

# TEXAS BUSINESS & COMMERCIAL QUARTERLY

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The Secretary of State accumulates business and commercial data as part of the statutory filing duties of the office. While it certainly appears that the economy of the State of Texas is faring far better than other states, the state's decision makers must be provided with all available economic data to assist them in planning for future needs. Through publication of the *Texas Business and Commercial Quarterly* the information collected by the Secretary of State will be made available to state and local governmental officials and business and professional associations to assist them in their business and economic planning. The following analysis was prepared by Celia Morgan and Howard Savage, professors in the Department of Finance and Economics, Southwest Texas State University based in part on data collected by the Secretary of State's Office. It is our hope that the *Texas Business and Commercial Quarterly* will provide additional insights as to the State of Texas' economy and assist decision makers in projecting their future needs.

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## Introduction

Recent history has recorded a phenomenal increase in the economic well-being of Texas and its residents. This increase is apparent from the net additions to the business stock recorded at the Statutory Filings Division of the Secretary of State's Office. A comparison of the relevant data from other selected states—Massachusetts, Washington, Michigan, Georgia, California, and Missouri—indicates that states with different characteristics have not fared as well. The indications of these data are supported by outside data which illustrate the growth in the important components of personal income in Texas. The continuation of this growth well into the current national recession is the result of the unique characteristics of Texas. These characteristics include, but are not limited to, a favorable business climate provided by state government. This climate reflects state societal values generally. These values are expressed in Texas by the tax structure which lacks individual and corporate income taxes and by other business-oriented laws.

## TEXAS AND THE RECESSION

The net additions to the stock of business corporations in Texas, as recorded by the Secretary of State's Office, reflect the phenomenon that the national recession has left Texas' economy relatively unscathed. Another indicator, Uniform Commercial Code filings, from the same source also indicates a healthy business community with growing credit needs. The steady growth in personal income and in the various business related elements of personal income in Texas also support the evidence provided by the economic indicators from the Secretary of State's Statutory Filings Division. The growth in the overall corporate structure is shown in Table 1 which presents the net additions to the corporate business structure in Texas for the years 1978-1981.

Table 1  
Net Additions to the Business Stock 1978-1981

Year	Corporations	Limited Partnerships	Certificates* of Authority	Voluntary Dissolutions	Net Additions to Corporate Structure
1978	31,219	1,978	1,991	3,395	31,793
1979	41,130	2,169	2,497	3,325	42,471
1980	38,057	2,956	2,777	4,137	39,653
1981	43,180	3,324	3,271	4,296	45,479

\*Certificates of Authority are issued to out-of-state corporations which qualify to engage in business in Texas

Source: Secretary of State, Statutory Filings Division, Corporations Section (March 1982)

The business stock includes all existing corporations, limited partnerships, and certificates of authority recorded by the Secretary of State. Net additions to the business structure by year equal the sum of new corporate charters, new limited partnerships, and new certificates of authority minus voluntary dissolutions. The Corporations Section of the Secretary of State's Office recorded

a net addition of 159,396 from 1978 to 1981. These net additions to the overall business structure are the natural outcome of the economic growth within Texas. A portion of this growth is the result of the movement of firms to a more favorable business and climatic environment. Another portion is the natural outcome of the capitalization of business opportunities by local businessmen.

Business and economic health and growth tend to be self-reinforcing and cumulative. New sources of business and economic growth stimulate further growth. Business opportunities arise due to the original growth, and capitalization of these opportunities provides further opportunities.

The laws and attitudes in Texas are such that they encourage business and economic growth, both in the migration of new businesses from outside of the state and in the expansion and development of business within the state. As perceived by businessmen, the absence of corporate and personal income taxes in Texas indicates a favorable attitude toward business. This increased business activity also gives rise to increased personal income from all sources.

The favorable business climate in Texas has been noted by outside studies. For example, Alexander Grant & Co. a Chicago-based accounting firm, ranked Texas second of the 48 contiguous states in business climate for manufacturing companies. The states were ranked on 22 factors reflecting management priorities. The Grant Survey reflected the management view that low energy costs, low union activity, low taxes and low workmen's compensation rates were positive factors in business location selection.

