

# The Future of the Texas Economy

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—Kathryn Whitmire

How to educate and provide jobs for Texas’ rapidly expanding working-age population was a central concern for five Texas leaders who participated in a panel discussion at the second annual Conference on the Southwest Economy, sponsored by the Federal Reserve Bank of Dallas Nov. 15–16.

Panelists were Dallas Fed Economist William Gruben, 1990 gubernatorial contender Tom Luce, Texas Attorney General Dan Morales, University of Texas at El Paso President Diana Natalicio and Houston Mayor Kathryn Whitmire. Michael Levy, publisher of *Texas Monthly*, moderated the two-hour discussion.

The title of the two-day conference was “Defining the Decade,” and when Texans define themselves in the coming years, they must come to grasp with changing demographics that will increase pressure on already strained state finances and a much-criticized educational system. These changing demographics include a working-age population that will grow more rapidly in Texas than in the nation and a birth rate that will be higher than the national average, Gruben said.

The challenge of providing an education and job opportunities for every Texan is far reaching. In expressing ideas for meeting the challenge, panelists touched on many issues—investing in education today to become more competitive in the future, involving business in education, coping with demographic change, overcoming drug abuse and crime, restructuring the state’s tax system, balancing the need for economic development and concerns about the environment, and reshaping state government. What follows are highlights of the panel’s comments.

## “Pay Me Now or Pay Me Later”

Investing in education is an investment in the future. Panelists echoed this idea again and again. “Education really is the answer to

what we are facing in the future,” Whitmire said. “The 1990s are upon us...We have to invest in the next century. We must begin to think now, immediately, about investing in the young people who are in our schools today.”

Luce said, “The facts are that in our prison system today, nine out of 10 inmates are high school dropouts. We are not going to do anything about the drug problem and crime problem in our state until we accept that fact. That requires investment.”

Morales said, “I participated not too long ago in an endeavor called the Texas Criminal Justice Summit. The governor and others wanted to round up 25 or 30 corrections and criminal justice professionals to talk about this crisis, this criminal justice crisis, this drug crisis we have in our state.

“One of the things we were doing at one of those workshops was attempting to make 10-year prison population projections. We were trying to determine how many prison cells were going to be required in the next century, the year 2000. I left that particular workshop struck by the notion that when we do that, what we are doing in a very real sense is looking the 3-, 4- and 5-year-olds of today squarely in the eye and telling them essentially, ‘I’m sorry. We don’t have enough money to take care of you today by way of adequate or responsible levels of investment in your education, or child abuse or substance abuse treatment or prevention, or counseling services for you or your parents or guardians. We don’t have enough money to take care of you today, but we are reserving you a room in 10 years. And for that room we are willing to shell out \$70,000 to construct it and an additional \$15,000 to \$20,000 every single year in operational and administrative costs to keep you there.’”

Morales stressed the importance of an educated population in





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developing the economic opportunities that could provide future jobs for today's students. He said that when businesses decide where to engage in startup ventures, relocations or expansions, the factor at the top of their priority list is the availability of a technologically literate labor force.

Whitmire found other reasons to focus on education. "Every big city, every urban community in this nation is worried today about the wave of violence—the tendency of people in America to solve their problems through violence rather than through communication—and about the wave of illegal drugs and the fact that this nation is the single largest drug-consuming nation in the world....Isn't [education] the course to opportunity for every one of the people in this nation and, therefore, shouldn't we make the best possible education available to all the children of this state?" she asked.

Natalicio said, "I would only agree with [Dallas Fed Senior Vice President] Harvey Rosenblum's comment [earlier in the conference], 'Pay me now, or pay me later.'"

"From an educator's point of view, people are our most important resource, and I hope that in the years ahead all of us will begin to understand just how important a statement like that is," Natalicio said.

"Will we make the right investments?" Luce asked. The Texas economy, he said, is changing "from a natural-resource-based economy to a people-based economy. That means we must tackle [this challenge] and make the education system work."

### **Becoming More Competitive Through Better Education**

Panelists acknowledged that the Texas Legislature is overhauling its school finance system to develop court-mandated reform but said that the state should go much further to make education a competitive advantage for Texas in the 1990s.

The state's current educational

system rewards failure rather than results, said Luce, citing as an example a program that gives schools more money to put students in bilingual education and keep them there than to graduate them from bilingual education.

Quoting a 1984 audit of Texas school districts that found that 55 cents of every high school dollar went to nonacademic expenditures, Luce said, "We have to get serious about the money because the public is not going to support continued 50-percent increases in spending without academic results."

