Board, March 2008, http://www.lbb.state.tx.us/Fiscal_Size-up/Fiscal%20Size-up%202008-09.pdf

Another institutional check in place concerns the state comptroller position. Unlike California's case, the Texas Constitution gives the state Comptroller of Public Accounts the authority to certify the state's budget and return any spending initiatives that the state cannot afford.[133] This institutional constraint forces Texas policymakers to set priorities and make choices that fit within the budget. In 1995, Texans voted to abolish the Texas State Treasurer and consolidate the position's remaining tasks into the comptroller's duties, while most states, including California, have kept the two positions separate. Specifically, California's controller accounts for and controls state funds, audits, and provides information about the fiscal position of the state. In Texas, however, the comptroller is an elected position, and voters have direct say on the person selected to manage the fiscal stability of the state. "Having a third party enforce prudent fiscal forecasting and spending helps to avoid the situation so many states now face."[134] As a result, the state operates on conservative estimates of the revenues that the state expects to receive, which helped Texas to achieve state surpluses and low levels of debt in recent years. Because it lacks an income tax, Texas depends on sales tax revenues, which remained stable and strong in recent years, unlike California's alternative revenue sources. Additionally, "the state has a constitutionally mandated economic stabilization fund, which receives revenues from gas and oil taxes."[135] According to recent figures, Texas boasts a $2 billion budget surplus and a $9 billion rainy day fund and an additional $3 billion set aside for property tax relief.[136] It appears that the additional constraints that Texas built into its budgeting process help to maintain relatively long-term fiscal stability.

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[133] Leonard Gilroy. "Economic Downturn Didn't Cause State Budget Deficits." Reason.com. (November 2008). http://reason.org/news/show/economic-downturn-didnt-cause

[134] David M. Primo, *Rules and Restraint*.

[135] "Texas," Government Performance Project: Grading the States 2008, The Pew Center on the States, 2008, http://www.pewcenteronthestates.org/uploadedFiles/PEW_WebGuides_TX.pdf

[136] Joseph Henchman, "State Budget Shortfalls Present a Tax Reform Opportunity."

While Texas's exact model for its state budget may not be directly applicable and successful in California's case, its formula includes some elements that California should consider while attempting to sort out its budget processes. That includes performance-based measures, cost saving auditing of spending programs, and putting a check on potential to spend beyond the state budget. States that rely on conservative budget estimates appear to rely less on their revenue sources for closing budget gaps. For the majority of states facing budget gaps and potential fiscal crises, development of a transparent budget, control of underfunded pensions and debt reductions begin the critical initial steps toward providing the environment necessary for economic growth to flourish.[137]

C. State Economic Policies Effects on Economic Growth and Migration

i. Results of Prior Studies

Prior studies show that on nearly all indicators used to measure the economic policy differences between states, Texas fares better than California for some time. For nearly 20 years, Texas gained on and then surpassed California in terms of economic growth rates, job growth rates, and recently higher domestic population growth rates. When making direct quantitative comparisons between the two states, Texas remains positively ranked on most indices, indicating a good economic environment because of its relatively long-standing precedents for fiscal stability and pro-growth economic policies. It could also relate to why California struggles—no precedent of long-standing government fiscal prudence exists, therefore a lack of pressure exists. California fell in rank on most indices measuring internal migration, fiscal policy, and economic

[137] Joseph Henchman, "State Budget Shortfalls Present a Tax Reform Opportunity."

growth.

a. Results of Economic Rankings and Indices

The results of the prior studies give a very complete picture of the economic policy divergence between Texas and California, as well as the state of their economies over time correlated with those economic policies. The next section discusses the studies' results for their given time periods.

1. Chief Executive's *"Best Place to Do Business"*

The following table from the *Chief Executive* magazine demonstrates how top executives rate Texas and California in several categories important for a successful business environment: "*Chief Executive's* fifth annual survey asked 543 CEOs to evaluate their states on a broad range of issues, including proximity to resources, regulation, tax policies, education, quality of living and infrastructure."[138]

Category/Ranking	California	Texas
Ranking, 2006-2009	51	1
Unemployment Rate (%)	9.3	6
Population Growth Rate (%)	1.5	4.1
Cost of Business	48	27
Technology & Innovation	1	4
Transportation	1	16
Business Friendliness	48	20
Workforce	21	12
Economy	7	1
Education	31	30
Quality of Life	4	22
Access to Capital	1	3

Source: *Chief Executive*, "CEOs Select Best, Worst States for Job Growth and Business."

[138] *Chief Executive*, "CEOs Select Best, Worst States for Job Growth and Business." The rankings are from 1 to 51, including all 50 states and the District of Columbia, with 1 being "Best" and 51 being "Worst."

Texas achieved the title of "Best Place to Do Business" for the fourth consecutive year (out of five years since the survey's inception), while California took the dead last position for the same period. Texas consistently outranks California in all categories with the exceptions of "Access to Capital," "Transportation" and "Technology and Innovation" for which California ranks first in each. Another near tie resides in "Education" where Texas just barely bests California by one ranking number.

2. *"Freedom in the 50 States"*

The next table demonstrates how the study, "Freedom in the 50 States" ranks Texas and California in the following policy categories: fiscal, regulatory, economic freedom, personal freedom, and overall freedom in 2006. The study develops quantitative indicators for comparing states' policy regimes on their friendliness toward individual freedom.

State	Fiscal	Regulatory	Economic Freedom	Personal Freedom	Overall Freedom
California	44	46	48	37	47
Texas	4	27	7	5	5

The study defines fiscal policy as both spending and taxation issues. The study considers regulatory policy to include "labor regulation, health insurance mandates, occupational licensing, eminent domain, the tort system, land and environmental regulation, and utilities."[139] Economic and personal freedom made up the overall ranking, and consists of campaign finance regulation, education policies, marriage and civil union laws, sundry *mala prohibita*, gambling laws, auto

[139] Sorens and Ruger, "Freedom in the 50 States."

and road regulations, alcohol regulations, tobacco regulations, arrests for victimless crimes, arrests for forfeiture rules, marijuana laws, and gun control. Texas ranks in the single digits for all categories except regulatory policy. California, however, remains close to the upper 40s in each category ranking with exception to personal freedom where it ranks somewhat higher.

3. *"Competitive States" vs.* Rich States, Poor States

The next table gives a comparison between two studies that use the same methodology to index California and Texas based on their economic policies, with the exception of two different periods: "Competitive States"[140] covers 1996 to 2006, while *Rich States, Poor States*[141] covers 1998 to 2007. These two studies focus on the tax policies each state pursue (as states can compete with each other on tax base), and their correlations with how each state fares in economic growth and job growth.

[140] Arduin, Laffer, and Moore, "Competitive States."
[141] Laffer, Moore, and Williams, *Rich States, Poor States*.

Texas vs. California	1996-2006	1998-2007	1996-2006	1998-2007
Competitive Event	**California**		**Texas**	
Taxes on Labor				
Top Marginal Personal Income Tax Rate	10.30%		0%	
Marginal Personal Income Tax (avg. earner)	9.30%		0%	
Taxes on Capital				
Property Tax Burden (per $1,000 of personal income)	$28.24	$26.63	$42.13	$41.06
Estate/Inheritance Tax Levied	NO		NO	
Top Marginal Rate: Income, Dividends, Capital Gains	10.30%		0%	
Taxes on Consumption				
State Sales Tax Rate	7.25%		6.25%	
Sales Tax Burden (per $1,000 of personal income)	$28.06	$23.72	$28.64	$23.31
Overall Tax Environment				
Overall Tax Burden	$118.33		$99.49	
Personal Income Tax Progressivity	$33.58	$34.88	$0	
Recently Legislated Tax Changes (per $1,000 of personal income)	+$0.29	+$0.88	-$4.35	-$3.92
Number of Tax Expenditure Limits	2		1	
Regulatory Environment				
State Liability System Rank	34th	44th	18th	41st
State Minimum Wage	$7.50	$8	$5.85	$6.55
Average Workers' Compensation Cost	$4.13	$2.72	$2.84	$2.61
Right-to-Work State	NO		YES	
Government Spending Policies				
Total Expenditures per Capita	$9,448.26	$10,099.99	$6,652.11	$6,845.26
Average Growth in State Government Expenditures	7.04%		5.96%	

Source: Author's combination of the tables listed in "Competitive States" and "Rich States, Poor States."[142]

Texas is less burdensome on nearly all the categories listed above: no income, dividends, or capital gains taxes; a relatively lower sales tax rate; a lower overall tax burden; tax burden reductions in recently legislated tax changes; a relatively less burdensome regulatory environment; a Right-to-Work status; and as expected, lower expenditures and government expenditure growth. California beats Texas on lower property tax burden, however, and Texas fell close to California in the State Liability System Rank.

Texas's status as a Right-to-Work state appears particularly beneficial because states that adopt such a measure experience an average higher job growth, income growth and higher gross

[142] A value in green indicates that the state is competitive in that category; a value in red means the state has room for improvement in that category.

state product growth than states without a Right-to-Work amendment.[143] The *Rich States, Poor States* study also identifies that Texas earned higher cumulative GDP growth than California after 2001, higher cumulative income growth since 2003, and higher cumulative employment growth since 2005.[144] Furthermore, as of 2007, expenditures per capita in Texas stood 32 percent lower than those in California. "This large discrepancy in the size and scope of government in Texas, compared to California, provides Texas with a significant economic comparative advantage."[145] California's total expenditures per capita amount to $10,099.89 compared to Texas' $6,845.26.[146]

4. "U.S. Economic Freedom Index"

The "U.S. Economic Freedom Index" calculates each of the fifty states' rankings by ranking each of 143 indicators (including tax rates, state spending, occupational licensing, environmental regulations, income redistribution, right-to-work and prevailing-wage laws, and tort reform) they identify within a sector from 1 (most free) to 50 (least free). The study averages the indicator rankings within each sector to arrive at a sector score for each state.[147]

State	Ranking		
	1999	2004	2008
California	44	49	47
Texas	8	17	31

Source: McQuillan, Ph.D., Maloney, Daniels, Eastwood, "U.S. Economic Freedom Index."

Interestingly, the study considers California one of the least free for some time given the sample years for this index. Texas, however, appears to fall in rank, which according to the

[143] Paul Kersey, "The Economic Effects of Right-to-Work Laws: 2007," Mackinac Center for Public Policy, August 2007, http://www.mackinac.org/8943
[144] Laffer, Moore, and Williams, *Rich States, Poor States*.
[145] Laffer, Moore, and Williams, 68.
[146] Laffer, Moore, and Williams, 69.
[147] McQuillan, Ph.D., Maloney, Daniels, Eastwood, "U.S. Economic Freedom Index."

indexes' weighting for the five sectors—fiscal, regulatory, judicial, government size, and welfare spending—finds Texas already slipping from its pinnacle of freedom, with the regulatory and government spending categories lowering Texas' ranking. This could mean that either Texas' policies are getting worse, or other states are actually improving their policies and are gaining on Texas. Alternatively, because this study considers both state and local government indicators, the local level indicators could be significantly affecting the rankings of the states. Economic policies aside, at the state and local level, Texas could then stand to improve in regulation and government spending, and California stands to improve in more areas. Relative to one another, however, the figures still show that Texas is generally economically freer than California, and it follows that more net interstate migration flows to Texas than to California.

