

THE

Neal Spelce

AUSTIN LETTER

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Dear Client:

Attack on Iraq. It appears inevitable. So, when will it happen, and what will be the impact on you if it is a short engagement or one that is prolonged?

Each week, you've seen a ramping-up of the rhetoric – on both sides – regarding the implementation of the stated US goal for a “regime change” in Iraq. A showdown is getting closer with each passing day. Practical planning dictates that you **consider the eventuality of a conflict** and its impact on the way you conduct your daily affairs in the Austin area.

If you accept the inevitability of a US action, then the first question is “when”. The best indicator we've seen is one with the most down-to-earth reason attached to it: **The US will trigger the war in the winter months** – probably December, January or February. The reason: It's better for our troops to wear the heavy, “hot” military gear to protect against chemical/germ warfare in cooler weather.

Most observers feel it will be a **short conflict – on the order of just a few months**. They point to the weakened state of Iraq's military, dissension within the military ranks and the general populace, and the quick-strike capability of the massive US military, as just a few reasons the conflict would be brief.

If it's a *short* war, and a new regime that is friendly to US interests and the west in general is installed, then some economists predict the **US might actually enjoy a post-war boom**. They reason that new regime would bring about lower oil prices and increase US consumer and investor confidence.

On the other hand, a *prolonged* war – spilling over into summertime – could possibly **tip the US into a widespread recession**. Consumers, businesses, investors and the stock market would remain on edge. Prices at the gasoline pump would rise precipitously. All this would delay economic recovery. And, it gets even worse if hostilities spread elsewhere in the Middle East.

The Austin area is no longer insulated from national and international events. We're long past the time when we were a sleepy college town, with state employees the dominant workforce element. **Our economy is very globally dependent nowadays**. You need to watch, and listen carefully, to what's going on. It could have a big impact on your daily affairs.

While we normally focus on local events, we thought you might be interested in continuing the subject a bit more, to ponder what the Attack on Iraq might look like.

For this, we've turned to our friends, *The Kiplinger Washington Editors*, who for almost 80 years have tapped the pulse of our nation's capitol better than most. (They, by the way, were the inspiration – and mentors – for us when we started this newsletter almost a quarter of a century ago.) They are reporting this bit of inside information:

First of all, as you might expect, there would be **heavy US bombardment** of Iraqi air defense installations, fuel depots, **Saddam Hussein's** palaces and other key targets. Then **ground troops** would start pouring into the country. US forces will lead the way. This will not be another Afghanistan where rebel units were in the forefront of the military action.

Iraqi cities to the north and south of Baghdad would be invaded first and would fall quickly because they are not that well protected. Then there would be a **quick siege of Baghdad** – cutting it off from supplies. **Civilian casualties would likely be high** because of battles in urban areas. The loss of life would be cut somewhat if **Iraqi troops flee in big numbers**, hastening the demise of Saddam and bringing the conflict to a quick conclusion.

But, US troops would probably stay in the area for years as a new regime is installed. Who would be the next Iraqi leader? Well a banker and MIT grad heads up the leading exile coalition. **Ahmed Chalabi** is one of several possibilities. Stay tuned.

Back to local issues, the bleeding continues for the airlines, and consequently for the Austin economy. Passenger traffic at Austin's airport has still shown no sign of a turnaround.

We've been watching this closely for you for two reasons. First of all, quality air transportation is vital to our economic success. **If Austin maintains a solid level of passenger demand, then airlines will continue to provide frequent flights** – even though the airlines themselves are hurting. After all, they want to strap as many butts in their seats as possible these days. Secondly, the number of flyers is indicative of the health of our local economy.

August was a bummer of a month for air travel. **Passenger traffic fell by almost 13% from July's totals.** August travel usually drops from July. However, since our 2002 totals have not only been running behind 2001 levels, but also 2000 levels, there was hope that maybe – just, maybe – there would be an upturn to get us back to 2000 levels. It didn't happen.

Obviously, this month's totals, when released in about three weeks, will be better than September 2001 because of the 9/11/01 attack on America. But, that will be a "false positive." We'll continue tracking 2002 vis-à-vis 2000 to get a hint of an upturn.