In Whitmire's opinion, "We are going to have to look at the education system as a system that is run by professionals. We are going to have to set high standards and build in performance goals....We simply will not be able to operate this single most important function of government—that of public education—with a system that says that it will treat every teacher alike, that there will be no incentive for good performance, that there will be no opportunity for any kind of merit-based compensation program or promotions based on performance. We are going to have to run our school system the way we would run a business."

Natalicio concurred, saying, "We do all kinds of merit procedures at universities, and we don't give salary increases to people who aren't being productive....I would like to urge us to give some thought to not just raising salaries, because that is just the tip of the iceberg, but also to think about the value system we have at the present time and, indeed, what we pay for in our society. We are paying for a lot of things in a lot of other professions that may not, in the long run, have the impact on our society that education will."

Luce said, "Our teacher pool today is coming from the bottom fourth of the people who go to college. We are not going to change that until we change teacher compensation." But he emphasized, "If



you merely put more money in the same system, you are going to get the same results."

Luce advocated enhancing the role of principals and reducing layers of administration. "We have to have a system that lets a principal have the authority and responsibility on a school campus sufficient so you can hold that principal accountable for results. We have to have a system in which the principals can hire and fire."

### **Giving Business a Role in Education**

Panelists urged business to become involved in changing the educational system. "What business can do in education is be the voice to demand real change," Luce said, adding, "Business can be the element that comes in and says, 'Where are the goals? Where is the action plan? How are you assessing results?'"

Whitmire added that business could give public schools both financial assistance and volunteers. "What is really working in Houston are the programs in which major corporations adopt schools in the inner city, and they not only put financial assistance into them, but they also put some volunteers into them," Whitmire said.

"They spend some time with the children in those schools. They give them exposure to the broader scope of opportunities for their future," Whitmire continued. "It is that caring about the students that makes the difference. It is the realization that solving the educational problem is part of the job of every corporate citizen in our community and every parent and volunteer. It is something that simply cannot be turned over to the bureaucracy."

### **How Changing Demographics Affect Educational Needs**

In addition to Texas' work-force expansion and accelerating birth rate, several demographic trends will influence the future. Natalicio

said that 80 percent of the state's population now live in urban areas, that the Hispanic population in Texas increased 43 percent in the past decade and that the 1990 freshman class at UTEP was 73 percent minority.

"Those are exciting demographic trends, and they add an enormous diversity to our state's population," Natalicio said, but she cautioned that these changes underscore the need to improve the participation of minority groups in education.

"Of 341 Ph.D. degrees awarded in the entire United States in 1988 in mathematics," Natalicio said, "one [recipient] was a black, two were Native American and three were Hispanic. In 1987, non-United States citizens earned twice as many doctoral degrees in all fields as minority Americans. Think about what that means in terms of our future development as a society. Those are very sobering statistics."

In El Paso today, she said, 45 percent of Hispanic youngsters and 37 percent of blacks drop out of school before they earn a high school diploma. She attributed the high minority dropout rate in part to family finances. "A lot of minority children are poor, and family finances are closely correlated with dropouts."

Improving education will mean overcoming current statistics regarding minorities and education. "This is not an issue any more of morality or of charity in dealing with minority populations; this is self-interest. If we do not begin to invest in the education of minority populations in this state—minority populations that will be the majority in this state by 2025—we will have to recognize that we have not paid the price today that our children will have to pay in the future. Our future lies in the hands of the young people who are in school today, and I hope that Texas will rise to that challenge in the 1990s," Natalicio continued.

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families tend to be ethnic minorities," Whitmire said, "so you see the dropout as something that is then thought to be related to the ethnic minority status."

Whitmire argued for more preschool programs and more parental involvement to help curb the number of dropouts. Preschool programs for 3- and 4-year-olds would help the student who otherwise would start out behind, she said, explaining, "Failure in those early grades, that failure to get the appropriate learning skills, to develop the appropriate self-esteem, that brings about the dropout. If we can put the emphasis on what we are doing for the 3-year-olds and 4-year-olds to prepare them for success in school, I think we can lower the dropout rate.

"A second thing that needs to be done is more parental involvement," Whitmire continued. "There is now a belief in our community that parental involvement is very directly related to keeping the kids in school and seeing success....If we can bring more parents into the process, I believe we'll reduce the dropout rate."

