

The economy of Texas and the future of the Sunbelt

by David Goldman, Economics Editor

How well can the Texas boom economy hold up if the rest of the United States moves into a steep recession? To a great extent, the past year has already answered the question: apart from the oil sector, the most important Texas industries, including chemicals, electronics, and homebuilding, as well as agriculture, are all operating below year-earlier levels, and almost certain to fall further during the coming months.

Oil drilling, measured by the number of new rigs in operation, is at an all-time record, of course, and 37 percent higher than a year ago. But although growth will continue, lack of pipe, equipment, skilled labor, and perhaps even financing means that the past year's growth rate cannot be sustained through 1982. The Dallas Federal Reserve economists foresee only a 15 percent growth rate in the coming year, and *EIR's* own econometric model indicates an even lower growth rate.

The basic conclusion is that oil will not be able to sustain the Texas economy through another bad year. Basic industries in the nation's most prosperous state are a mix of industries heavily weighted toward growth sectors. The Federal Reserve's industrial production index for the state has, in fact, been dead flat for the entire past year, reflecting the overall stagnation of the U.S. economy. A few key sectors whose rapid growth reflected the Texas boom are in serious trouble:

Homebuilding: Only 11,000 new single family homes will be built in the Houston area during 1981, less than a quarter of the 48,000 homes produced during 1978. Apartment construction is almost as badly off: 14,000 units will be built this year, against 30,000 in 1978.

Electronics: Softness in demand for semiconductors produced the first layoffs on a wide scale during the history of the rapidly-growing Texas semiconductor industry.

Aerospace: The four major aerospace manufacturers in the Dallas area laid off significant numbers of skilled workers and engineers over the summer, in response to softness in demand for civilian aircraft. Despite the expectation of substantial military orders through the Reagan defense budget increases, the aerospace compa-

nies are not rehiring, and will not until at earliest a year from now—if and when they are certain that a new round of budget cuts will not wipe out the expected influx of orders.

Chemicals: The largest industry in the state in terms of value-added began falling sharply during the first quarter of 1981, from an index level of 150.0 in December to 145.6 in April, and has fallen further since. Both oil refining and synthetic fibers, in which Texas has a large portion of the nation's total output, have fallen back significantly, and are expected to worsen during the next several months of economic downturn.

Is the Texas boom over? Various environment-oriented think tanks are already arguing that this year's drought demonstrates that attempting to build a highly developed agricultural and industrial economy in this part of the country was a bad idea in the first place. The attention of professional academic doomsayers has shifted from the neglected Northern cities eclipsed by the "Sunbelt," to the so-called "Sunbelt crisis."

Nothing has actually happened, however, to invalidate basic Texan optimism. But the state of the nation's and the local economy prove that considerably more skill and foresight will be required to take a successful business through the next ten years than through the last ten years.

Public enemy number one is the Chairman of the Federal Reserve, Paul Volcker. Texas insurance companies and savings and loans are threatened by the double-digit interest rates which Fed officials blithely expect to persist through the 1980s. A high rate of savings and willingness to lend through institutions capable of providing capital to growing industries is a cornerstone of Texas prosperity. That prosperity will not be secure if the state must depend on Canadian money building downtown office buildings, rather than savings and mortgage bankers building homes.

The indirect effects of Federal Reserve interest-rate policy upon the Texas economy are as bad, or worse, than the direct effects. The pride and source of strength for all of the state's high-technology industries has been

the Houston NASA center. Now, under pressure from the Federal Reserve—which has increased the federal government's debt costs by \$30 billion per year—the administration is reluctantly shutting down virtually the whole NASA program. As already noted, the threat of further cuts in the defense budget is a major depressant for the state's aerospace and other defense-related industry.

