

How Large Are States' Economies Really – and Why Does It Matter?

Excerpt:

The U.S. is composed of a few very large, several mid-sized, and many small state economies. California, for example, is an economic behemoth — its economy is as large as the combined economies of the 26 smallest states.

1. Introduction

We often think of the United States as a single, unified economy — even though we know that is not quite true. State economies vary widely in size, structure, growth rates, volatility, industry mix, population, employment, labor skills, and productivity. Yet, national averages and simplified narratives often mask this variation.

While averages can help simplify economic storytelling, they may fail to provide the nuance needed for sound decision-making. Understanding what is really happening beneath the surface requires us to look more closely at individual state economies.

This article begins that process by focusing on a foundational characteristic: **the size of a state's economy, as measured by state Gross Domestic Product (GDP)**. We will:

- Illustrate the wide variation in state economy sizes
- Propose a framework for categorizing states by economic size
- Discuss why size matters for economic policy

2. Why Start with Size?

Just as no policymaker would approach Germany and Liechtenstein with the same policy lens, we should not assume the same strategy will work for both California and Vermont. Each state has its own unique challenges and opportunities.

Effective economic management must be willing to tailor policies to unique circumstances — even national programs should be flexible enough to respond to state-specific conditions. A first step toward tailored policy is understanding just how different state economies are in size.

3. What Is GDP and Why Is It Important?

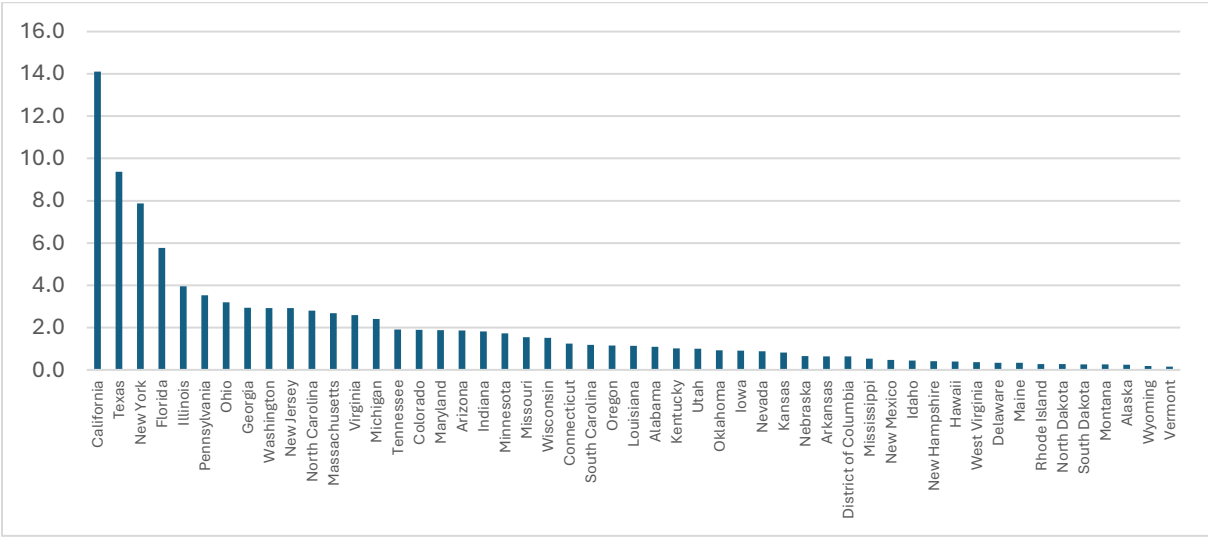
GDP, or **Gross Domestic Product**, is the total market value of all final goods and services produced in a specific geography during a given time — for example, the year 2023.

It is a core measure of economic activity. As of April 2024, the estimated U.S. GDP for 2022 was \$27.4 trillion — the largest in the world.

