

Volume 27, Number 7

May 13, 2005

Dear Client:

Despite the distance of thousands of miles, you can get on a roadway here in Austin and drive to Canada without leaving that same roadway. This is only one example of an oft overlooked, important and growing linkage between Texas and Canada.

It's always been easy to hop into the ole jalopy for a quick run south to the Mexican border, so this is the normal international linkage, physically and mentally, for most of us. Canada, that faraway open border, has always seemed so, well, uh – far away. **Ironically with the price of oil at a peak, the days of Texas as an independent economy — more driven by the price of oil and than anything else — are over.** This means our economy is now increasingly more in sync with national business cycles.

And we are more affected by conditions in Canada to a greater degree than ever before. Why Canada? Thank the North American Free Trade Agreement (NAFTA) which, by the way, recently passed its ten-year anniversary. **Since the NAFTA trade provisions took effect in the mid-1990s, Texas trade exports to Canada have doubled** (as they did with Mexico, the other NAFTA member and the #1 Texas trading partner).

Even though Mexico is obviously the major trading partner for Texas (see our 4/22/05 edition), Canada is #2. “In 2004, the total value of goods shipped to that nation was \$12.4 billion,” reports Texas economist **Ray Perryman**. The key product categories were computers (surprise, surprise), unshaped plastics and organic chemicals.

You may recall President **George W. Bush** recently hosted both Mexican president **Vicente Fox** and Canadian Prime Minister **Paul Martin** at his ranch near the Central Texas town of Crawford, where they discussed economic issues the three nations had in common. Although there are disagreements on some topics, the relationships between countries remain strong.

“It is virtually impossible to overstate the crucial nature of these ties to our northern and southern neighbors,” Perryman said. “And it is heartening to see these three men meeting face-to-face and pledging a new ‘**security and prosperity partnership**’.” What it really underscores is that, even though Canada is a long way from here (out of sight, out of mind?), Austin and Texas should be considering the nation on the same economic terms as Mexico.

You want to know how the Texas Legislature should solve the school finance problem. *The Wall Street Journal* weighed in this week with its lead editorial telling state leaders what to do.

Listen to some of what the *WSJ* had to say in its 5/10/05 editorial. “For almost a decade now Texas has been grappling with court orders to provide ‘equitable’ financing for the state’s school system. The Republican-controlled legislature has now interpreted this to mean that the **entire tax system in Texas has to be scrapped** to raise more money.”

“This makes us as skittish as a cat near a bathtub,” the conservative newspaper continued in its editorial, “because **Texas status as one of only nine states without an income tax is in serious peril.**” The *Journal* reported the House, Senate and Lt. Gov. **David Dewhurst** endorsed what is called a wage tax. “A wage tax is of course a fancy disguise for a personal income tax,” claimed the *WSJ*, “and imposing one is a sure way to put a state on a path to slower growth.”

The *Journal* said that since 1990, “**the nine states without income taxes have enjoyed twice the rate of job growth and 2.5 times the population growth of the highest income tax states.** Capital, jobs and economic development in America are migrating from high-tax states to low, and from blue states to red.” Then, this zinger: “**Why would fast-growing Texas want to imitate New York and Massachusetts?**”

“At one time or another this year GOP legislators have proposed the wage tax, a one percentage point hike in the **sales tax that would give Texas the highest sales tax in the nation at 9.75%**, a business value-added tax, a 4% business profits tax, a tax on cars, and an assortment of sin taxes on cigarettes, liquor and even snack foods,” the editorial continued.

“There is a better way out of this fiscal mess,” wrote the *WSJ*. The editorial backed the plan outlined by **Brooke Rollins**, director of the Texas Public Policy Foundation, that would: “cut residential and commercial school property taxes by 20%; eliminate the hated business franchise tax, which hammers high capital investment companies; **avoid any payroll/income tax scheme;** and make up for lost revenues by broadening the sales tax to many consumer services while raising the sales tax rate by 0.5%. Hold state spending growth to merely the rate of inflation, and the current 8.75% sales tax wouldn’t have to be raised at all.”

And what does the *Journal* suggest if this plan is not passed: “**Better get your veto pen handy, Governor.**”

Now, it’s not likely the fiercely-independent, Republican-dominated Texas Legislature is going to follow the lead of *The Wall Street Journal* in lockstep, even though the influential national newspaper is the darling of the GOP (compared to *The New York Times* and *The Washington Post*). But it is interesting the *Journal* has started messin’ with Texas politics.

So what happened in the vote 5/6/05 to expand the smoking ban in Austin to include more bars and restaurants? A post-election analysis confirms some old election truths.