In 1975, Fantos Company, an industrial location consulting firm, ranked Texas first in the nation on the basis of desirability as an industrial site. These rankings and the observed increase in the tempo of business activity in Texas are supported by another data base recorded at the Uniform Commercial Code Section of the Secretary of State's Office. The UCC filings for the past 10 years are presented in Table 2.

**Table 2**  
**Uniform Commerical Code**  
**Financing Statements, Federal Tax Liens**  
**and Utility Security Agreements**

YEAR	NUMBER
1971	107,380
1972	123,157
1973	131,075
1974	129,745
1975	147,018
1976	146,445
1977	170,445
1978	187,445
1979	197,221
1980	203,489
1981	229,932

Source: Secretary of State, Statutory Filings Division, Uniform Commercial Code Section (January 1982)

The growth rate of UCC filings for the 10 calendar years is 8.0% compounded. The actual numerical growth is from 107,380 (1971) to 229,932 (1981). The dollar value of these filings is indeterminate as they have no stated value when they are filed. It seems reasonable to assume, however, that the real per unit value of these filings has remained constant. Under this assumption, this increase in UCC filings indicates increased business activity, re-

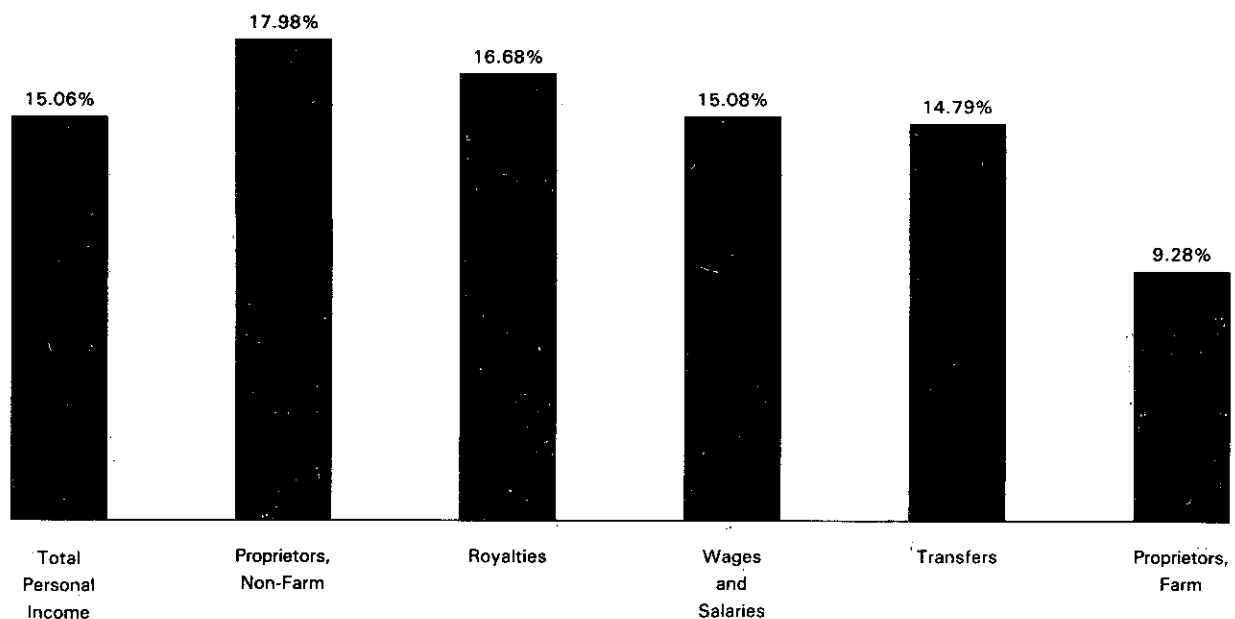
quiring increased credit. The higher credit requirements in the face of a highly restrictive monetary policy accompanied by historically high interest rates indicates a very healthy business climate. Supporting data for the business and economic growth indicated by the net addition to the corporate business stock and the increased loan activity are found in Figure 1.