5. "Economic Freedom of North America"

The "Economic Freedom of North America" study uses ten components to measure economic freedom of states in three areas: (1) Size of Government, (2) Takings and Discriminatory Taxation, and (3) Labor Market Freedom. In its 2008 report, the study embarks on a new field of research regarding the relationship between economic freedom and the flourish of entrepreneurship. A state's institutions heavily relate to the economic freedom of a state. The study defines institutions as "the formal and informal "rules of the game" governing action and interaction among individuals, and the enforcement of those rules (North, 1990, 1991)."[148]

[148] McMahon and Karabegović, "Economic Freedom of North America," 37.

The Process of Economic Growth—Inputs, Institutions, Outcomes

EXAMPLES

Inputs: Skilled labor force, technology and infrastructure, availability of resources, financing for new businesses

Institutions: Structure of tax system, business regulations, legal and judicial system, security of private-property rights

Outcomes: Growth in wages and income, formation of new businesses, jobs created, patents issued, goods and services

Source: McMahon and Karabegović, "Economic Freedom of North America," 42.

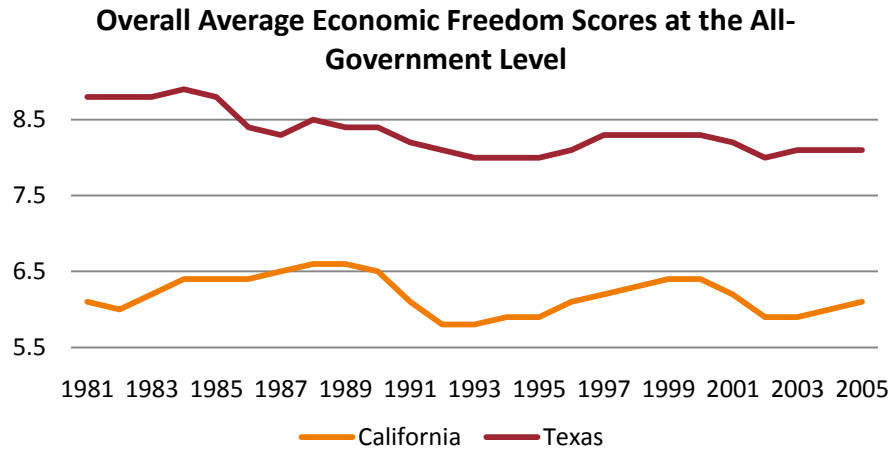
Additionally, the study includes an excellent graphic, shown above, detailing the importance of government institutions as a foundation for economic growth. The study defines an economy as "a *process* by which economic inputs and resources, such as skilled labor, capital, and funding for new businesses, are converted (by entrepreneurs) into economic outcomes (e.g., wage growth, job creation, and new businesses)."[149] It goes on to explain that good institutions critically generate prosperity because once in place, resources do a better job at chasing the ever-changing best use of a good or service through the continuous process of entrepreneurship and discovery. Weak institutions, however, create an environment in which innovations and exchanges either "fail to take place or are used in an unproductive manner."[150]

States with the most economic freedom possess higher per capita venture capital investment, a higher growth rate of sole proprietorships, an establishment "birth rate" almost 2 percent higher, and a "birth rate" of large establishments 2.4 percent higher relative to their least-free counterparts.[151] It is important to differentiate how governments pursue prosperity by stimulating entrepreneurship. Institutions include "well-defined and enforced property rights, freedom of contract and its enforcement, limited interference from government with market

[149] McMahon and Karabegović, "Economic Freedom of North America," 35.
[150] McMahon and Karabegović, "Economic Freedom of North America," 37.
[151] Israel Kirzner and Frederic Sautet, "The Nature and Role of Entrepreneurship in Markets: Implications for Policy," *Mercatus Policy Series*, June 12, 2006, http://mercatus.org/publication/nature-and-role-entrepreneurship-markets-implications-policy

outcomes."[152] Fostering entrepreneurship means disassociating with incentive packages that directly target the production of a certain outcome and tax incentives that benefit specific industries.

The results of the 2008 edition of "Economic Freedom in North America" confirm the results of the previous four editions: "economic freedom is a powerful driver of growth and prosperity."[153] The index captures "the impact of restrictions on economic freedom by all levels of government (federal, state/provincial, and municipal/local)," which rounds out this study with a different, less measured characteristic compared to the other studies mentioned in this analysis.[154] For this reason, the graph below takes into account all levels of government in California and Texas from 1981 through 2005. The scoring range is from zero to 10, with zero considered the least free and 10 considered the most free.[155]



Source: Economic Freedom of North America 2008 Annual Report; Overall Ranking: California – #45, Texas – #4

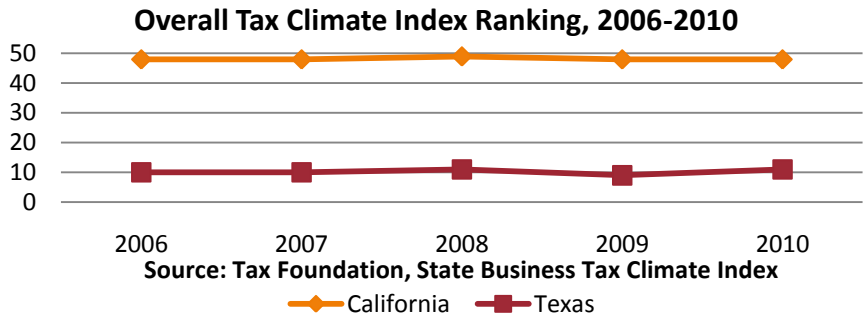
[152] Kirzner and Sautet, "The Nature and Role of Entrepreneurship in Markets: Implications for Policy."
[153] McMahon and Karabegović, "Economic Freedom of North America."
[154] McMahon and Karabegović, "Economic Freedom of North America."
[155] McMahon and Karabegović, "Economic Freedom of North America;" "For all components, each observation was transformed into a number from zero to 10 using the following formula: $(V_{max} - V_i)/(V_{max} - V_{min}) \times 10$, where V_{max} is the largest value found within a component, V_{min} is the smallest, and V_i is the observation to be transformed."

Some parallel movement exists because of the indirect influence of economic effects at the federal level via mandates on the states. However, Texas ranks fourth overall amongst the fifty states for being one of the freest states for the whole period of 1981 to 2005, and California ranks 45th overall for the same period. Contrary to the results of the "U.S. Economic Freedom Index," Texas actually ranks fifth in size of government for 1981–2005, and California ranks 47th in the same category. While this study covers a longer period that may explain the difference in results between the indices, it also reveals an example of the variation in criteria, assumptions, and calculations that occurs between studies. Still, Texas appears to remain close to the most economically free in all studies relative to California, which typically ranks in the bottom ten.

6. The "2010 State Business Tax Climate Index"

The "2010 State Business Tax Climate Index" specifically seeks "to measure the tax component of each state's business climate."[156] The study recommends to states' lawmakers to remember two rules: taxes matter to businesses, and states do not enact tax changes in a vacuum. The study abstains from measuring tax burdens, but rather identifies good state tax systems as ones which "levy low, flat rates on the broadest bases possible, and they treat all taxpayers the same."[157] In order to rank the states, the study considers corporate tax, individual income tax, sales tax, property tax, and unemployment insurance tax.

[156] Padgitt, "2010 State Business Tax Climate Index."
[157] Padgitt, "2010 State Business Tax Climate Index."



With one considered the best and fifty the worst, California continuously ranks near the bottom ten states that possess tax systems riddled with issues. Texas, however, appears in or very near the top ten for the past five years, indicating that it established a relatively good tax system, according to the study. This reflects other studies that examine the volatility of California's tax revenues and the relative stability of Texas's tax revenues.

b. Net Migration Patterns

Data on interstate migration patterns for individuals and households reveals that both California and Texas are typically mobile states relative to other states, with thousands of people moving in and out every year. However, unlike Texas's increases in net migration since before the turn of the century, California generally loses people to other states.

California loses not just individuals and households; it suffers from a slow loss of businesses too. The Public Policy Institute of California argues, however, that these numbers pale in comparison to the whole of California's economy:

> We do find that job loss due to interstate relocation tends to occur in better-paying industries. While this indicates that California is losing higher-paying jobs to other states, the "bias" toward higher-paying jobs does not translate into a substantial effect on the overall composition of jobs because the total number of job[s] affected by relocation is

small.[158]

Despite the alleged insignificance of this trend, the fact that notably higher-paying jobs are moving to other states may indicate how businesses react to the types of economic policies a state like California puts forth.

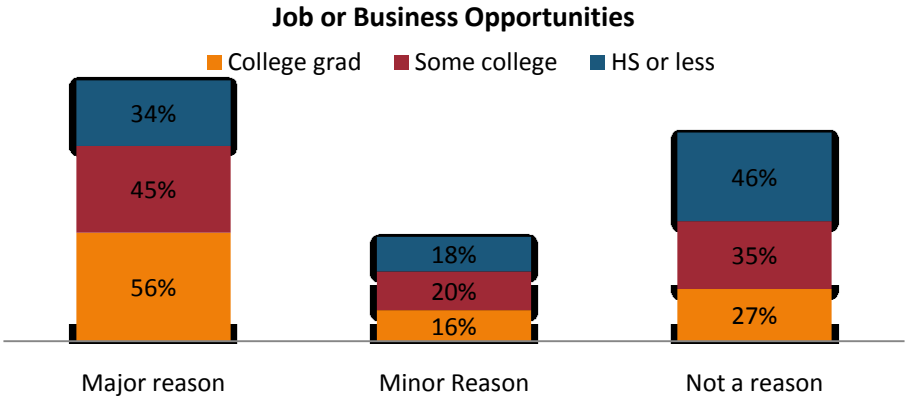
1. "Who Moves?"

The Pew Social & Demographic Trends surveyed 2,260 adults through October 3–19 in 2008, asking respondents why they chose to stay in their hometowns or chose to move to their current communities.[159] The resulting report combines Pew's survey findings with Census Bureau data on migration patterns between states and regions. Of the respondents who have moved, 44 percent say job or business opportunities significantly factored into their decisions to move to their current location. The next most common major reasons movers give: 36 percent say their new community is a good place to raise children, and 35 percent say they possess family ties there. On the other hand, 74 percent of stayers claim the major reason they have stayed put is close family ties in the area. Not much variation exists between the age groups that claimed cost of living as a major reason for moving in the survey; however, among those who said their decision to move relied heavily on retirement, half of them claimed that cost of living greatly factored into choosing where to live.