As we told you 4/29/05, “young bar patrons have not been a high-voting category in the past.” And they held true to form. The ones who would “benefit” most by being allowed to smoke while tossing down a few brewskis, listening to music or following dinner just weren’t motivated to turn out in enough numbers to **offset the anti-smokers in Austin who object to inhaling the tobacco smoke of others**, in spite of a massive campaign spending effort by a group of bar owners. This is a bit of an over-simplification, but not much.

The election was a classic “us-versus-them” contest. Oh sure, there were all sorts of high-falutin’ arguments made – freedom of choice on one side, public health issues on the other. But, really, when you get right down to it, **most everyone has a personal opinion about smoking and generally they disregard lofty arguments and just vote how they feel personally** – pro or con.

As a result, post-election analysis about the precinct turn-out, how the liberals and conservatives shook out, whether rich folks voted different from poor folks, etc., is really just so much mental gymnastics. Nothing deep or mysterious here: **Most voters simply voted their personal smoking or nonsmoking preferences.**

But this anti-tobacco tally may also be part of a new trend. You may start seeing more ads for *smokeless* tobacco. In fact, we spotted one the other day picking up on the national antipathy toward second-hand smoke. The headline: **“Enjoy Tobacco on a 4-hour Flight? Absolutely.”** And the magazine ad, that apparently was supported by the US Smokeless Tobacco Co., touted Skoal and Copenhagen smokeless tobaccos.

It appears the nicotine-laced “snuff” (as it used to be called) is poised to tackle the concerns about second-hand smoke. The product has been around forever (remember pro football stars **Earl Campbell** and **Walt Garrison** on TV urging you to place “a ‘peench’ between your cheek and gum?”), but savvy marketers may be ready to spend big bucks to switch smokers to a different kind of nicotine high that would not bring down the wrath of nearby non-smokers.

The appeal to smokers is obvious. The ad says: “Enjoy tobacco the smoke-free way.” “... make it easy to enjoy tobacco on your own terms.” “Try a satisfying pinch of long cut, or easy-to-use pouches.” **“So maybe it’s time to find your solution – and leave the smoke behind.”** Striking while the second-hand smoke iron is hot and appealing to smokers who feel they are put into the position of second-class citizens could be a pitch that works.

However, there is one aspect that can’t be glossed over — the warning. Have you checked the warning label on smokeless tobacco? It is short, to the point: **“Warning: This Product May Cause Gum Disease and Tooth Loss.”** Advertising may not overcome such strong words.

An Austin high-tech company has been labeled by a national magazine as one of 25 “upstarts changing the game.” The list of “breakout companies” is unscientific, but interesting.

Each spring, for the past dozen years, *FORTUNE* magazine conducts what it calls “a rigorously unscientific survey – **picking the brains of gurus and geeks to cull truly innovative** companies from a frothy sea of poseurs.” They compile a worldwide list of “25 Breakout Companies” and an Austin firm made this year’s list in its 5/16/05 edition.

These are not just high tech companies on the list, though it is tech heavy. The categories range from mobile technology to materials and metals to retail, security and energy. The Austin company that made the list falls under the category of “gadgetry.”

It is **SigmaTel**. Here’s what the mag says about SigmaTel: “Crack open an iPod Shuffle or other MP3 player and chances are you’ll find a SigmaTel integrated audio chip. **Most of the world’s music players – we’re talking tens of millions of them – rely on the Austin company’s single-chip solution** to import music, decode digital audio formats, manage battery power, control the display, and communicate with either a flash memory chip or a tiny hard-disk Drive.”

The review goes on: “By combining all those functions on piece of silicon, SigmaTel enables MP3 devices to get really small, like Oakley’s Thump music-playing sunglasses. **SigmaTel relies on homegrown software to set itself apart** from larger competitors like Samsung and Motorola, which use SigmaTel chips in their MP3 players. Sounds good to us.”

Advertising can’t buy this sort of third-party endorsement. So SigmaTel is sitting in some pretty high cotton these days.

Dr. Louis Overholster said when it comes to money he is an inveterate risk-taker. Every week, he puts some money into the lottery, the racetrack and Social Security!

NEAL SPELCE AUSTIN LETTER (ISSN 1071-0612) is published weekly, except last two weeks of the year, for \$150 (plus tax) per year or \$249 (plus tax) for two years. To subscribe, call 512-498-9495. Periodical Postage Paid at Austin, TX 78767 by Austin Letter, Inc., 4105 Bee Creek Rd, Spicewood, TX 78669. POSTMASTER: Send address changes to: Neal Spelce Austin Letter, P.O. Box 1905, Austin, TX 78767-1905.

Sincerely



Editor/Publisher