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Dear Client:

The economic gospel according to Tom Meredith includes some near-term hellfire and brimstone with salvation before the end of the year for those who survive. Meredith, while serving as CFO, helped guide Dell Computer from \$2 billion to \$25.3 billion and now invests billions of dollars in high-tech companies. You need to pay attention to what he says.

Meredith preaches that we have moved from **abnormal** economic times to **near normal**. “We’ll eventually return to normal, but we’re not there yet,” he observes. “We’re in a **rather ugly period**,” he adds, noting that since last July nearly \$600 billion in incremental investment money “has been parked. There’s hardly a pulse rate in the community to give money.”

Citing national statistics that show 60% of all small businesses fail in the first six years, he points out “entrepreneurship is damn hard.” He says there are “**carnage reports**” every day and “**layoffs will continue to mount**.” He quotes Eastern Airlines former CEO **Frank Borman**, who said “Capitalism without bankruptcy is like Christianity without Hell!”

But, Meredith believes two events will take place in the first half of the year to bode well for the last half. The first event will occur in several increments. He believes the **Fed will lower interest rates at least two more times** “over the next 60 to 90 to 120 days.”

He predicts the second event will be a **tax cut in Washington**. Meredith points out the national debate is not over *whether* there will be a tax cut, only the *size*. He says it will happen in the 1st half and affect the economic psyche in the 2nd half.

There’s a mixed blessing in all this. Meredith says fortunes are won or lost in transition times and “near normal times are the mother of all transitions.” He points out for those companies who are continuing to operate in this environment, “**it is a lot easier to retain employees**,” because the grass is no longer greener across the street. In fact, he says “dot-com companies with cash can now hire from the company obit pages and not try to raid the legacy companies.”

Meredith’s observations obviously focus on the high tech community. But do we need to point out that Austin is a true high tech community? While high tech is not dominant, it ranks **number one in total employees in the metro area**, ahead by one percentage point of the old stand-by, and somewhat recession-proof, government and education sector.

The entrepreneur who comes up with the Next Big Idea is not necessarily the one who will be the ultimate winner. Speaking to a hall full of high tech entrepreneurs at the 360.01 Summit, Dell Ventures Managing Director **Tom Meredith** told them to “expect to see consolidation and expect to consolidate or be consolidated.”

Meredith pointed out “ultimate winners are not necessarily the first movers.” His two best examples were Microsoft and Cisco Systems, two acknowledged giants of the high tech field. Meredith says **entrepreneurs give way to aggregators.**

What about Austin high tech companies? From which sector are the new winners likely to emerge? Bet on **software**, says Meredith whose substantial personal fortune stems not from software, but computer manufacturing. He points out that, of the 2,000 high tech companies in Austin, 800 of them are in software and employ about 30,000 workers.

He qualifies his forecast by saying the software companies that will be the winners are those whose products are **not protracted in application** in the marketplace.

And, for all successful companies, he says it’s essential to have **clarity of focus**, a **solid theme** and “**smart money**” backing the company. He defines “smart money” as investors who bring “value, in addition to cash” to the company.

Who are all these people who moved to Texas during the 1990s, making our state the 2nd most populous in the nation, moving ahead of New York for the first time? Texas had a record 3.86 million increase in population to reach a total of 20.85 million people. First of all, because we’re a relatively youthful state, a majority of the increase was due to **natural increase – births, minus deaths.** But that still means nearly 45% came from elsewhere. Okay, where?

The majority of those who moved to Texas came from **nine states** – California, Florida, Louisiana, Oklahoma, Illinois, New Mexico, Colorado, Georgia and Arkansas – plus **international** migration. As you expect, California leads the list.

Again, not surprisingly, when you combine the total of our **four neighboring states** — Louisiana, Oklahoma, New Mexico, Arkansas and near-neighbor Colorado — they constitute a much larger migration total than that of California. Also, reflecting national trends, in-migration from foreign countries played an increasing role (a large share coming from Mexico).

Bottom line: when you analyze it, other than the babies who were born here, the great majority of those who made up our increase came from **nearby** – or from similar **Sunbelt** states such as Florida and Georgia. And from states of **similar size and jobs**, such as California. Frankly, none of this surprises demographers who have been tracking population shifts for decades.