Both Pew's survey and the Census data reveal that geography and education represent the major divisions between movers and stayers. For instance, college graduates move farther distances more often and are more likely to move for employment reasons than those with a high

[158]David A. Neumark, Junfu Zhang, and Jed Kolko, "Interstate Business Relocation: An Industry-Level Analysis," Public Policy Institute of California, 2006, https://www.policyarchive.org/handle/10207/4883; the study covers the period of 1992-2003.
[159] Taylor, Morin, Cohn, and Wang, "American Mobility: Who Moves? Who Stays Put? Where's Home?"

school diploma or less. Furthermore, the study finds that by income group, "the most affluent Americans are the most likely to have moved."[160] Additionally, 56 percent of Americans with household incomes of at least $75,000 say a major reason for their move rested on a job or business opportunities; only a 33 percent of movers with incomes under $30,000 say the same thing.



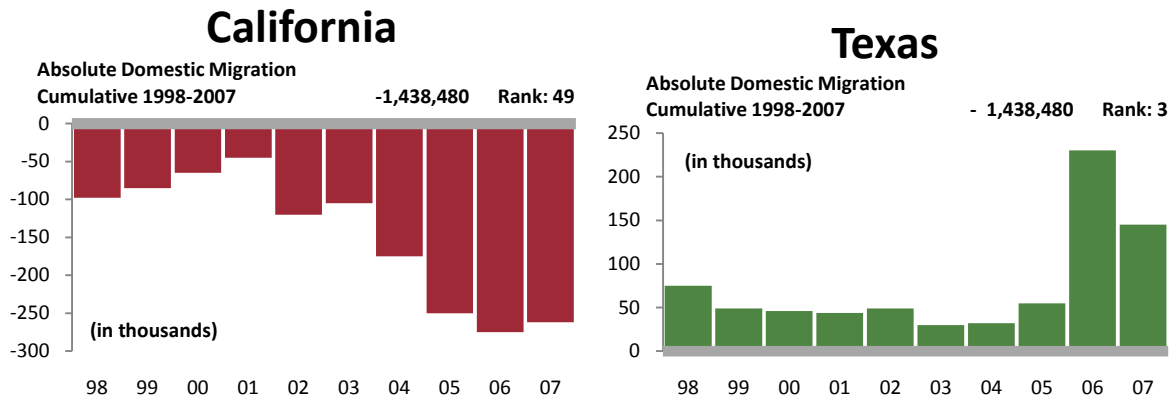
Source: Pew Center Research (2007).

Nearly 80 percent of college graduates moved at least once as compared to 56 percent of Americans with a high school diploma or less of total movers and stayers surveyed. Furthermore, education and earnings appear to follow one another: only 25 percent of Americans with household incomes of $100,000-plus live in one locality for their entire lives.

2. Rich States, Poor States

The *Rich States, Poor States* study measures net interstate migration between 1998 and 2007 for each of the 50 states. The graphs below represent the net migration patterns for Texas and California. The study goes further to rank the states based on their cumulative absolute domestic migration for the period.

[160] Taylor, Morin, Cohn, and Wang, "American Mobility: Who Moves? Who Stays Put? Where's Home?"



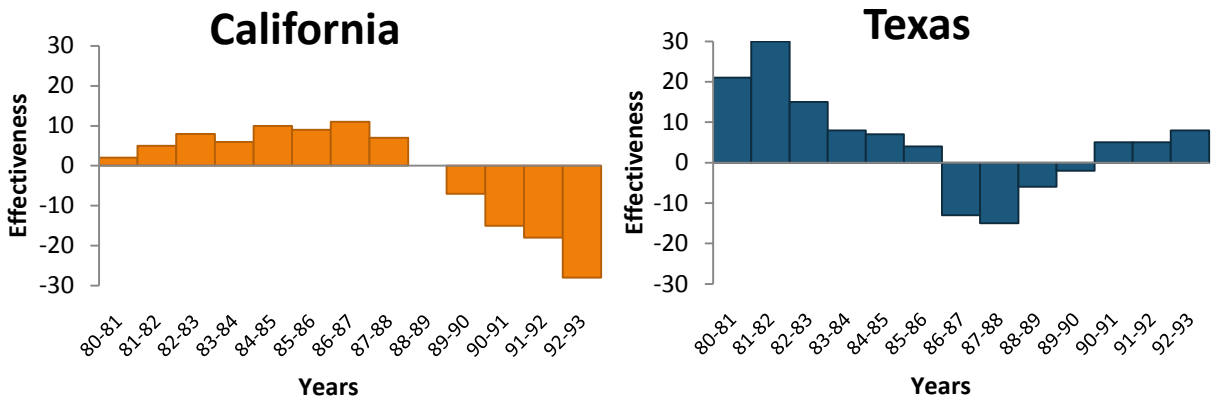
Source: Ruger and Sorens, "Rich States, Poor States."

California ranks 49th of all 50 states because the greatest outmigration came from California over the period, totaling 1,438,480. Texas, however, ranks 3rd for having in-migration of 736,903 for the same period.[161] This reflects the trends in the state rankings of other studies that correlate interstate migration positively with economic policy rankings.

3. "Recent U.S. Interstate Migration"

The study defines the level of imbalance in migration flows to and from a particular state as "migration effectiveness, which is defined as the percentage ratio of net migration to total migration, can range from 0, meaning balanced or "ineffective flows," to +100 or -100, which reflect imbalanced or "highly effective flows."[162]

[161] Laffer, Moore, and Williams, *Rich States, Poor States*.
[162] Gary A. Manson and Richard E. Groop, "Ebbs and Flows in Recent U.S. Interstate Migration," *The Professional Geographer* 48, no. 2 (1996): 156-66, via George Mason University, http://dx.doi.org/10.1111/j.0033-0124.1996.00156.x



Source: Manson and Groop, 159.

According to the study, California shifted from one "direction" to another within the period, while Texas changed "direction" two times.[163] Interestingly, California experienced net outmigration during 1998–2007, as noted in the *Rich States, Poor States* and Texas experienced net in-migration for the same period. Additionally, the study mentions that in 1988–89, "California's migration effectiveness turned negative for the first time in at least 50 years," indicating that California once ranked either as a "magnet" state, or at least balanced in migration flows prior to the late 1980s.[164] Texas' significantly higher in-migration in the early '80s indicated the state's magnetism occurred in the past as well.

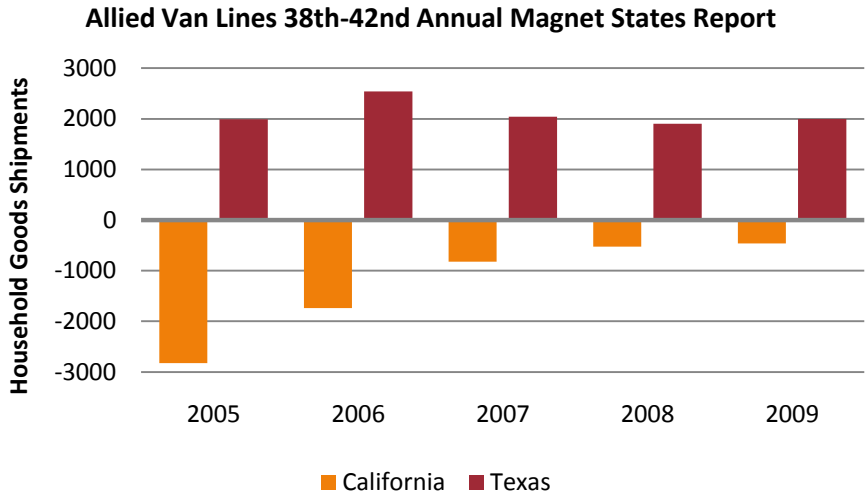
Data from each state and the Census Bureau helps to flesh out a more consistent picture of California's net outmigration for 1993 at 250,000, for 1994 257,000, and the 1995–2000 time period at 755,536, and Texas' net domestic in-migration of 77,605 for 1993,[165] approximately

[163] Manson and Groop, 156-66.
[164] Manson and Groop, 156-66.
[165] "U.S. and State Population Estimates and Components of Change from the U.S. Bureau of the Census," Bureau of Business and Economic Research, University of New Mexico, http://bber.unm.edu/demo/dommig99.htm

89,000 for 1994,[166] and 148,240 for 1995–2000.[167] These additional values indicate that the outmigration in California's case and the in-migration in Texas' case appear consistent.

4. Allied Van Lines

For the fifth year in a row, Texas ranks as the number one destination spot based on Allied Van Lines' tracking of migration patterns in their "42nd Annual Magnet States Report": "Texas realized the highest net relocation gain (inbound moves minus outbound moves performed by Allied Van Lines, one of the world's largest moving companies)."[168]



Source: 38th–42nd Annual Magnet States Reports.

[166] "Population Profile of the United States," U.S. Census Bureau, http://www.census.gov/population/www/pop-profile/sttrend.html
[167] "State-to-State Migration Flows: 1995 to 2000," *Census 2000 Special Reports*, 2003, https://www.census.gov/prod/2003pubs/censr-8.pdf; see also: Hans P. Johnson and Richard Lovelady, "Migration Between California and Other States: 1985-1994," California Research Bureau of the California State Library and Demographic Research Unit of the California Department of Finance, http://www.dof.ca.gov/research/demographic/reports/immigration-migration/migration_1985-1994/documents/DOMMIG.PDF
[168] *PRNewswire,* "42nd Annual Magnet States Report," November, 2009, http://www.prnewswire.com/news-releases/allied-van-lines-announces-42nd-annual-magnet-states-report-80594027.html

Based on Allied Van Lines data, it appears that while Texas remains at a strong 2,000 average household good shipments per year, California is slowly returning to a balanced interstate migration status. However, relative to other states, California ranked fourth in most net relocation losses for 2009.[169] Relativism determines how a state may rank in net domestic migration, because California did not rank in the top five for most net relocation losses in 2005, when the state lost nearly six times the 2009 figures.[170]

5. Atlas World Group

In Atlas World Group's estimations of interstate and cross-border migration, "each January, Atlas Van Lines reviews data on the origins and destinations of interstate moves during the last 12 months."[171] For a state to achieve "balanced," then inbound and outbound shipments must individually represent 55 percent or less of the state's total shipments. For a state deemed net inbound or outbound, then the state must qualify more than 55 percent of its shipments as moving into or out of the state, respectively.