### **Tackling Drug Abuse and Crime**

Although education may be at the root of many societal problems, panelists agreed that the symptoms should not be ignored. Overcoming drug abuse and crime must be a priority, they said.

"We are going to have to tackle [these problems] at the state level, the local level, in the business community and in the education system," Whitmire said. "If we can do that, we will have better cities in which to live and better communities in which to work. And we will have economic advantages because right now we are spending an enormous amount of money through losses in the business community, losses from personal households, and an enormous amount of money on security, law enforcement, the criminal justice system and the

prison system."

Luce argued for drug prevention programs in the schools. "In our schools today, we have already taken the prevention program down to the 6-year-old, down to the first-grader. We've got to go all the way down to the 3-year-old and 4-year-old....One of the saddest things in our state budget is that we allocate such a minuscule portion of what we spend on the drug problem to drug prevention," Luce said.

Whitmire proposed attacking the drug problem on four fronts: enforcement, interdiction, education and treatment. Enforcement, she said, requires "arresting the drug dealers and hopefully keeping them incarcerated a little longer than we are right now and giving them some drug treatment and rehabilitation while they are there....In addition to that is interdiction, which is primarily conducted by the federal government trying to reduce the flow of drugs into our nation by capturing more of it on the way in."

In Houston schools, Whitmire said, drug education begins in kindergarten and continues through high school. But perhaps the single biggest boost for drug education in Houston comes from enlisting the media in the effort. "They have given an enormous amount of coverage and public service attention to the drug problem," Whitmire said, "and I have to say that as hard as we work in the schools, I am afraid that people still learn more from television than from anything else. So that is why we have tried to attack this issue through the media."

Whitmire also advocated drug treatment on demand. "The fact that there are drug addicts in Texas today who would like to turn their lives around and are not able to get any kind of treatment indicates that we are not yet as serious about the problem as we ought to get about it," Whitmire said.

Luce maintained that the state must get realistic about the drug



problem. "That means that in addition to building prisons, you must have a drug treatment rehabilitation program so that you can require the first-time user to have drug treatment and rehabilitation. We have got to break the cycle of drug use; if not, it will overwhelm us," he said.

### **Restructuring the Tax System**

Texas legislators must, in the words of the state's attorney general, make a "serious and substantial effort" toward structural reformation of our tax base and our tax system to fashion a tax structure that more fairly and more accurately reflects the state's economy. Other panelists agreed.

Luce said, "We have a tax system that is taxing industries that are declining and not taxing other industries, and we are not taxing industries that are growing. I think the key element from business to support economic growth is what kind of tax system you have. Do you have a government that you can put confidence in, that you think will deal with issues with certainty, and will really solve problems, or do you have an unpredictable government that is not dealing with problems?"

Gruben tried to dispel the idea that low taxes are essential to promoting growth. "Low taxes do not necessarily mean high growth, and high taxes do not necessarily mean low growth. You have to give people what is consistent with what they want. This does not mean that people necessarily love to pay high taxes, but they are willing to pay them if they get what they want. If enough people want more education,...then they would be willing to pay those taxes, and it would not negatively or significantly affect growth. In fact, in the long term it certainly should positively affect growth.

"What this means is that the most growth-enhancing types of expenditures are the ones that

should be focused on. What people do not want to pay for to a large extent is administrative costs," Gruben continued.

Morales criticized the Legislature for not utilizing all of Texas' tax base. "When it has become necessary to generate additional revenues for public purposes, the Legislature has simply taken the existing structure and raised the rates to the point where now we enjoy the second-highest general sales tax rate in the nation. We are among the top 10 states in the nation relative to the local property tax burden that Texans have had foisted on them," Morales said.

Whitmire suggested that tax reform needs to be accomplished without creating a state income tax. "The first approach needs to be directed at revamping the franchise tax rather than trying to move to an income tax. I think that may accomplish about the same thing," Whitmire said.

A state income tax may be inevitable. Morales said, "I will be surprised if we hit the next century without some form of direct income taxation somewhere in our structure....I think by the latter part of the decade the Legislature will make the determination that they have exhausted options and alternatives other than that option and find some mechanism by which to allow for the injection of some degree of profit sensitivity into our structure."

Current state tax laws, Gruben said, place Texans at a disadvantage on federal income taxes, however. "Sales taxes are no longer deductible; income tax payments for state purposes are. We do not have a state income tax, so basically we are getting burned in Washington under the current structure."

Luce emphasized that business can play a big role in the restructuring of the tax system. "Business," he said, "is going to have a golden opportunity to have an impact on public policy in Texas over this tax issue if business plays it smart.