Personal income is a measure of the amount that individuals receive from all sources. Personal income and each of the major components of personal income presented grew over the era represented (1978-1981). The rate of growth in personal income was 15.06%, a very healthy growth rate. Perhaps, however, the growth rate of nonfarm proprietors' income is even more revealing. Not an element of the corporate structure, nonfarm proprietors' income also reflects the business climate and activity, its growth rate a robust 17.98%. All elements of the business community appear to be faring well in the Texas business climate.

The profitability and financial health of the economy and business structure produces economic growth and well-being in the other sectors of the economy. This can be seen by further reference to Figure 1. Wages grew at the rate of 15.08%; royalty, rent and interest payments at the rate of 16.68%; transfers of income between groups at the rate of 14.79%; and farm proprietors' income at the rate of 9.28%. The robust rate of growth in wages, royalties, rents, and interest would have been impossible without a favorable return and climate for business. The rate of growth in the level

*Figure 1*

**Annual Compound Growth Rates for Personal Income in Texas**  
**by Major Components, 1978 - 1981**



(Computed from U.S. Department of Commerce, Bureau of Economic Analysis Data, March, 1982)

of transfer income also is somewhat attributable to the local level of income although it is primarily determined from outside the state. The income growth of agricultural enterprises, which did not grow as much over the era, is almost totally determined by national and international markets and weather conditions, all of which are beyond the influence of the Texas business community.

### Texas: A Leader

Although the full impact of the current national recession has yet to manifest itself, the evidence suggests that other states are not faring as well as Texas. This would appear to be the result of a healthier business climate in Texas both pre-recession and currently.

A comparison of the same elements which indicate a healthy business climate in Texas with their counterparts in other states gives some indication of the results of the Texas business climate. The states compared were selected to give general geographical coverage and state representation. The first element considered for Texas, corporate charters, is presented for selected states and Texas on an index basis in Table 3. The index basis was selected to avoid distortions produced by variations in the size of states. The era presented is 1978-1981, using 1978 as the base year and therefore equal to 100.

Table 3  
Index of New Business Incorporations 1978-1981  
1978 = 100

	1979	1980	1981
WASHINGTON	116.86	109.89	124.25
MASSACHUSETTS	100.63	115.76	123.02
MICHIGAN	101.17	107.48	110.57
GEORGIA	107.85	105.50	115.93
CALIFORNIA	118.06	121.31	129.72
MISSOURI	108.5	97.91	138.22
TEXAS	133.84	135.04	141.82

Source: Dun & Bradstreet, Texas Secretary of State, Statutory Filings Division, Corporation Section, and the various Secretaries of State. (March 1982)

Texas had a higher rate of growth in this indicator than any of the selected states. New corporate charter recordings at the Secretary of State's Office in Texas increased by about 42% (1978-1981). This compares to a low of about 11% in Michigan and a high of 38% in Missouri. New incorporation growth in the other four states ranged between these two extremes.

Further evidence of economic advancement can be gained from a comparison of other relevant economic data, for example, the growth of total personal income in Texas and the selected states. An index of this growth from 1978 to 1981 is presented in Figure

2, which shows that Texas enjoyed the highest rate of growth in total personal income of any of the selected states. The Texas growth in this indicator outstripped the two closest contenders, Washington State and California by 5 and 7 percentage points, respectively. Texas growth outstripped Michigan by 21 percentage points. The growth rate of this indicator for the other states ranged between these extremes.

Personal income growth can stem from a variety of sources, so perhaps of more importance as a barometer of general business conditions are the elements of personal income. A comparison of these elements can be made from the data shown in Table 4 which presents the compound growth rates of the major sources of income in the interim 1978-1981.

These data again indicate the health of the business community and society generally in Texas. The data suggest that business growth is not confined to the corporate structure. The healthy increase in business activity is reflected by an increase in wages and salaries and the other components of personal income. The 1978-1981 era produced a compound growth rate in nonfarm proprietors' income of about 17.98% in Texas, significantly higher than any of the other selected states. The nearest rival is California where the compound growth rate of non-farm proprietors income was 13.13%, or over 4 percentage points less. The growth rate of this source of income in the other states ranged from 6.24% in Michigan to 9.02% in Washington state. The earlier indications from the Secretary of State's Office as to overall business health would appear to be borne out by this statistic. A healthy growth rate of net additions to the corporate structure and an increase in the rate of UCC filings reflect a quickening of the business tempo in the state both corporate and otherwise.