The Chancellor of the UTSystem wants Texas Legislature relief from the “unnecessary rules, regulations and statutory constraints.” So, what do the Governor and Lieutenant Governor think about certain aspects of deregulation of higher education?

Chancellor **Dan Burck** wrote in an *Austin American-Statesman* op-ed piece that “out of date rules and regulations are costly, and they deprive institutions of the flexibility to respond to a rapidly changing environment.” He said “it is clear that the current regulatory and statutory regime for higher education needs to be **streamlined and modernized.**”

In conjunction with other higher education institutions, Burck is proposing “**more than 40 changes in state law and regulations** that would enable Texas higher education institutions to operate with more flexibility and responsiveness, greater efficiency, less bureaucracy and less duplication of effort.”

He says these deregulation measures “range from a proposal to authorize general academic universities to use ‘**best value**’ **purchasing procedures** with oversight by the state auditor (as health institutions are already authorized to do) to a **major reduction in the number of duplicate reports** that higher education institutions must send to various state agencies.”

When asked about this, **Lieutenant Governor Bill Ratliff** said he had not read Burck’s proposal but said when university officials talk about deregulation they generally are talking about two things – the ability to get around bidding procedures for services and freedom to set their own tuition rates. Ratliff, in so many words, said he wasn’t inclined to allow universities to do away with seeking the low bidder, but he could understand eliminating some paperwork.

On setting different tuition rates at each institution, Ratliff was pretty precise: “**I think it’s very problematic we’ll deregulate tuition.**” He said the Legislature now sets statewide tuition rates per credit hour. But if that is abandoned he said UTAustin and TexasA&M “would raise tuition to \$10,000 or \$15,000 and the students would still pay it. The rich would get richer and the poor would get poorer.”

However, that was not the view of **Governor Rick Perry** just an hour later (who had not heard Ratliff’s views when he responded to our question). Perry noted the state allows for local control of school districts, so he said he was **open to the idea of local control for universities**. He put a reverse spin on it by asking “why shouldn’t TexasA&M-Commerce be able to charge *lower* tuition if it wanted to?”

As we reported to you previously, Gov. Perry is making higher education the centerpiece of his new administration saying “higher education is my passion.” He has not yet laid out **all the precise details** of his plan nor has he revealed a **proposed budget** to accomplish that plan. But, based on almost back-to-back comments by the Governor and Lt. Governor this week, the two seem to have a different view on tuition. It’ll be interesting to see how that is resolved.

If you're concerned about those shady, unsolicited telephone calls perpetrating the scam of the moment, then you need to keep an eye on HB472 as the Texas Legislature considers the measure. Sponsored by State Rep **Burt Solomons**, the bill would establish a "no-call" list to protect consumers from fraudulent telemarketers, as well as their right to privacy.

If passed, consumers could choose to place their names on a statewide "no-call" list maintained by the Texas Public Utility Commission (PUC). The PUC will have the **enforcement authority needed to penalize telemarketers** who continue to call persons on the "no-call" list.

"At least \$40 billion a year is defrauded through telemarketing from unwary consumers," said Jim Hooser, a member of AARP's State Legislative Committee. "That's just the tip of the iceberg, because on average, **only 1 in 6 victims reports the crime.**" AARP reports that 78% of telemarketing fraud victims are over the age of 55.

Once upon a time, defense installations – military bases – were a big part of the Texas economy. But ten years of downsizing shut down 5 bases and re-organized 2 others. So, what's the net result? Frankly, not as bad as predicted.

Texas was predicted to lose about 45,000 jobs in the process. But, because many cities such as Austin rebounded from the closure (Austin built a new airport on the site of the old Bergstrom Air Force Base), the state will probably **lose only a net 9,000 jobs**, according to economist **Ray Perryman**.

Defense spending in Texas is not as important now. Before the base closings, military spending was about 4.1% of the gross state product, reported Perryman. **It dropped to 2.5%** in 1998.

Dr. Louis Overholster saw this notice at his church: "Our rummage sale is a good opportunity to get rid of anything not worth keeping, but too good to throw away. Bring your husband."

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