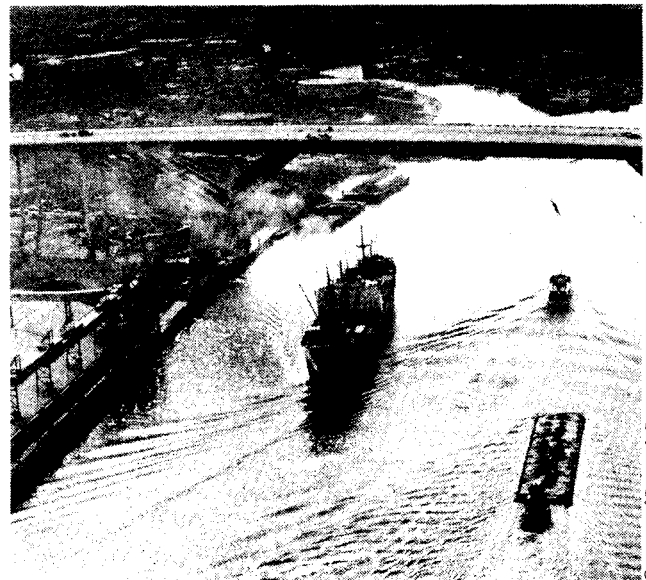
Of almost equal concern is American policy towards Mexico, our nation's fast-growing trading partner and a potential market for \$50 billion in U.S. capital goods alone during the next decade. The last administration did not want—in the words of Zbigniew Brzezinski—"another Japan south of the border" and ruined energy deals that were in the American interest. Now President Reagan has struck a friendship with President José López Portillo, and sincerely wants the right kind of relations between the two countries. But the Cancún Summit meeting last week showed he had a lot to learn: to the extent that the specific economic policies he offered came from a script prepared by Treasury and State Department officers who write off the entire developing sector, the United States will lose its natural advantage in trade with Mexico.

Mexico does, indeed, want to become another Japan: the largest delegation of business leaders that Japan has ever sent to any country will be offering to help Mexico do just that during the same week that Texas Lyceum meets. However impressive the record of Texas oilfield service industries, among others, in exporting to Mexico, the next decade's opportunities will make the previous one's look puny. This has not been lost on other trading nations.

The great irony of the situation is that Texas might, indeed, escape the worst consequences of a failing U.S. economy, by virtue of its proximity to one of the greatest boom areas in the world economy. Not merely the oilfield market, but the demand for capital goods, agricultural technology, and every sort of industrial "know-how" will generate demands for Texas ingenuity from the Mexican side—regardless of whether Ronald Reagan is able to put the Volcker problem under control.

But the opportunity will not present itself in front of your office door. The immense improvement in Mexican-American relations since President Reagan took office is far from grounds for complacency. All indications are that the President himself does not fully understand the Central American problem, and has to deal with a State Department that thinks population control by any means is the only important American objective in the region.

Texas is going to have to fight hard for its chance for prosperity in the 1980s, not merely by stretching its traditional ingenuity, but by playing the kind of role in the nation's politics that guarantees that major opportunities are not missed.



Courtesy of Brown & Root

Texas and the surge in U.S.-Mexico trade

by Timothy Rush

No area of U.S. trade has grown faster than that with Mexico over the past three years. During that time Mexico has moved from fifth place to third place in the list of American trading partners, and is rapidly moving up on second-place Canada. Translated into figures, the picture shows total two-way trade with Mexico at \$14 billion in 1978, \$21 billion in 1979, and \$34 billion in 1980.

No state has benefited more from this explosion in trade than Texas, whose pre-eminence in the production of oil and gas equipment has perfectly matched Mexico's needs. It is estimated that a minimum of 75 percent of the Pemex technology acquired from the U.S. has been Texan; and Mexico is buying the vast bulk of its technology in America. During a four-year span in which Mexico fully trebled its oil and gas production up to the present 2.7 million bpd, it's no wonder that the Texas procurement office in Houston handled more business than all other Pemex procurement offices combined.

Texas benefited from Mexico's poor harvests of 1978-1980, participating in the U.S. grain export bonanza which peaked at 10 million tons in 1980.

Houston's Ship Channel Bridge, gateway to the Gulf of Mexico.