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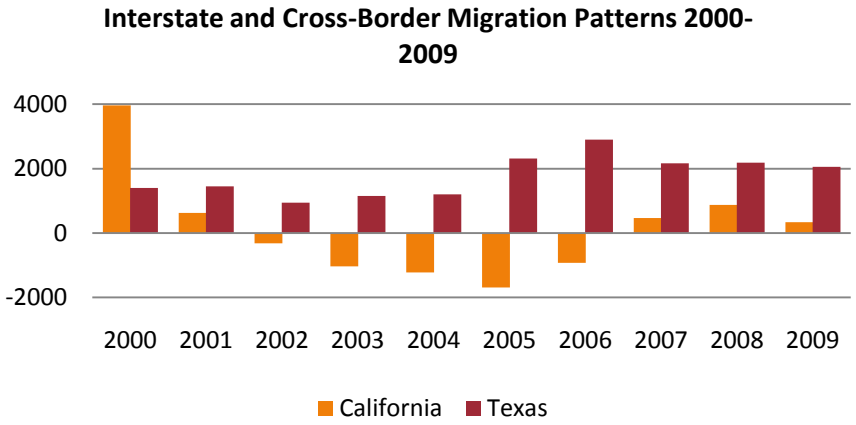
[169] *PRNewswire,* "38th Annual States Magnet Report," January, 2006, http://www.sirva.com/Sirva.DocumentStream/Docstream.aspx?DocType=PDF&DocName=0EF8B638D2877DC817A88EC38546DBE8A17288A4FA938C3414B34846240CDDF6ADC138CF6E1ACA5D6DFF3ABA1A74169AF85EB9B8D7618F29&Folder=F13DBD115EC02A29AE31CC636B0B1CF06B957E7C9F4C9CBC&Title=Allied+Van+Lines+38th+Annual+Magnet+States+Report&CollectionID=2842&DocumentType=B2FB53A6BB8F5742&DocID=011355

[170] *PRNewswire,* "38th Annual States Magnet Report."

[171] Atlas World Group, "2009 Migration Patterns," December, 2009, http://www.atlasworldgroup.com/migration/; "Based on 71,474 Interstate and Cross-Border Household Goods Moves."



Source: Atlas World Group, "2009 Migration Patterns."

In this case, the study results "provide a snapshot of a nation in the wake of an economic downturn, as relocations slow and the nation migrates to areas with low unemployment."[172] Like in the Allied Van Lines study, it appears that California achieved "balanced" for a considerable period. In the case of Atlas World Group's findings, California appears "balanced" since 2000. Texas, however, ranks "inbound" since 2005.[173] Somewhat smaller in scope, these two latter studies help achieve a clearer picture of the various levels at which California's and Texas's interstate migration patterns flow.

Regarding interstate migration patterns, the "Freedom in the 50 States" study also found that an increase of 0.5 points on the freedom scale increases net migration from 2000–2007 by 4.2 percent of the year 2000's population. Furthermore, the study states a 0.25 unit increase in personal freedom increases migration by 3 percent of the year 2000's population. Additionally, the study finds that relatively liberal states rank slightly less economically and personally free on average compared to relatively conservative states, which goes against the conventional wisdom

[172] Atlas World Group, "2009 Migration Patterns."
[173] Atlas World Group, "2009 Migration Patterns."

that liberal-leaning states rank more personally free and conservative states rank more economically free.[174]

When considering both the indices and the studies inclusive of net interstate migration data, it becomes apparent that Texas' high rankings relative to California in virtually all categories that each index measures parallels its pattern of attracting individuals to the state. The same applies to California: the indices indicating California near the bottom of the state rankings in economic policies in most categories correlates with its poor performance in attracting people to the state in recent years. The correlation is certainly suggestive; the two states' economic policies may help explain the different migration patterns. California incurs a higher cost to do business; stricter regulation; higher spending per capita coupled with higher taxation on income, dividends and capital; a higher sales tax rate; and it is losing people. Texas lacks an income tax (including capital and dividends); spends less per capita; possesses a higher property tax rate; establishes Right-to-Work; operates at a lower minimum wage and concurrent lower unemployment rate; and it is steadily gaining population. The institutions that inputs such as skilled labor and mobile capital face in their respective states will affect their movement. How institutions, like the tax system and business environment, affect these inputs can help or hinder economic growth within a given state.

It appears that Caplan's discussion about the limitations of Tiebout's "voting with one's feet" theory between a low-tax, low-benefit, and a high-tax, high-benefit locale does not hold at the state level.[175] Texas, which relies on sales tax for revenue and has a higher property tax burden per $1,000 of income relative to California, still attracts people. One reason rests on the fact that the majority of Texas' tax ballot measures were tax exemptions, and many of them

[174] Sorens and Ruger, "Freedom in the 50 States."
[175] Caplan, "Standing Tiebout on His Head: Tax Capitalization and the Monopoly Power of Local Governments."

concerned property tax exemptions, which voters approved. This may influence people to continue flocking to Texas for a few reasons. Compared to sales and other taxes, Texas does not generally rely on property taxes as a major revenue source. The general tax burden is still low relative to other states. The electoral system works relatively well (either by preventing economic bias by limiting how content gets on the ballot or by making it harder for small interest groups to take advantage of the ballot process), and constituents are not getting more public goods than they desire at the state level.

California, however, heavily relies on income taxes which may temper policy makers' provision of public good in excess of what the public desires because they risk people moving elsewhere, but policy makers' ability to run deficits to provide more public goods has likely counteracted this effect. The general tax burden is significantly greater relative to other states. Furthermore, special interest groups have a higher chance of successfully getting concentrated benefit, dispersed cost measures on the ballot, distorting the electoral system's function.

Both states' electoral channels are far from perfect, but at the state level, Texas certainly is not taking complete advantage of strapping land-owners with the monopolistic pricing of public services (i.e. either the landowner paying the tax directly or indirectly by lower sale value of their home upon exit). Caplan's theory, like Tiebout's theory, originally only extended to local governments, but it is clear that at the state level, Tiebout's theory explains how people with differing preferences self-selectively "vote with their feet" to the state which best reflects their policy preferences.

It appears that state economic policies significantly affect interstate migration and economic growth. The more burdensome state economic policies become, the more apparent it becomes that the state starts losing population, jobs (with the high-paying ones going first in

California's case), and businesses that no longer find the state's policies aligned with their preferences. As jobs and entire businesses disappear or move elsewhere, unemployment rises, output falls and additional outmigration may occur. If a state forces out productive workers and entrepreneurs, they essentially starve the golden goose. State revenues deteriorate, especially if they depend on variable sources like income and capital gains, and the state can no longer sustain spending and pension programs developed in good times. Any attempt to hide this trend with opaque budget practices only prolongs and exacerbates the problem. Furthermore, attempts to increase taxes on high-income earners to make up budget gaps will still find revenue projections coming up short in reality. The state may find itself in fiscal crisis, forced to cut spending, or even ask the federal government for a bailout—essentially at the expense of other states' constituents.

5. Conclusion

A. Recap of the Analysis

States wish to attract businesses and people to boost and sustain economic growth. Interstate migration can critically indicate the general economic health, growth, and policy environment of a state. When a state's policy environment becomes especially restrictive on businesses and individuals, studies measure the flight of these drivers of economic growth, most visibly by demonstrating a negative relationship between economic policies and net migration.[176] This analysis seeks to identify the theoretical explanations for (1) the wide variety of policy behaviors among states and the economic consequences of these policy choices, and for (2) why some states boast relatively long-term stability in fiscal and economic policy versus others. The answers to these questions provide evidence for the broader question of whether or not economic

[176] Laffer, Moore, and Williams, *Rich States, Poor States*.

policies significantly affect economic growth and migration.

To determine the effects of policy on economic growth and migration, the comparison of prior studies' results help demonstrate the effects of policies in Texas and California at the microeconomic level. Small interest groups may take advantage of a state's institutional leeway for how measures make it on the ballot in order to get policies that exclusively benefit the interest group at the expense of the rest of the state's constituents. And according to Caplan, individuals are blinded by certain economic biases, which coupled with the near-zero cost of casting a biased vote, can lead to the passage of harmful and "irrational" policies that in turn negatively affect economic growth. While observing what voters approve on ballot measures helps to gain insight into voter attitudes to determine whether voters get what they want. Legislators then may take their social cues from what voters approve on the ballot. Yet, different rules between states may complicate what can get on the ballot, which may imply something about institutional constraints: what appears on the ballot then affects what voters approve under these biases, then affecting how legislators also choose policy.

B. Answering the Questions

i. The Divergence in Policy Paths

A look at prior studies that measure the relative differences between states shows that Texas fares better than California on economic policies. For a near twenty-year period, Texas gained and then surpassed California in terms of economic, job, and population growth. The divergence in these two states' policy paths appears to stem from (1) state spending and taxation processes, (2) state budget processes, (3) the economic policies voters directly approve on ballot propositions, and (4) the government institutions that check politicians' pursuance of certain

economic policies.

Migrants may change the composition and demographics that affect the economic policies a state chooses over time by indirect representation from an elected politician or by direct changes from ballot measures. If people migrate from one state to another state with more attractive economic opportunities, their policy preferences may conflict with current residents' preferences:

> Major migration (out of or into an area) is always a threat that may or may not be countered effectively (Baker 2005). Out migration may simply change the economic viability of a regime due to loss of those who contribute needed resources. In migration may bring new participants who do not trust others and do not rapidly learn social norms that have been established over a long period of time.[177]

These changes can either help or hinder the general economic viability of the state depending on whether a state has institutions in place to prevent popular policy from altering how it chooses economic policies. In order to safeguard against the development of detrimental economic policy, certain institutional constraints can prevent politicians from engaging in detrimental economic policies despite the political popularity of these policies. California lacks these sorts of institutional constraints, or is at least inconsistent with their implementation, and as a result, its economic policies remain unstable.[178] On the other hand, Texas appears to have sound institutional constraints against detrimental policies, and given voters' decisions on economic ballot initiatives, Texan constituents are largely content with the way the state government operates.

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[177] Elinor Ostrom, *Understanding Institutional Diversity* (New Jersey: Princeton University Press, 2005): 272; it is here that Ostrom is talking of migration at the local level, but it is likely that over a longer span of time the effect may be seen statewide.

[178] Laffer, Moore and Williams, *Rich States, Poor States*.

ii. The Divergence in Long-Term Stability

The main problems for states struggling to maintain fiscal and economic policy stability include spending beyond budgets, opaque budget procedures, and volatile revenue resources that make budgets difficult to estimate.[179] For the majority of states facing budget gaps and potential fiscal crises, the development of a transparent budget and debt reductions are critical initial steps toward providing the environment necessary for economic growth to flourish.[180] Evidence for this is that states with precedents for continued fiscal stability enjoy higher and relatively more stable economic growth.[181]

While both Texas and California instituted tax and expenditure limits [TELs], which limit the amount the state government can increase taxes or spend relative to a predetermined growth rate, California's two TELs don't seem as effective as Texas's one. As economist David Primo states, enforcement mechanisms for budget austerity have to be credible.[182] Under this theory, even though Texas has a less stringent TEL nationwide, and yet has more success with it than Colorado's more stringent TEL, it may be inferred that credibility of Texas's TEL has increased its success. In California, however, additional ballot measures weakened the TELs over time, as Colorado voters have done to their state's TEL.[183] Two more of the many divergences in the way California and Texas formed their budget processes concerns their balanced budget requirements and debt limits. California "may carry over deficit from current year to budget year. However,

[179] Joseph Henchman, "State Budget Shortfalls Present a Tax Reform Opportunity." In fact, according to a recent Pew study, public sector compensation is higher than private sector compensation. See: Pew Center on the States, "Promises with a Price," http://www.pewcenteronthestates.org/uploadedfiles/Promises%20with%20a%20Price.pdf
[180] Joseph Henchman, "State Budget Shortfalls Present a Tax Reform Opportunity."
[181] Laffer, Moore, and Williams, *Rich States, Poor States*.
[182] Primo, 21.