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—Dan Morales

What business needs to do is be debating right now what kind of changed tax system it wants. What is a tax system that will support growth?...The tax system likely will not be changed unless business supports it or unless business is so divided it is not a factor."

### **Balancing Business Needs and Concern for the Environment**

When it comes to balancing economic growth and environmental concerns, Luce said that business wants "predictability, certainty and reasonableness." The quality of the environment "affects the quality of life, which has an impact on who wants to move here and who wants to stay here. We have got to improve the environmental situation in the state. The key will be to do it in a way that has the predictability and certainty that business needs to grow and develop," he continued.

Natalicio said that people have been given a rather unilateral view of what the environmental issues are. "The business community is going to have to help provide information to create some sort of broader perspective within the [educational] framework to enable us to educate the population as well as we should on that issue," she said.

Morales responded, "Business in Texas has as much an interest in the development of and ultimately the achievement of a clean and healthful environment everywhere in our state as does any other segment of our community. I don't think we have to have one at the cost of or as a substitute for the other."

Agreeing on specific goals, in Whitmire's opinion, will be the key to dealing with environmental issues, preserving the environment and maintaining economic growth. "Once we can agree on some specific goals, then we need a plan of action to get to those goals that can be implemented on a specific timetable, which will bring about the stability and reliability that is needed for economic growth," she said.

Whitmire cited the Clean Air Act as an example of a plan with specific goals and specific timetables. "The Clean Air Act is a very big issue for this state because we are a long way from complying with national clean air standards, and we must accomplish those goals that are now set out very clearly in the federal law....They will require some changes in lifestyles, and they will require some significant investments by industry. But now that we have the goals set out and now that we have the time frame set out, our job is to define a fair and balanced plan to meet those goals. Our job is to put together a plan and meet those air quality standards."

### **Reshaping State Government for the 1990s**

State government, Morales said, is responsible for four basic policy areas: education, corrections, transportation and human services. "If you look at how we are doing in terms of operation, administration and provision of those services and programs, I think there is significant cause for concern....In three of the four major areas of state obligation and responsibility, we are operating in this state more or less in a crisis fashion," Morales warned.

"Courts, the judiciary and judges are making what should be legislative decisions, policy decisions. I am hopeful that over the course of the coming years that we in state government will be successful in wresting away that policy-making discretion and authority from judges, from the judiciary, and restoring it to elected representatives, senators and others who are much better prepared and much better suited to make what are essentially legislative and political decisions.

"It simply should not be the case that in many regards we have nonelected individuals making such significant policy decisions that



have such a profound and substantial impact on every Texan," Morales continued.

Luce said that voters are responsible for demanding solutions from the Legislature. "The legislative system is geared to compromise ....The problem is that means we are trying to make changes on the margins, and our problems will not be solved that way. That means that you and I are going to have to be part of the chorus that demands real solutions to those problems. It is our right to vote and to participate, but we've got to be more vocal and more active in demanding real solutions," Luce argued.

Whitmire suggested that state legislators' low wages contribute to the problems in state government. "If you do a good job of [serving in the Legislature], it takes all your time and yet it doesn't pay you a living wage. So you either decide not to give it all the time you really need to or not to make a living. That is a pretty tough choice to give to the people who are making our laws."

Natalicio agreed that legislators need higher salaries, and she added that the Legislature should meet more often. "As fatiguing as it would be to have the Legislature in session on a regular basis every year, I think there is a need for a move in that direction. I also think that the issues are so complex at this point that it is essential that we provide our representatives with the kind of salaries that will enable them to do the job in the way that we would like for them to do it."

"Special sessions now are not so special," Morales said. "In 1989, for example, the state Legislature was in session far more days than was the United States Congress, notwithstanding the fact that Congress, of course, theoretically is a full-time legislative body. The state Legislature is part-time." Morales added that the incoming lieutenant governor has proposed to allow at least an annual budget session rather than having the Legislature

attempt to anticipate spending needs and demands 24 and 30 months in advance.

Gruben asserted that there is not enough concern with performance in the state government. "State government in general is too much concerned with filling slots and allocating budgets and not enough with evaluating and monitoring performance, not only of individuals but also of agencies.

"We have problems that get by the entire system that is supposed to be handling them....Education is one; environmental problems are another....The usual management procedures that are now applied in the private sector don't seem to be applied with as much attention in the public sector," Gruben said.

—Fiona Sigalla  
Diana Palmer  
Rhonda Harris

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