UTAustin officials are struggling to handle an all-time high number of students this fall – making the largest single-campus institution in the nation even larger. It’s a problem for UTAustin, but frankly there are those in Austin who are pleased with the prospect.

Retailers love it when the students come rolling into town and start **spending momma and daddy’s money**. This is the best kind of money for our economy. It’s earned elsewhere and brought here to circulate among many businesses. Oh sure, you may complain about some of the rowdies and the traffic problems caused by the kids who drive too fast, etc. But, on balance, there is a **big economic upside to their presence**. And, don’t forget the apartment owners and operators. UTAustin doesn’t have anywhere near enough dorms to house the students. By the way, the total number of students this fall increased 3.3% to 52,273.

Mold is gold — as far as Texas political campaigns go. That’s bad news for those who write homeowner’s insurance policies in the state.

Virtually every statewide candidate (Republican or Democrat), with any real (or imagined) role in what insurance companies do in Texas, is calling for re-regulation of insurance companies. This is a major political shift and it will carry over into the next legislative session. The reason: **discontent with rates for homeowner’s policies is real**. And, politicians, bless their hearts, are good at one thing: finding an issue where the public is marching up in arms, then running around to the front of that parade and yelling “Follow me, I’ll lead you out of this mess.”

And, the public does feel it’s a mess. Insurance **rates have doubled** in many cases. Homeowners have been faced with **cancellation of policies**. Homebuyers, trying to get new policies find if there has been a claim for water damage – or the home is past a certain age – some companies **refuse to write a policy**. And, without insurance, good luck trying to get approval to buy a home.

The insurance industry is **blaming exponential increases in toxic mold claims for the premium increases**. Water damage is the culprit in most cases. Insurance company reps say they are not at fault, that unregulated mold remediators are to blame for driving up the costs.

Mold isn’t the only problem slapping the insurance companies upside the head. This business of **using a customer’s credit history to set rates** (“credit scoring” are the buzz words here) is also coming under fire, even though the industry says this practice lowers rates for some customers. To get an idea of the depth of the political problems facing the insurance industry, all you have to do is look at what occurred this week when Farmers Insurance said it’s pulling out of the Texas homeowners market. Within hours, Governor **Rick Perry** and his challenger **Tony Sanchez** were pointing fingers, blaming each other and cussing the insurance folks. This is a campaign issue that will not go away after the election.

Political campaign ads are not the only messages that may be bombarding you with disturbing images these days. Even though backers failed to show grotesque images to the 80,000+ fans at the last UTAustin football game, they have other plans. And, they aren't pretty.

Anti-abortion activists in Los Angeles had planned to have an **airplane tow a 30-by-100 banner, emblazoned with bloody images of an aborted fetus**, above Royal-Memorial Stadium Saturday night. But, tough new security provisions imposed by the Federal Aviation Administration prohibited flying below 3,000 feet within three miles of a sports stadium.

That's not deterring The Center For Bio-Ethical Reform from trying other tactics. **Gregg Cunningham**, the Center's director, said the "aborted" flyover won't be the last effort to expose Austin, and UTAustin in particular, to what he calls the horrors of abortion. He has a fleet of tractor-trailers, with **pictures of aborted fetuses on the side**, ready to dispatch.

"We can descend on Austin with a **fleet of large-body trucks and create near pandemonium and do it totally lawfully**," Cunningham told a reporter. Why here? Cunningham says his group targets communities and campuses that have been particularly hostile to the anti-abortion movement.

Cunningham says that when people look up and see "the shocking, revolting images" of bloody 11-week old fetuses with tiny hands and legs, "**they will get very angry at us.**" "But," he adds, "those who have a highly-functioning conscience will never be the same. It can't help but erode your willingness to support rights of access to abortion." The Center's activities, such as this billboard campaign, have been called "**disgusting, insensitive, abominable, distasteful.**" This hasn't deterred it from continuing. There's no word when the trucks will descend on Austin.

Dr. Louis Overholster likes to tell of the shipwreck victim who had been alone on a deserted island for years. A rowboat approached the stranded man from a distant boat. The ship's officer handed a stack of newspapers to the man, saying "With the Captain's compliments. He asks that you read through these and let us know tomorrow if you still want to be rescued!"

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Sincerely



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