[183] Frederic Sautet and Emily Washington, "Tax and Expenditure Limits for Long-Run Fiscal Stability," Mercatus on Policy, no. 61, (Arlington, VA: Mercatus Center at George Mason University, 2009), http://mercatus.org/publication/tax-and-expenditure-limits-long-run-fiscal-stability

the budget for any year must be balanced when enacted."[184] Texas lacks this tempting flexibility; rather, Texas possesses a policy to limit debt service and a policy to limit authorized debt to "5 percent general fund revenues for previous 3 years" in both cases. California lacks such limitations.[185]

California also heavily relies on volatile revenue sources, including taxes on income, capital gains, and dividends. Unfortunately, it also relies on opaque budget practices in an attempt to make the state's budget appear balanced and more stable. This leads to a false sense of security and flexibility to handle additional spending. The immediate future will be tough for California's economy, and net migration may remain negative for some time until California figures out its long-term plan for fiscal stability without taxing businesses and high-income earners with continuous additional spending.

Conversely, Texas has a relatively stable revenue stream generated from sales taxes, which appears to prevent volatile changes in spending. The budget largely centers on performance-based measures. The state also operates on conservative estimates of expected revenues, which the elected state Comptroller of Accounts determines. All these components help Texas to achieve state surpluses and low levels of debt in recent years. If states wish to attract people and businesses—or in the case of Texas, to continue to do so—then they must recognize their revenue sources will only tolerate a limited amount of government spending and intervention.

iii. The Effect of State Economic Policies on Economic Growth and Migration

Based on this analysis, interstate migration of businesses and individuals remains a

[184] "Budget Processes in the States," National Association of State Budget Officers.
[185] "Budget Processes in the States," National Association of State Budget Officers.

simple and transparent feedback mechanism to states on their ability to foster economic growth. Thus, it appears that state economic policies do affect economic growth and migration. The more burdensome a state's economic policies become, the more apparent the loss of population, jobs (with the high-paying ones going first in California's case), and businesses. States should therefore be alert to the types of institutions that instigate helpful or burdensome economic policies and attempt to develop and encourage those that aid beneficial policy.

Furthermore, in a state like California where the high-tax, high-benefit model seems like a good idea to active voters as demonstrated by their ballot approval record, much of the solution will concern institutional constraints that prohibit politicians from giving in to practices like spending beyond the budget even though the voters may demand it. In a state like Texas, the institutional constraints appear to exist but remain untested since 1) the active Texan voters appear to prefer a low-tax, low-benefit model relative to most states, and 2) how Texan voters vote on ballot measures are consistent with low-tax, low-benefit measures. This analysis confirms that the establishment of a free society remains intact in the long run rather than undermined by attracting voters with competing values if institutional constraints exist.

This analysis examines the case studies and literature available that assesses the relative economic positions and policy variances in Texas and California and further discusses their economic policies' strengths and weaknesses, breaking the studies down into two categories: rankings & indices and migration studies. States already seen as "magnet" states for individuals and businesses should continue pay attention to what struggling states currently face to understand the importance of their institutional structures on policy outcomes. All levels of governments could learn from the lessons that internal migration among the states offers: if economic policies harm the real economic drivers—individuals and businesses, they may move

on to environments that suit their productive abilities and personal advancement. Even if voters vote for candidates and policies that they ultimately find counterproductive to their well-being, how they "vote with their feet" truly determines how they ultimately judge these candidates and policies.

C. Further Research Questions

i. How does this apply to other states and countries?

No single policy solution exists; if anything, this narrative between Texas and California highlights the unique characteristics of states and the need for flexible and unique reform. However, the general applicability of the broader lessons from these two states to all levels of government makes this analysis relevant to other states and countries. The tools other states and countries employ when attempting to implement greater transparency in their budget processes (including determining revenue resources and expenditure programs), eliminate opaque budget practices, and set institutional constraints to make themselves more attractive to individuals and businesses will vary significantly. This analysis finds that implementing the institutional foundations that foster economic growth requires tinkering with the rules currently in place in order to find the solutions that appear most effective for a given state or country in the long run.[186]

ii. What are the impacts of this analysis at the local and regional level?

Determining the impact of local governments on these states' economic divergences remains equally impossible to tease out. Further case studies of local economic policy impacts in

[186] Elinor Ostrom, *Understanding Institutional Diversity.*

Texas and California will be useful in determining what relationship exists between local economic policy and inter-local and inter-regional migration, especially regarding border cities. It remains the critical task of government at all levels to determine their responsibilities and the institutional constraints that lead them to become “magnets” for individuals and businesses in the long term.

Appendix I. a.: Texas's Economic Ballot Measures

Taxes								
Type	Title	Description	Result	Year	Yes	No	% Yes	% No
LRCA	Prop 1	Allow voters of a county education district to adopt certain exemptions from the districts ad valorem taxation	✓	1991	515,013	367,564	58%	42%
LRCA	Prop 5	In enterprise zones, exempt some property from taxation	✗		687,748	1,162,961	37%	63%
LRCA	Prop 10	Some property owned by non-profit water supply or wastewater companies exempt for property taxes	✓		1,015,965	854,163	54%	46%
LRCA	Proposition 4	Prohibit a personal income tax without voter approval	✓	1993	775,822	343,638	69%	31%
LRCA	Proposition 2	Exempt certain charitable organizations from property taxes	✗	1995	333,528	385,133	46%	54%
LRCA	Proposition 4	Encumbrance fixed on homestead property for an owelty of partition	✓		368,486	347,858	51%	49%
LRCA	Proposition 6	Exempt homestead of surviving spouse from ad valorem taxation	✓		604,604	116,888	84%	16%
LRCA	Proposition 11	Allow open-space land for wildlife to qualify for tax appraisal	✓		434,643	274,736	61%	39%
LRCA	Proposition 12	Exempt certain personal property and mineral interests from taxation	✓		495,144	213,178	70%	30%
LRCA	Proposition 13	Exempt boats and other equipment from ad valorem taxation	✗		267,258	432,378	38%	62%
LRCA	Proposition 14	Raise limits of exemption of property owned by disabled veterans	✓		490,199	217,443	69%	31%
LRCA	Proposition 1 (August)	Increasing residence homestead exemption	✓	1997	693,522	45,619	94%	6%
LRCA	Proposition 2	Limit increases in residence homesteads for ad valorem tax	✓		852,031	273,957	76%	24%
LRCA	Proposition 3	Exemption on property for water conservation initiative	✓		681,060	420,923	62%	38%
LRCA	Proposition 9	Authorize ad valorem tax rate in rural fire prevention districts	✓		558,400	492,666	53%	47%
LRCA	Prop 4	Exempt property owned by charitable institutions from ad valorem tax	✓	1999	483,674	450,357	52%	48%
LRCA	Prop 12	Exempt from ad valorem taxation leased motor vehicles	✓		530,181	398,705	57%	43%
LRCA	Amendment 3	Exempt from ad valorem taxation raw cocoa and green coffee held in Harris County	✓	2001	411,339	386,931	52%	48%
LRCA	Amendment 10	Exempt from ad valorem taxation tangible personal property held at certain locations only temporarily	✓		499,514	293,764	63%	37%
LRCA	Amendment 14	Taxing units other than school districts can exempt travel trailers from ad valorem taxes	✓		408,481	378,557	52%	48%

LRCA	Prop 3	Tax Exemption for Religious Organizations	✓	2003	730,127	650,563	53%	47%
LRCA	Prop 5	Property Tax Exemption	✓		846,005	511,507	62%	38%
LRCA	Prop 13	Freeze property taxes	✓		1,125,947	264,069	81%	19%
LRCA	Prop 17	Prohibit an increase in school property taxes on residence homesteads of disabled persons	✓		1,063,917	304,860	78%	22%
LRCA	Proposition 3	Local economic development program loans or grants do not constitute or create debt	✓	2005	1,025,173	952,998	52%	48%
LRCA	Prop 3	Puts a cap on an ad valorem property tax based on a private appraisal	✓	2007	762988	304318	72%	29%
LRCA	Prop 5	Municipalities with population lower than 10,000 can prevent ad valorem tax increases for five years	✓		684,510	352,579	66%	34%
LRCA	Prop 6	Allows exemption from ad valorem taxation of one motor vehicle owned by an individual	✓		792,825	283,030	74%	26%
LRCA	Prop 9	Exempts totally disabled veterans from ad valorem taxation of homesteads	✓		1,474,147	148,047	91%	9%
LRCA	Proposition 2	Provide for the taxation of a residence on basis of value, procedures for ad valorem.	✓	2009	720,130	335,400	68%	32%

Spending & Bond Issues								
Type	Title	Description	Result	Year	Yes	No	% Yes	%No
LRCA	Prop 2	Allow general obligation bonds to provide educational loans to students.	✗	1991	433,116	440,763	49.6%	50.4%
LRCA	Prop 4	$1.1 billion in bonds for prisons	✓		1,341,169	644,379	68%	32%
LRCA	Prop 7	Allow board of trustees of public retirement system to invest funds as it considers prudent.	✗		699,829	1,205,240	37%	63%
LRCA	Prop 8	Authorize state legislature to submit debt questions to voters as ballot measures	✓		1,354,267	523,800	72%	28%
LRCA	Prop 12	Increase amount of bonds that may be issued for economically distressed areas	✓		1,024,318	854,190	55%	45%
LRCA	Prop 13	Allow the Texas Higher Education Coordinating Board to issue bonds	✓		1,259,427	677,831	65%	35%

