

THE

*Real Speake*

# AUSTIN LETTER

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Dear Client:

**Amid glowing national reports that Texas will be the nation's economic leader, there is a scary scenario painted for Austin as a result of Texas' looming \$20-billion-dollar-more-or-less state budget shortfall. (Some are even whispering the two-year shortfall could reach \$28 billion!)**

Joel Kotkin, executive editor of [www.newgeography.com](http://www.newgeography.com), wrote this week that "historians may likely mark the 2010 midterm elections as the **end of the California era and the beginning of the Texas one.**" He made this positive statement even while acknowledging Texas' "growing budget deficit." More on his comments in just a few minutes.

However, a man who built a very successful Austin business from scratch over the past three decades and one who is passionate about city and state issues, *Texas Monthly* founder, **Mike Levy**, uttered this warning: "Most local elected officials here have not accepted the fiscal reality that is about to bite – and bite very, very hard – and **that quite possibly will put the Austin area into a deep recession.**"

Whoa! How can that be? Levy is scared to death that when the Texas Legislature convenes in Austin in less than two months, it will solve the budget shortfall and balance the budget with "**significant layoffs of state employees, and a disproportionate percentage of these employees live in and around Austin.**"

He goes on to say "we can also expect many more people in Austin than just state employees will lose their jobs. The State's employee layoffs will have a **humongous 'trickledown' effect on local firms that have done business with the state and will be forced to lay off employees.**" He says it won't stop there because "entities such as **retailers that will see their customer base erode ... will also need to reduce the number of their employees.**"

Levy quotes respected political writer **Paul Burka**, who predicted "**layoffs of teachers**" as also saying: "Government has been the one sector of the economy that has been growing, so the loss of jobs is a double whammy, in that **it eliminates both current jobs and future jobs.** Burka is predicting that, as with the private sector, most eliminated state positions will never be restored.

Check out the next item to see what Levy thinks will happen to the City of Austin's plans for spending your tax dollars.

**If unemployment rises in the Austin metro as a result of state employee layoffs, it could get “ugly” for all area governmental entities, according to one civic participant.**

**Mike Levy** predicts that actions by the Texas Legislature to balance the state’s budget for the next two years will result in **“significant layoffs of state employees.”** And he claims this means “unemployment here will be high.”

And the **domino effect of such a rise in unemployment has major implications.** As a result of those layoffs, Levy suggests that **“government revenue from the sales and property taxes, etc., will be much lower.** The need for social services will increase exponentially, and the ability of the taxing districts to support the vital non-profit social service agencies will not be there.

**“Ditto the ability to fund basic core services.** Ditto non-essential amenities such as reducing tax revenue because of tax breaks for the millionaire owners of bogus ‘landmark properties’ and of building in ‘historic districts’, or a trolley car system (Buses can fulfill the same function without massive capital costs.)”

“The real world for all governmental entities in the Austin area, most especially the City of Austin, and the people they are meant to serve in our community will be ugly. Very, very ugly,” Levy predicts. **“Our elected officials will at last have to understand the definitional differential between ‘need’ and ‘want’ and to begin to ignore small special interest advocacy groups.** The new lyrics will be ‘The Party No Longer Will Go On Forever, and ‘The Party Must End’.”

“Thus,” Levy adds, **“it’s certainly unlikely in this new economic environment voters will be inclined to vote ‘yes’ in a bond election for a proposed \$1.5 billion trolley car system.”** Then he goes on a detailed list of all the reasons why this proposed bond issue should be defeated. BINGO! Now we know the major point that has Levy’s blood boiling – his strong opposition to a proposed 2012 trolley system bond election that will raise taxes. Remember, Levy fought unsuccessfully *against* the 11/2/10 no-tax-increase “mobility” bond election.

Set aside his motives for a moment. Levy has raised an important issue. **What will Texas legislators do to cut enough state spending to match the anticipated revenue for the next two years?** Well, they could always raise taxes? Not likely. Especially when you consider the Republicans are one vote away from a two-thirds majority in the Texas House, where all tax measures must originate. And a tax hike is anathema to most GOP legislators. So, Levy concludes, state employee layoffs are likely.

**Levy’s dire prediction flies in the face of what appears to be a national consensus that Texas is a leader** when it comes to economic vitality. We started this edition with a prediction that the US is beginning a “Texas era” of economic leadership. Details in the next item.