4. Wide Variation Across States

The U.S. economy is the sum of 50 diverse state economies (plus D.C. and territories), each with its own size and complexity.

 **Figure 1. State Economy Size as Share of U.S. GDP, 2023 (percent)**



Source: BEA, April 2024 version. GDP in current dollars.

- **California, Texas, and New York** are the largest state economies, together accounting for **31%** of total U.S. GDP.
 - California alone makes up **14%**, with a GDP of \$3.9 trillion — larger than India.
 - Texas and New York follow at \$2.6 trillion and \$2.2 trillion, respectively.
- At the other end of the spectrum are **Vermont, Wyoming, and Alaska**, each contributing **0.25% or less**. Together, they make up only **0.6%** of U.S. GDP — about \$455 billion, comparable to Bangladesh or Singapore.
- The **average state GDP** is approximately \$534 billion. States like Colorado, Maryland, and Tennessee are close to that average. However, the **median state**, Oregon, has a GDP of just \$316 billion, underscoring the skewed distribution.

5. Key Facts About State Economies

- The **eight largest states** make up nearly **50% of the U.S. economy**.
- **24 states** contribute just **1% or less** each.
- The **combined GDP of the 26 smallest states** equals that of **California** alone.

These figures underscore just how top-heavy the national economy is — and why **national-level GDP growth statistics often mask significant variation across states**.

For smaller states in particular, national trends can obscure localized downturns, stagnant growth, or even rapid booms. A state may be facing economic contraction or volatility even as the U.S. as a whole is growing. Conversely, some small states may grow faster than the national average but receive little attention due to their limited influence on aggregate figures.

This is one reason why **state-level analysis matters**: it provides the clarity needed for more accurate policymaking, budgeting, and strategic planning.

6. A Simple Framework: Classifying States from XS to XL

U.S. state economies range from \$43 billion (Vermont) to \$3.9 trillion (California). Yet, there is no standard classification for “small” or “large” state economies.

To aid understanding, we propose five size groups:

Category	States Included	Characteristics
Extra-Large	California	>14% of U.S. GDP
Large	Texas, New York	8–10% each
Medium	FL, IL, PA, OH, GA, WA, NJ, NC, MA, VA, MI	2.1–6.0%
Small	TN, CO, MD, AZ, IN, MN, MO, WI, CT, SC, OR, LA, AL	1.1–2.0%
Extra-Small	All others (23 states total)	≤1.0%

These cutoffs are approximate and serve only to help frame the discussion — but even this rough grouping shows the tremendous disparity in economic weight across states.

7. How Do States Compare to Countries?

Measured against global economies:

- **Texas** would rank as the **8th largest economy** in the world — just ahead of Russia.
- **New York** would rank **11th**, between Italy and Canada.
- Even **Vermont** would be ranked **97th** globally.

This comparison highlights the economic significance of U.S. states on the world stage — and underscores the importance of treating them as major economic actors in their own right.

8. Policy Implications of Economic Size

Advantages of Larger Economies:

- Greater **market potential** and investment attraction
- More **employment opportunities**
- Higher **tax revenues** to fund infrastructure and services
- Greater **resilience** and **diversification**
- More capacity for **innovation and R&D**

Advantages of Smaller Economies:

- **Agility** in decision-making and policy reform
- Potential for **niche specialization**
- More **customizable policies**
- Potentially **lower regulatory burdens**
- Sometimes **strategic geographic advantages**
- Can attract **targeted foreign investment**

Size influences what is possible, but not what is inevitable. Success ultimately depends on policy choices, governance, human capital, and long-term strategy.

9. Conclusion

The size of a state's economy is not destiny, but it does shape the tools, options, and pressures available to policymakers. Understanding where a state stands — in comparison to others — is a critical first step toward crafting effective, tailored strategies for growth and inclusion.

In the next article, we will explore **how fast state economies are growing**, and what that tells us about their future potential.

If you would like this article to be updated with 2024 GDP data, please contact sattar@stateseconomics.com