LRCA	Proposition 2 (May)	Exempt schools from obligation of unfunded mandates	✗	1993	956,056	1,007,084	49%	51%
LRCA	Proposition 3 (May)	$750 million in bonds to assist school districts	✗		869,014	1,099,828	44%	56%
LRCA	Proposition 1	$50 million of bonds for state economy	✗		332,248	767,543	30%	70%
LRCA	Proposition 10	$750 million in bonds to Veterans' Land Fund	✓		579,840	514,561	52.98%	47.02%
LRCA	Proposition 13	Funding for higher education	✓		610,714	438,756	58%	42%
LRCA	Proposition 14	$1 billion bonds for facilities of corrections	✓		684,001	411,694	62%	38%
LRCA	Proposition 16	$100 million bonds to Texas Agricultural Fund	✗		476,715	594,889	44%	56%
LRCA	Proposition 1	$300 million in bonds for education	✓	1995	474,502	259,088	65%	35%
LRCA	Proposition 5	Raise amount of bonds available for veterans' housing to $500 million	✓		428,484	289,690	60%	40%
LRCA	Proposition 7	Reduce amount of bonds available for the superconducting supercollider	✓		558,729	155,830	78%	22%
LRCA	Proposition 10	Compensation to victims of crime fund and crime auxiliary fund	✓	1997	763,646	345,563	69%	31%
LRCA	Proposition 11	Limiting amount of state debt payable from general revenue fund	✓		742,798	350,317	68%	32%
LRCA	Proposition 13	Establish Texas tomorrow fund as protected trust fund	✓		811,873	314,516	72%	28%
LRCA	Prop 13	Issuance of $400 million in bonds to finance educational loans	✓	1999	674,249	275,392	71%	29%
LRCA	Prop 17	Investment and distribution of permanent university fund	✓		553,859	350,718	61%	39%
LRCA	Amendment 2	General obligation bonds and notes for financial assistance to counties for roads	✓	2001	507,357	318,447	61%	39%
LRCA	Amendment 7	Authorize Veterans' Land Board to issue up to $500 million in general obligation bonds	✓		611,943	207,484	75%	25%
LRCA	Amendment 8	$850 million in bonds for construction and repair projects	✓		509,148	305,265	63%	37%
LRCA	Amendment 15	Create the Texas Mobility Fund	✓		543,759	259,188	68%	32%
LRCA	Amendment 19	Bonds by the Texas Water Development Board in an amount not to exceed $2 billion	✓		506,077	287,339	64%	36%
LRCA	Prop 9	Permanent School Fund	✓	2003	655,983	648,167	50.3%	49.7%
LRCA	Prop 14	Highway Improvement Projects	✓		810,855	517,606	61%	39%
LRCA	Prop 20	$250 million for economic development projects	✓		743,048	563,848	57%	43%
LRCA	Proposition 1	Create a Texas rail relocation and improvement fund in the state treasury	✓	2005	1,112,718	956,350	54%	46%

LRCA	Prop 2	Issuance of $500 million in general obligation bonds to finance student loans	✔		712,246	369,199	66%	34%
LRCA	Prop 4	Approves issuance of $1 billion in bonds for construction projects	✔		622,785	447,323	58%	42%
LRCA	Prop 12	$5 billion in bonds to the Texas Transportation Commission	✔		664,617	396,681	63%	37%
LRCA	Prop 15	Creates the Cancer Prevention and Research Institute of Texas, which authorizes $3 billion in bonds payable from the general revenues	✔	2007	667,805	419,139	61%	39%
LRCA	Prop 16	Issuance of $250 million in general obligation funds for the Water Development Board	✔		644,960	416,290	61%	39%
LRCA	Proposition 4	Funding research universities	✔	2009	592,080	451,561	57%	43%
LRCA	Proposition 6	Issue general obligation bonds same or less than authorized	✔		670,044	349,637	66%	34%
Budget Issues								
Type	Title	Description	Result	Year	Yes	No	% Yes	%No
LRCA	Prop 2	Turnpike Authority required to repay certain monies to the Department of Transportation	✔	1991	961,729	938,017	51%	49%
LRCA	Prop 3	Expand investment authority of the Veterans' Land Board	✔		1,039,779	875,732	54%	46%
LRCA	Proposition 9	Allow money from the Texas Growth Fund to be invested in a business	✘	1995	324,813	387,087	46%	54%

All information here taken from Ballotpedia.org.

Appendix I. b: California's Economic Ballot Measures

Taxes								
Type	Title	Description	Result	Year	Yes	No	% Yes	% No
LRCA	Proposition 110	Property tax exemption for severely disabled persons.	✓	1990	3,931,937	972,850	80%	20%
LRCA	Proposition 111	55% increase in truck weight fees, 5-cent increase in fuel tax starting in 1990, more later	✓		2,621,022	2,378,028	52%	48%
LRCA	Proposition 126	Increase tax on alcohol	✗		3,001,351	4,332,827	41%	59%
LRCA	Proposition 127	Property value increases due to installing earthquake safety improvements not subject to property tax	✓		4,431,687	2,750,764	62%	38%
CICA	Proposition 132	Additional fees and licensing for sport-fishing and for using gill and trammel nets	✓		3,959,238	3,140,733	56%	44%
CISS	Proposition 133	Tax increase for drug crime enforcement and education	✗		2,281,937	4,877,808	38%	68%
CICA	Proposition 134	Surtax on alcohol	✗		2,285,256	5,076,822	31%	69%
LRCA	Proposition 154	Enable legislature to allow low-income renters who purchase their residence to postpone payment of increased property taxes	✗	1992	2,291,637	3,465,378	40%	60%
LRCA	Proposition 160	Property tax exemption for surviving spouse of those killed in combat	✓		5,288,765	4,692,732	52%	48%
CICA	Proposition 163	Candy, bottled water, snack foods exempt from state and local sale tax	✓		6,967,009	3,491,372	67%	33%
CISS	Proposition 167	Increase a variety of taxes	✗		4,293,460	6,136,895	41%	59%
LRCA	Proposition 170	Allow school bond measures to be approved by a simple majority vote	✗	1993	1,512,163	3,421,342	31%	69%
LRCA	Proposition 171	Allows property owners to transfer assessed value of original property to a replacement property	✓		2,449,504	2,288,046	52%	48%
LRCA	Proposition 172	Add a 1/2% state sales tax targeted for local public safety	✓		2,893,680	2,113,094	58%	42%
LRCA	Proposition 175	Tax credit to qualified renters against their net income tax	✗	1994	1,907,537	2,567,476	43%	57%
LRCA	Proposition 176	Non-profits exempt from local sales tax	✓		2,311,167	2,081,474	53%	47%
LRCA	Proposition 177	Property tax exemption for improvements for disabled access	✓		2,678,403	1,731,262	61%	39%
LRCA	Proposition 178	Property tax exemption for water conservation equipment	✗		1,939,767	2,370,446	45%	55%
CISS	Proposition 185	4% tax on retail sales of gasoline	✗		1,586,242	6,561,505	20%	81%
CICA	Proposition 186	Establish "single payer" health care system	✗		2,212,691	6,110,899	27%	73%

LRCA	Prop 193	New appraisal of real property upon purchase or transfer between grandparents and their grandchild not required	✓	1996	3,725,041	1,810,493	67%	33%
CISS	Prop 217	Reinstate 10% and 11% tax rates on taxable incomes over $115,000 and $230,000	✗		4,575,550	4,723,873	49%	51%
CICA	Prop 218	Limits authority of local governments to impose taxes and property-related assessments	✓		5,202,429	3,996,702	57%	43%
CICA	Prop 10	New tax on cigarettes to pay for childhood programs	✓	1998	4,044,126	3,964,008	51%	50%
LRCA	Prop 11	Allow local governments to enter into sales tax revenue sharing agreements	✓		3,898,165	3,409,761	53%	47%
CISS	Prop 28	Repeal tobacco surtax	✗	2000	1999141	5,198,554	28%	72%
CICA	Prop 37	Redefines some fees as taxes	✗		4,579,981	4,963,684	48%	52%
CISS	Prop 63	Mental health services expansion	✓	2004	6,191,691	5,337,216	54%	46%
CIC&	Prop 67	Fund emergency medical services with tax increase	✗		3,243,132	8,165,809	28%	72%
CISS	Prop 82	Tax increase for education	✗	2006	1,583,787	2,460,556	39%	61%
CIC&S	Prop 86	Tax on cigarettes	✗		4136358	4425689	49%	51%
CIC&S	Prop 87	New tax on gas, oil	✗		3,372,394	4,079,106	45%	55%
CIC&S	Prop 88	Real estate tax	✗		1,687,614	5,631,590	23%	77%
LRCA	Proposition 1A	Prop 1A combines a 4-year tax hike of about $16 billion with a state spending cap	✗	2009	3,152,141	1,668,216	65%	35%

Spending								
Type	Title	Description	Result	Year	Yes	No	% Yes	% No
LRSS	Proposition 107	$150 million to provide funds for housing programs	✓		2,613,414	2,925,223	52%	41%
LRSS	Proposition 108	$1 billion for light-rail expenditures	✓		2,795,092	3,084,122	56%	43%
CISS	Proposition 116	$1.99 billion for passenger and commuter rail	✓		2,579,810	3,139,478	53%	45%
LRSS	Proposition 120	$450 million for prisons	✓		2,714,145	5,318,065	56%	64%
LRSS	Proposition 121	$450 million for higher education	✓		2,687,831	3,130,921	55%	49%
LRSS	Proposition 122	$300 million for earthquake safety	✓		2,679,875	2,348,910	55%	37%
LRSS	Proposition 123	$800 million for public schools	✓		2,781,973	1,841,138	58%	29%
CISS	Proposition 128	$340 million for acquiring ancient redwoods and pesticide research	✗		2,636,663	1,840,002	36%	16%
CICA	Proposition 129	$1.9 billion for drug enforcement programs	✗		1,982,372	4,750,309	28%	42%
CISS	Proposition 130	$742 million for forest acquisition	✗		3,528,887	2,948,243	48%	38%
CISS	Proposition 138	$300 million in bonds for forests and timberland	✗	1990	2,108,389	2,110,132	29%	53%
LRSS	Proposition 142	$400 million for bonds for veteran housing	✓		4,153,879	1,916,925	59%	23%
LRSS	Proposition 143	$450 million in bonds for higher education	✗		3,449,401	3,218,657	49%	39%
LRSS	Proposition 144	$450 million for construction of jails and prisons	✗		2,871,183	3,521,055	40%	42%
LRSS	Proposition 145	$200 million for bonds/first-time homebuyers	✗		3,113,975	3,602,055	45%	43%
LRSS	Proposition 146	$800 million for public schools	✓		3,679,099	2,962,546	52%	36%
LRSS	Proposition 147	$225 million for county jails	✗		2,574,002	3,807,005	37%	46%
LRSS	Proposition 148	$380 million for water projects	✗		3,024,141	5,887,181	44%	47%
LRSS	Proposition 149	$437 million for parks, recreation	✗		3,330,877	5,536,987	47%	45%
LRSS	Proposition 150	$200 million for county courthouses	✗		1,830,612	4,385,715	26%	37%
LRSS	Proposition 151	$30 million for child care facilities	✗		3,360,443	4,794,776	47%	58%
LRSS	Proposition 152	$1.9 billion for public schools	✓		3,119,441	4,831,445	53%	57%
LRSS	Proposition 153	$900 million for higher education	✓	1992	2,967,657	1,237,694	51%	26%
LRSS	Proposition 155	$900 million in construction bonds for schools	✓		5,440,084	5,061,978	52%	48%
LRSS	Proposition 156	$1 billion for rail programs	✗		4,910,982	5,296,753	48%	52%
LRSS	Proposition 173	$185 million in bonds for first-time homebuyers	✗	1993	2,037,804	2,791,573	42%	58%