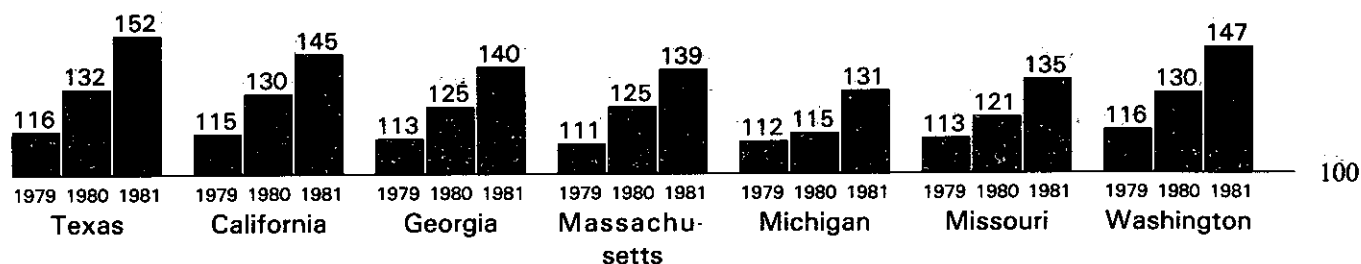
This conclusion is supported by reference to the wage and salary component of personal income. Increased business activity is accompanied by increased hiring and a rising wage level as labor is enticed into a particular labor market. This certainly appears to be the case in Texas. The compound growth rate in this element of income for Texas was about 15.08%, compared to the next highest growth rate of 13.83% in Washington State and the lowest growth rate of 7.54% in Michigan.

The increase in wages and salaries which indicates an increase in the economic well-being of the Texas worker and the State business community generally was led by increased activity and wages in the mining sector. The 23.0% growth rate in mining was not approached in any of the other states. Business activity, which gives rise to the ability to pay increased wages and salaries, is dominated in Texas by the oil and gas industry. It, therefore, follows that a more favorable climate for this industry has probably been the main stimulus to some large portion of the increase in all business income. Mining has not, however, carried the entire burden. The development of manufacturing in the state can also be noted.

The favorable governmental setting and overall societal attitude toward business have contributed to the growth of the manufacturing industry and to the growth of wage and salary income from this source. The income growth rate was about 15.40% over the

Figure 2

Index of Personal Income  
Texas and Selected States, 1978 - 1981



1978 = 100

(Computed from U.S. Department of Commerce, Bureau of Economic Analysis Data, March, 1982)

interim, exceeding the growth rate of wage and salary income from manufacturing in the other selected states. Washington state, however, was not significantly lower (15.31%). The interrelated nature of the economic structure can also be noted from the data in Table 4. A business climate which produces growth and pros-

perity in the basic economic structure of the state also produces growth in those subsidiary industries which service this structure. This climate and the concomitant growth in the basic industries also give rise to a perception from the business community which allows them to invest and expand in the face of such roadblocks

Table 4  
Texas and Selected States  
Annual Compound Growth Rate 1978-1981 Personal  
Income by Major Source and Selected Components

	Texas	California	Georgia	Massachusetts	Michigan	Missouri	Washington
Wages and Salaries	15.08	11.59	11.05	10.56	7.54	8.46	13.83
Mining	23.07	15.93	10.06	8.97	8.11	(0.82)	14.27
Construction	12.60	7.64	7.80	8.43	0.94	1.89	17.10
Manufacturing	15.40	12.95	11.57	10.51	7.15	6.84	15.31
Transportation	15.17	11.73	14.19	11.82	7.10	10.40	13.06
Trade	14.99	12.85	10.81	11.88	7.57	9.27	13.14
Services	15.42	13.21	13.11	12.78	11.81	13.20	14.85
Government Employment Income							
State and Local	12.46	6.86	8.53	5.62	9.15	6.92	10.41
Fed Military	8.08	8.22	11.18	8.48	4.64	9.83	10.73
Fed Civilian	7.55	7.36	9.14	5.95	6.11	5.79	8.58
Property Income							
Farm	9.28	11.56	(8.91)	(17.69)	(6.93)	5.41	(11.29)
NonFarm	17.98	13.13	6.34	7.71	6.24	7.66	9.02
Dividends, Rent Interest Payments	16.68	19.74	17.03	16.22	16.35	17.39	17.43
Transfer	14.79	13.69	14.50	12.41	14.93	14.56	15.48
Total Income	15.06	13.25	11.85	11.85	9.50	10.65	13.89