**“California Suggests Suicide; Texas Asks: Can I Lend You a Knife?” This was the headline in a *Forbes* magazine article this week. Now what?**

“In the future, historians may likely mark the 2010 midterm elections as the **end of the California era and the beginning of the Texas one**,” wrote **Joel Kotkin**. “In one stunning stroke, amid a national conservative tide, California voters essentially ratified a Democratic political and regulatory regime that has left much of the state unemployed and many others looking for the exits. Instead of a role model, **California has become a cautionary tale of mismanagement** of what by all rights should be the country’s most prosperous big state.”

This harsh assessment comes from a Californian, of all things. Kotkin is a Distinguished Presidential Fellow at Chapman University in Orange, CA. He also serves as executive editor of [www.newgeography.com](http://www.newgeography.com). Kotkin said the election of state officials and legislators “**virtually assures a further tightening of a regulatory regime that will slow economic recovery in every industry from manufacturing and agriculture to home-building.**”

“Texas’ trajectory, however, looks quite the opposite,” he wrote. “**California was recently ranked by *Chief Executive* magazine as having the worst business climate in the nation, while Texas’ was considered the best.** Both Democrats and Republicans in the Lone Star State generally embrace the gospel of economic growth and limited public sector experience,” Kotkin continued.

By the way, Kotkin is not singing the praises of the governor: “the defeated Democratic candidate for governor, the brainy former Houston Mayor **Bill White**, enjoyed robust business support and was **widely considered more competent than the easily re-elected incumbent Rick Perry**, who sometimes sounds like a neo-Confederate crank than a serious leader.”

After ticking off numerous examples of Texas outshining California, Kotkin says that “even more revealing is **California’s diminishing preeminence in high-tech and science-based jobs.**” He pointed out California’s jobs in this sector, over the past decade, “grew a mere 2% — less than half the national rate.” In contrast Texas’ tech-related jobs surged 14%, and Texas added 80,000 jobs in this category since 2002, while California netted a mere 17,000.

**“California’s decline is particularly tragic,” Kotkin says, “as it is unnecessary and largely unforced.** The state still possesses the basic assets – energy, fertile land, remarkable entrepreneurial talent – to restore its luster. But given its current political trajectory, you can count on Texans, and others, to keep picking up both the state’s jobs and skilled workers. **If California wishes to commit economic suicide, Texas and other competitors will gladly lend them a knife.**”

The Texas hype continues. But it will pay to keep an eye on the Texas Legislature in 2011.

**The geek world was all a-twitter this week over the news that the music of the Beatles is now available on iTunes. But there was a more significant development. A less-noticed tech news report moved you one-step closer to using your cellphone as a wallet.**

Three of the largest wireless companies – AT&T Mobility, T-Mobile USA and Verizon Wireless – on Tuesday announced a joint venture called Isis. It aims to build a **national mobile payment network** that will initially enable use of mobile phones for point-of-sale purchases and will later include functionality for reward cards, coupons, tickets and transit passes.

The implications of such a network are big for potentially billions of people in their day-to-day lives, as well as for businesses looking to cultivate customer relationships. **Carrying cash could become relatively unnecessary.** Coupons will be exchanged digitally. Lose a phone? Account information will be very hard to retrieve, and can be blocked with a single phone call.

**Michael Abbott**, Isis CEO, told the *San Francisco Business Times* “This is a radical new approach. It’s like going from vinyl records to MP3 players. This is not about putting cards on the phone. **This is about creating a new commerce network.**” Abbott was previously chief marketing officer at GE Capital in retail consumer finance, among other financial industry jobs.

So, when will this be available? Abbott was not willing to give details about timing of the Isis to become operational. But he did say the **system will be standardized and open to all merchants, banks and mobile carriers.** “It won’t be long,” he added. “We are going to make a lot of announcements over the next several quarters.” Abbott also said AT&T, Verizon and T-Mobile have 200 million customers between them in the US, which brings the **scale needed to drive investment to put the infrastructure for the mobile wallet in place.**

Speaking of technology, **Dr. Louis Overholster** says part of a best friend’s job should be to immediately clear your computer history if you die.

Sincerely



Editor/Publisher