LRSS	Proposition 1A	$2 billion for earthquake relief and seismic retrofitting	✗	1994	2,067,707	2,457,475	46%	54%
LRSS	Proposition 1B	$1 billion for public schools	✗		2,229,596	2,268,662	50%	50%
LRSS	Proposition 1C	$900 million for public colleges and universities in California	✗		2,109,103	2,338,608	47%	53%
CISS	Proposition 180	$2 billion bond for parks, recreation	✗		1,944,530	2,548,642	43%	57%
LRSS	Proposition 181	$1 billion bond for various rail expenditures	✗		2,791,681	5,203,161	35%	65%
LRSS	Prop 192	Provides for a bond issue of two billion dollars to provide funds for a seismic retrofit program	✓	1996	3,347,257	2,239,191	60%	40%
LRSS	Prop 203	$3 billion in funds for schools	✓		3,542,816	2,175,917	62%	38%
LRSS	Prop 204	$995,000,000 in state funds for water projects	✓		6,019,951	3,560,084	63%	37%
LRSS	Prop 205	700,000,000 to provide funds for local juvenile and adult	✗		3,834,745	5,606,214	41%	59%
LRSS	Prop 206	$400,000,000 to provide farm and home aid for California veterans	✓		4,993,677	4,330,354	54%	46%
CISS	Prop 223	Limit on amount school districts can spend on administrative costs; performance budgeting requirements	✗	1998	2,569,355	3,076,263	46%	54%
LRSS	Prop 1A	Bond issue for education	✓		4,888,679	2,935,048	62%	38%
CISS	Prop 9	No taxes, bonds surcharges to pay costs of nuclear power plants	✗		2,065,674	5,711,888	27%	73%
LBM	Prop 12	Bond issue for water projects	✓		4,657,600	2,722,030	63%	37%
LBM	Prop 13	Water pollution protection	✓		4,745,872	2,585,298	65%	35%
LBM	Prop 14	Literacy improvement	✓		4,298,471	2,994,289	59%	41%
LBM	Prop 16	Homes for veterans	✓		4,402,818	2,665,311	62%	38%
LBM	Prop 15	Hertzberg-Polanco crime labs construction	✗	2000	3,265,416	3,772,513	46%	54%
LBM	Prop 32	Veterans' bond act	✓		6,743,986	3,294,310	67%	33%
LBM	Prop 40	Bond issue for water, air, parks, coastal protection	✓		2,769,178	2,101,516	57%	43%
LBM	Prop 41	Bond issue for voting modernization	✓		2,474,372	2,325,348	52%	48%
LBM	Prop 46	Bond issue for housing and emergency shelter	✓	2002	4,064,648	3,000,154	58%	42%
LBM	Prop 47	Bond issue for kindergarten-university facilities	✓		4,222,946	2,925,223	59%	41%
CISS	Prop 49	State grants	✓		4,024,904	3,084,122	57%	43%
CISS	Prop 50	Bond issue for water projects	✓		3,882,118	3,139,478	55%	45%
LRCA	Prop 53	Dedicate 3% of general fund revenues to state/local infrastructure	✗	2003	3,020,577	5,318,065	36%	64%

LBM	Prop 55	Education spending/bond issue	✓		3,239,706	3,130,921	51%	49%
LBM	Prop 57	$15 billion bond issue	✓		4,056,313	2,348,910	63%	37%
LRCA	Prop 58	Balanced budget	✓	2004	4,535,084	1,841,138	71%	29%
LRCA	Prop 1A	Local government revenues	✓		9,411,198	1,840,002	84%	16%
CISS	Prop 61	Money for children's hospital projects	✓		6,629,095	4,750,309	58%	42%
CICA	Prop 76	Lid on school funding	✗	2005	4,877,735	2,948,243	62%	38%
LBM	Prop 81	Bond issue for library	✗		1,873,147	2,110,132	47%	53%
LRCA	Prop 1A	Transportation funding	✓		6,400,587	1,916,925	77%	23%
LBM	Prop 1B	Highway safety, air quality	✓		5,112,142	3,218,657	61%	39%
LBM	Prop 1C	Housing, emergency shelter	✓	2006	4,814,850	3,521,055	58%	42%
LBM	Prop 1D	Education facilities	✓		4,754,868	3,602,055	57%	43%
LBM	Prop 1E	Disaster preparedness	✓		5,305,852	2,962,546	64%	36%
CISS	Prop 84	Flood control	✓		4,431,945	3,807,005	54%	46%
LRB	Prop 1A	9.95 billion bond for high-speed rail	✓		6,512,189	5,887,181	53%	47%
CISS	Prop 3	$980 million in bonds for children's hospitals.	✓		6,805,649	5,536,987	55%	45%
LRB	Prop 12	$900 million in bonds for home, farm purchasing assistance for vets	✓	2008	7,618,136	4,385,715	64%	37%
CICA	Prop 91	Transportation funding	✗		3,427,588	4,794,776	42%	58%
CIC&	Prop 92	Community College funding	✗		3,613,332	4,831,445	43%	57%
LRCA	Proposition 1F	No pay raises for state legislators in years when there is a state budget deficit	✓	2009	3,565,419	1,237,694	74%	26%

Budgetary Issues								
Type	Title	Description	Result	Year	Yes	No	% Yes	% No
LRCA	Proposition 125	Revenues raised from taxes on motor vehicle fuels can be used for various rail transit expenditures	✗	1990	3,229,081	3,859,304	46%	54%
CICA	Proposition 165	Governor can declare fiscal emergency under certain conditions	✗	1992	4,869,305	5,577,061	47%	53%
LRCA	Proposition 169	Authorize annual budget implementation bill to over more than a single subject.	✗	1993	1,811,118	2,868,591	39%	61%
LRCA	Prop 1A	Local government revenues	✓	2004	9,411,198	1,840,002	84%	16%
CICA	Prop 65	Local government funds, mandates	✗		3,901,748	6,471,506	38%	62%
LRCA	Proposition 1B	Modification of California Proposition 98 (1998) to free up money for state's budget overruns.	✗	2009	1,834,242	2,975,560	38%	62%
LRCA	Proposition 1C	Sell rights to future lottery proceeds as a way of raising some cash now for state budget.	✗		1,708,800	3,085,138	36%	64%
LRCA	Proposition 1D	Asks voters to approve taking money from Prop 10 in 1998 for purposes not allowed in that 1998 vote.	✗		1,633,107	3,157,680	34%	66%
LRCA	Proposition 1E	Asks voters to take money from Prop 63 for purposes not allowed in that 2004 vote.	✗		1,597,907	3,169,163	34%	66%

All information here taken from Ballotpedia.org.

Appendix II: Limitations to Exit Poll Data

Several limitations to the accuracy of exit poll data exist that should be kept in mind when considering the recorded perceptions that voters may have about economic conditions both in their respective states and at the national level:

1) *Processing for non-response*: the interviewer selects every 3rd or 2nd voter as they count the number of voters leaving the voting premises to be interviewed so that they may accrue the desired number of approximately 100 interviews for that day; if a voter refuses, they must continue counting every 3rd or 2nd until someone agrees to be polled.[187]

2) *Large weights due to loss of interviews:* If 100 people were interviewed out of a sample size of 200 voters, then each person would receive a weight of two—if only 10 interviewed, then a weight of 20. There may be risk of heavy weighting on a small number of respondents on either a small number of respondents on either by refusal to be polled or interruption of polling. These weights are typically for accounting for important demographic groups.[188] Since this analysis omits the demographic characteristics of voters, weighting the voter perceptions of economic conditions is virtually impossible and unnecessary to do. Given the degree of anonymity and inaccessibility every individual survey, it is impossible to match up which demographic perceived economic conditions versus other demographics, whether it be by income, age, gender, or ethnicity.

[187] Roper Center Public Opinion Archives, "Texas Exit Poll, 1990," http://ropercenter.uconn.edu/
[188] Roper Center Public Opinion Archives, "California Exit Poll, 2004," http://ropercenter.uconn.edu/

3) *Sampling error*: "The error due to sampling depends, among other things, on the number of respondents in each group."[189] The following table represents the amount of sampling error given the number of people polled—this is just a representative table, as the table may change slightly from election to election:

Respondents In Base of Percentage	Error Due To Sampling (+/-)
100	13.0%
250	8.0
500	6.0
750	5.0
1000	4.0
1500	3.5
2000	3.0
2500	2.5
5000	2.0
7500	1.5
10000	1.3
12500	1.1
15000	1.1

In this particular analysis, the given sample sizes for Texas and California during the years 1990, 1994, 1996 and 1998, are listed as percentages of the total sample size for the exact matching questions asked in each state over the years:[190]

Completion Rates	1990	Sample	1994	Sample	1996	Sample	1998	Sample
Texas	79%	2832	97%	1545	97%	2423	97%	1267
California	80%	3313	98%	3147	97%	3282	96%	2882

4) *Blanks/omits*: This represents a non-response to a particular question. "On opinion variables (such as favorable ratings), blanks are treated as "Don't Know" responses and are considered to be valid responses."[191] This analysis, however, excluded the "Don't Know" responses as the reader could glean this information from the other responses to a

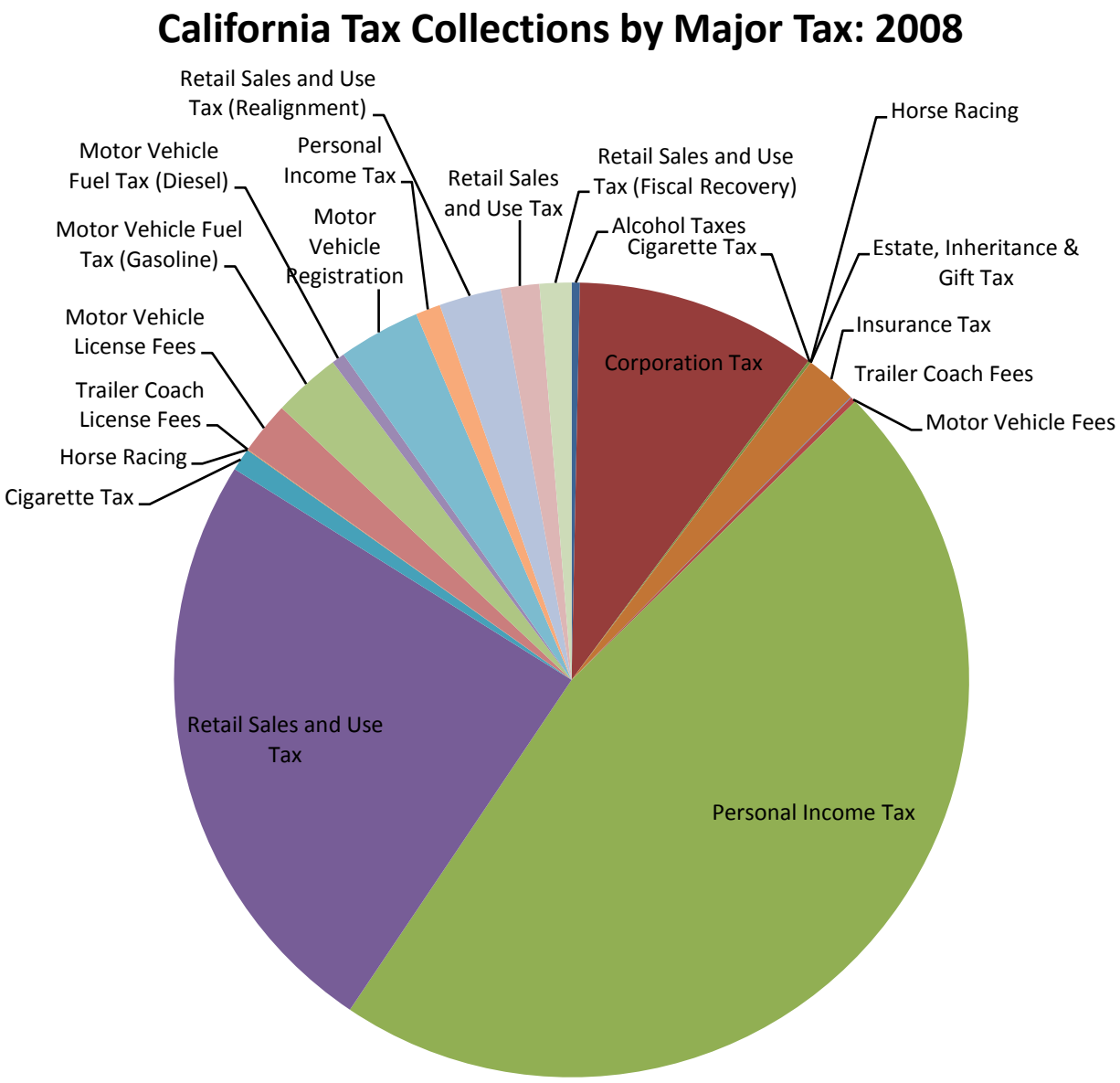
[189] "Texas Exit Poll, 1990."
[190] This is author's calculations tabulated from the VNS Exit Poll Surveys from those respective years.
[191] "California Exit Poll, 2004."

given question not adding up to 100 percent.