Source: U.S. Department of Commerce, Bureau of Economic Analysis (March 1982)

as a restrictive monetary policy and high interest rates. This is evidenced by the growth in the rate of activity and the rise in wage and salary income in the construction industry in Texas, exceeded only by the rate of construction wage and salary increases in Washington. The increased construction activity is still a good omen for the future capital structure of Texas. One other element of personal income growth in Texas which is noteworthy is the growth in the income of state and local government employees. A healthy and growing economy gives rise not only

to the ability, but also to the willingness of the state constituency to support the public sector. The health of the Texas economy and the growth rate of income to this sector reflects this fact. Texas state and local employee income rose at a compound rate of 12.46% over the 1978-1981 interim, a rate more than double the rate in Massachusetts, almost double the rates in California and Missouri, and substantially greater than the growth rates in the other selected states.

**Table 5**  
**Secretary of State of the State of Texas**  
**Statutory Filings Division, Corporations Section Transactions**

TYPES OF TRANSACTIONS	1982 FIRST QUARTER	1981 FOURTH QUARTER	CHANGE FROM 4TH QUARTER 1981 to 1ST QUARTER 1982	1981 FIRST QUARTER	CHANGE FROM 1ST QUARTER 1981 to 1ST QUARTER 1982
TOTAL TRANSACTIONS	46,008	51,050	(5,042)	35,184	10,824
Articles of Incorporation	10,124	11,236	(1,112)	9,318	806
Articles of Incorporation (non-profit)	901	888	13	907	(6)
Professional Corporations	489	381	108	352	137
Professional Associations	324	406	(82)	326	(2)
Certificates of Authority	889	941	(52)	706	183
Limited Partnerships	969	948	21	508	461
Limited Partnership Amendments	655	624	31	30	625
Limited Partnership Cancellations	50	64	(14)	0	50
Trust Companies	0	0	0	0	0
Trust Company Amendments	3	7	(4)	4	(1)
Articles of Amendment (profit)	3,394	4,879	(1,485)	2,689	705
Articles of Amendment (non-profit)	195	251	(56)	165	30
Articles of Amendment (professional association)	41	58	(17)	24	17
Articles of Amendment (professional corporation)	69	1,345	(1,276)	65	4
Amended Certificates of Authority	261	298	(37)	167	94
Name Reservations	2,801	2,705	96	2,144	657
Name Registrations	67	64	3	61	6
Dissolutions	914	836	78	937	(23)
Withdrawals	133	97	36	111	22
Terminations	42	39	3	35	7
Information Letters	3,417	3,902	(485)	3,946	(529)
Articles of Merger	180	178	2	136	44
Change of Registered Agent and Office	4,068	5,235	(1,167)	1,934	2,134
Reinstatements	815	1,266	(451)	680	135
No Pay Forfeitures	35	27	8	24	11
Forfeitures	78	55	23	72	6
Certifications	13,892	12,868	1,024	8,720	5,172
Assumed Names	1,202	1,452	(250)	1,123	79

## Summary

Business-related activity as recorded by the Statutory Filings Division of the Texas Secretary of State's Office indicates business activity and economic growth in the State. These indications are confirmed by outside data which point up the overall growth in the important components of income within the state. This growth which has continued well into the current national economic recession is the result of the unique characteristics of Texas. These characteristics include a generally favorable business climate by the state government which reflects state societal attitudes generally. These attitudes are reflected by a tax structure bereft of cor-

porate and individual income taxes. A comparison of the relevant data from the selected states show that other states with different characteristics have not fared as well.

Future developments in the state economy will in all probability be reflected by the business related activity recorded by the Secretary of State. These recorded transactions thus are a resource tool of importance to state agencies and business and community leaders involved in the planning process. The Secretary of State plans a quarterly release of these transactions to aid other agencies and individuals who desire to use these data. Table 5 presents these data for the first quarter of 1982.



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