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Dear Client:

The general who led US troops in battle in Iraq from 2003 to 2004 may be getting ready to lead the assault on Texas Republican Party office holders in 2012.

Retired Army Lt. Gen **Ricardo Sanchez** is considering announcing he will run as a Democrat for the US Senate seat that is being vacated by Republican **Kay Bailey Hutchison**. Sanchez was **commander of coalition forces in Iraq when the Abu Ghraib prison torture scandal erupted**. He maintained he never authorized the torture, but gave up his command in June 2004, retiring from the Army in 2006.

Sanchez now lives in San Antonio. He grew up poor in South Texas before rising to the rank of general. Recently, he has written a book and has been speaking out on national issues. So far, he is the **most prominent Democratic name to be linked to the race for USSenate**. And, the USSenate race gets top state office billing on the Texas ballot.

Democrats are optimistic about Sanchez's chances, even though their party has been clobbered year after year in all statewide election contests in Texas. They point to a **surging Hispanic population in Texas** and what they hope will be a **divisive GOP primary** due to a long list of Republican candidates seeking their party's nomination.

Those Republicans mentioned as possible contenders for the GOP nomination include Lt. Gov. **David Dewhurst**, Dallas Mayor **Tom Leppert**, former Texas Secretary of State **Roger Williams**, former Railroad Commissioner **Michael Williams**, current Railroad Commissioner **Elizabeth Ames Jones** and former Texas Solicitor General **Ted Cruz**.

Assuming Sanchez skates through the Democratic Party primary with only minor intraparty opposition, it will be interesting to see how the national Democratic Party views his race against the eventual GOP nominee. **Remember the battle for control of the Senate will be almost as hard-fought as the presidential contest.** If various national Democratic organizations start pouring money into the race, it could **signal they feel Sanchez has a shot at winning which could help down-ballot Texas Democrats**. But, right now, **the odds are that no matter the nominee, Texas is likely to continue under Republican control for the 2012 election cycle.**

With the disclosure just a few days ago that at least 116 bodies were discovered in mass graves in Mexico just 100 miles away from the Texas border, it's time to carefully analyze the targets of violence and the most dangerous hotspots in neighboring Mexico.

Our source for this up-to-the-minute information is **Scott Stewart**, the Vice President of Tactical Intelligence for the **Austin-based global intelligence company, Stratfor**. Stratfor provides worldwide security analysis for private companies.

The perpetrators of gruesome violence in Mexico are the drug cartels. Stewart reminds us that “one thing to remember is that these cartels are not terrorist groups. **They are really businesses, and they're organized crime organizations. So their end is making money.**” He says they don't shy away from violence. “We see them regularly beheading and dismembering people.”

“However,” said Stewart, “they tend to try to **target most of their violence against opponents in the fellow cartels** or against government employees, and a lot of times the government employees that they target are actually working for opposition cartels. **We have not seen the Mexican cartels really get into widespread attacks against the public at large.**”

Of course, Texans and other US citizens have been killed by the drug cartels. So, **where are the really dangerous hotspots in Mexico?** Generally, for Texans traveling to Mexico, it is **where cartels are battling each other for control** of areas as distribution points for drugs carried into the US. And, currently, one of the most popular vacation spots fits that category.

It's Acapulco. “**At the present time, we have a three-way struggle for control of that city,**” said Stewart. “These three organizations (are) fighting each other for control of Acapulco.” He referred to Acapulco as “*in the past* ... a very popular tourist resort.”

What about doing business in Mexico? “**We see a lot of violence right now in places like Monterrey.** And one of the reasons that Monterrey is so concerning is because it is really the industrial heart of Mexico. You have not only large Mexican corporations that are headquartered there, but also US companies have gone down into Monterrey in order to manufacture.”

“The things that make Monterrey attractive to businesses ... also makes it an ideal place to control as a drug organization,” Stewart said. “**If you can control Monterrey, you can control the flow of goods and a lot of contraband to the border.**” As a result, he anticipates “a lot of continued violence” there.