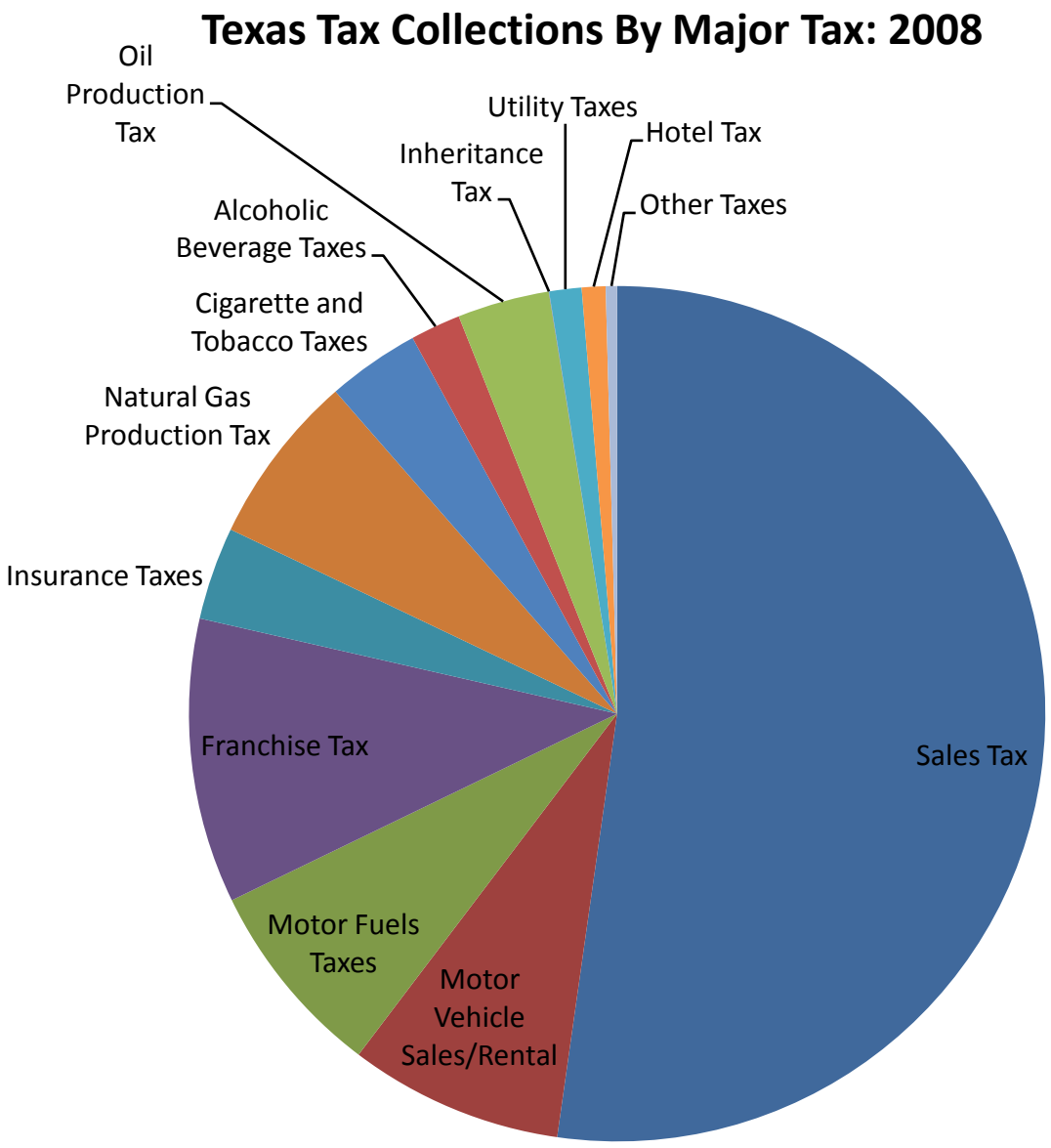
5) *Questions altered over the years*: "Comparing data from one election year to another should be done carefully. " Trends" are established by comparing questions asked in exactly the same way. Failure to exercise appropriate care could lead to invalid conclusions about voting behavior."[192]

[192] "California Exit Poll, 2004."

Appendix III: Tax Collections by Major Tax (Revenue Source)



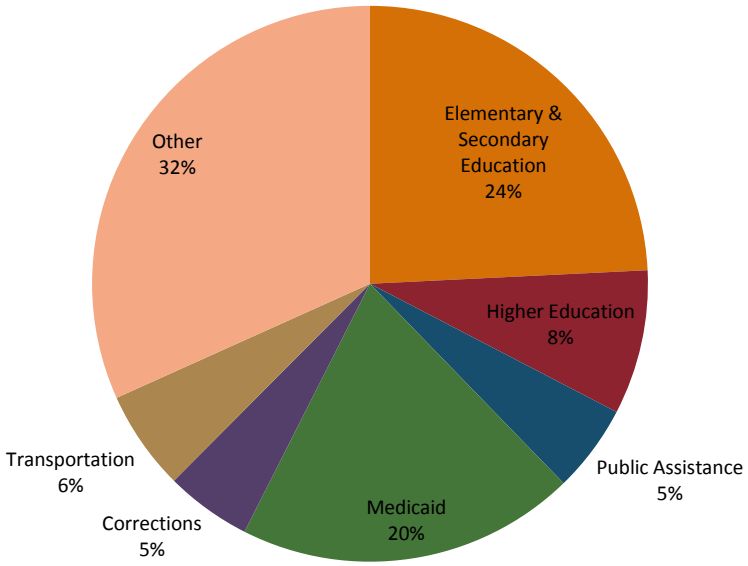
Source: "State of California Revenues, 1950-51 to 2010-11," Historical Data, Legislative Analyst's Office, http://www.lao.ca.gov/laoapp/laomenus/lao_menu_economics.aspx



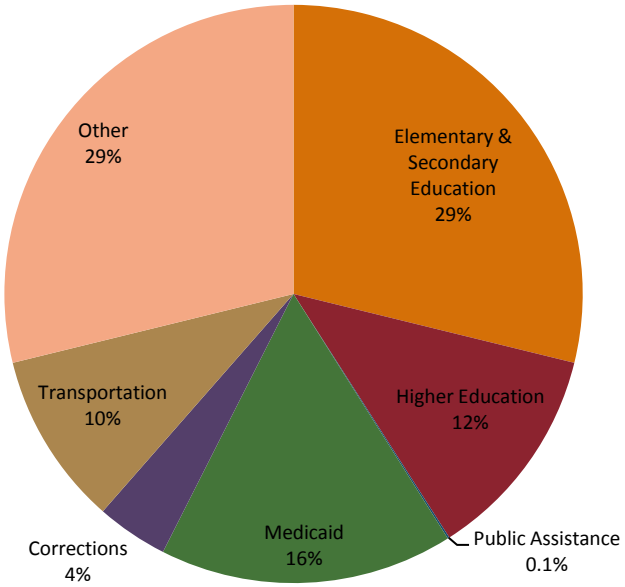
Source: "Texas Net Revenue by Source - Fiscal 1978-2008
(All Funds, Excluding Trust)," Window on State Government, Texas Comptroller of Accounts,
http://www.window.state.tx.us/taxbud/revenue_hist.html

Appendix IV: Expenditures by Function, 2008

California's State Spending by Function as a Percent of Total State Expenditures, 2008



Texas's State Spending by Function as a Percent of Total State Expenditures, 2008



Source: "State Spending by Function as a Percent of Total State Expenditures, Fiscal 2008," FY2008 State Expenditure Report, National Association of State Budget Officers, http://www.nasbo.org/Publications/StateExpenditureReport/tabid/79/Default.aspx

Appendix V: Voter Turnout Rates in Texas and California

Texas				
Month	**Year**	**Voters**	**Total Eligible**	**% of Eligible Voting**
November	1991	2,055,148	12,721,331	16%
November	1993	1,116,875	13,111,971	9%
November	1995	739,335	13,320,323	6%
November	1997	1,173,313	13,893,465	8%
August	1997	739,141	13,893,465	5%
November	1999	956,303	14,284,092	7%
November	2001	834,846	14,965,061	6%
September	2003	1,470,443	15,790,838	9%
November	2005	2,260,695	16,351,396	14%
November	2007	1,096,410	17,352,424	6%
November	2009	1,055,530	17,886,333	6%

The turnout average is 8 percent. Source: http://www.sos.state.tx.us/elections/historical/70-92.shtml

California				
Month	**Year**	**Voters**	**Total Eligible**	**% of Eligible Voting**
November	1990	7,899,131	19,245,000	41%
November	1992	11,374,565	20,864,000	55%
November	1993	5,282,443	20,797,000	25%
November	1994	8,900,593	18,946,000	47%
November	1996	10,263,490	19,526,991	53%
November	1998	8,621,121	20,806,462	41%
November	2000	11,142,843	21,461,275	52%
November	2002	7,738,821	21,466,274	36%
October	2003	9,413,494	21,833,141	43%
November	2004	12,589,683	22,075,036	57%
November	2005	7,968,757	22,487,768	35%
November	2006	8,899,059	22,652,190	39%
November	2008	13,743,177	23,208,710	59%
May	2009	4,871,945	23,385,819	21%

The turnout average is 43 percent. Source: http://www.sos.ca.gov/elections/sov/historical-voter-reg/hist-voter-reg-and-part-general-elections-1910-2009.pdf