And if that is not enough, **more than 230 American cities – including Austin – have now been affected by the presence of Mexican drug cartels.**

As you look to the future, one Texas economist forecasts that average wages in the Houston and Dallas metros will begin to diminish marginally as those metros grow. But the growth of the Austin metro is expected to generate higher income growth rates. Why is this?

One of the most important transformations in the US since WWII is the regional concentration of economic activity. **Texas currently has 25 metro areas, but the state's top four metro areas produced about 77% of the state's gross domestic product (GDP).** Of that grouping, the two biggest metros, Houston and Dallas, accounted for 64% of the state's GDP. These are striking examples of "regional concentration of economic activity."

Concentration of people and housing units in a region results from the concentration of economic activities in the area. And there is a phrase economists like to use to describe this situation – agglomeration. This word refers to the **benefits that firms obtain when locating in densely populated areas** or in highly concentrated markets.

When similar firms locate near each other, the proximity encourages informational and technological spillovers. **This generates higher productivity for all firms in the market because of the economics of scale and network effects.** Okay? So far, so good. But when is too much, too much?

Economists at TexasA&M have come to some conclusions about this effect. Research economist **Ali Anari** says agglomeration benefits cannot continually increase. "At some point, they become subject to the law of diminishing marginal returns. **Competition among firms in concentrated industries drives down profit rates and profit margins.** And densely populated areas have to deal with the problems of congestion and crowding," Anari noted.

The study Anari cites also examined the **relationships between average wage per job and population density.** Compared with the average wage per job for Texas, Anari reported that "five counties – **Harris, Dallas, Travis, Collin and Fort Bend** – **have above average wage rates.**" In general, higher wage rates are associated with higher population density, but Anari noted "the relationship is **subject to the law of diminishing marginal rates of returns.**"

Here's Anari's kicker: "Having obtained most of the benefits of agglomeration, the **Houston and Dallas areas are now expected to experience diminishing marginal returns.**" However, **Travis and Williamson "are expecting higher income growth rates associated with higher population density."**

The Houston, Dallas and Austin metros continue to grow at a comparatively rapid rate. This urban research program conducted at Texas A&M concluded benefits of growth are *diminishing for the Dallas and Houston metros*, but "**the Austin area is expected to benefit more from increasing population density.**"

A San Antonio City Councilman is getting serious about trying to move Austin's South by Southwest (SXSW) events to the Alamo City. And some not-so-nice things are being uttered about Austin in the process.

We first reported the murmurings from San Antonio about trying to lure SXSW to San Antonio two weeks ago (click on the Archives button at the top of the page and go to the 4.15.11 edition). And now San Antonio City Councilman **John Clamp** says **"we should reach out enthusiastically and extend an invitation for the SXSW organizers to visit San Antonio,"** and he volunteered to initiate those discussions. Citing some publicly discussed problems following the March 2011 events, the *San Antonio Business Journal* carried these items:

"Austin is worried it may not have enough rooms at the inn for the throng that converges on the Capital City each year. San Antonio has plenty of hotel rooms."

Quoting Austin's KXAN-TV, the *Journal* said "On March 10, only days before the kick-off of this year's SXSW festivities ... **violent crime in the center city had escalated significantly.** Aggravated assaults had increased 28% in February and aggravated robberies were up 300%. **That's not the kind of message Austin wants to send to people interested in participating or attending SXSW.**"

"San Antonio, which recently hosted another 10-day Fiesta, knows how to throw a party and accommodate a massive number of people," noted the *Journal* before quoting Clamp as saying "I believe San Antonio is well-positioned and poised to host a music and film event."

All this is apparently for naught. An SXSW exec said this week: **"Austin has been SXSW's home for 25 years, and we have commitments here well into the future."** Period. Paragraph. End of argument. Forget it, San Antonio.

Speaking of musical events, **Dr. Louis Overholster** did a double-take when on 4/24/11 he spotted this headline at Knoxville.com: "Lady Gaga Fan Recovering After Dying at Nashville Concert!"

Sincerely



Editor/Publisher