

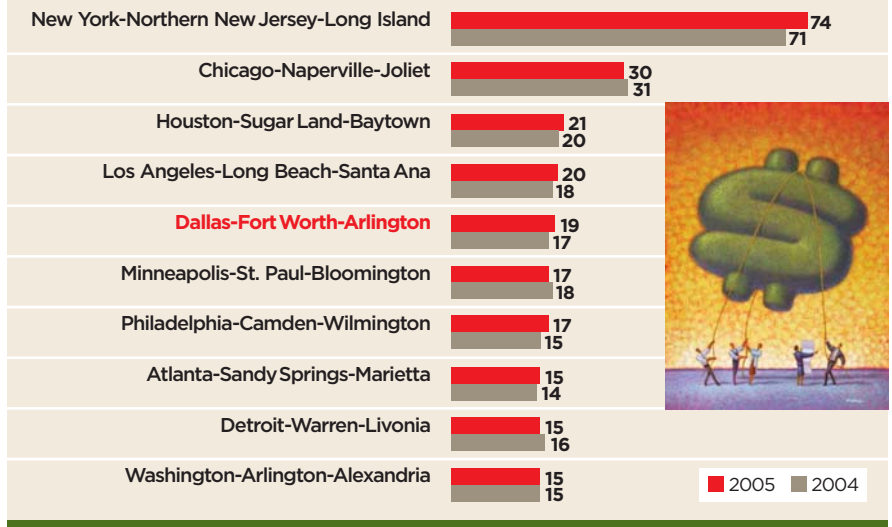
Econ 101

BY DR. ALBERT W. NIEMI, JR.

Bred for Business

The Dallas-Fort Worth area is primed for corporate relocations, unless an uneducated workforce scares them away.

FORTUNE 500 CORPORATE HEADQUARTERS LOCATION



SOURCE: "THE FORTUNE 500," FORTUNE (APRIL 2005); COMPILED BY: NORTH TEXAS COMMISSION



WHEN I WROTE MY PH.D. DISSERTATION AT THE University of Connecticut more than three decades ago, I focused on the 25-year post-World War II era. Generally speaking, I predicted economic prosperity for major cities located in the American "Sunbelt" (loosely defined as those states in the South and Southwest that have a warm climate) and foretold the corresponding economic decline of a number of northern industrial strongholds. At that time, cost structure was the no. 1 driving force dictating the patterns of economic growth in the United States. Sunbelt cities such as Atlanta, Charlotte, Dallas, and Houston had low cost structures compared to those of major northern economic centers, and there was significantly less union strength in the Sunbelt.

After completing my doctoral program, I accepted a faculty position at the University of Georgia, and I have spent my adult life in Georgia and Texas. During that time, I have watched Sunbelt cities like Dallas grow into economic powerhouses. From 1960 to 2000, the list of the top 10 most populous U.S. cities changed dramatically from a group dominated by northern cities to one that features six

»THE TAKEAWAY

- 1 Corporations like warm climates.
- 2 Corporations also like low cost structures.
- 3 Talent is the greatest natural resource.

POPULATION OF THE 10 LARGEST CITIES

1960	2000
1 New York, NY	1 New York, NY
2 Chicago, IL	2 Los Angeles, CA
3 Los Angeles, CA	3 Chicago, IL
4 Philadelphia, PA	4 Houston, TX
5 Detroit, MI	5 Philadelphia, PA
6 Baltimore, MD	6 Phoenix, AZ
7 Houston, TX	7 San Diego, CA
8 Cleveland, OH	8 Dallas, TX
9 Washington, D.C.	9 San Antonio, TX
10 St. Louis, MO	10 Detroit, MI

SOURCE: U.S. CENSUS BUREAU

Sunbelt cities. [See chart below.] Over the course of 40 years, Baltimore, Cleveland, and Washington, D.C., were replaced by the likes of Phoenix, Dallas, and San Antonio. The nation's top 10 largest metropolitan statistical areas have undergone a similar shift, with five now located in the Sunbelt. From 1990 to 2000, nine of the 10 fastest-growing metropolitan areas in the country were in the South or Southwest.

Today, a city's or region's cost structure is more important than it's ever been in determining economic health. Increased global competition, particularly from Asia and Mexico, is forcing more and more businesses to operate as cost-effectively as possible, taking into consideration their local and state taxes as well as costs of labor, real estate, construction, distribution, and energy. In a global marketplace where companies are facing unprecedented cost constraints, competitive companies will necessarily look to set up shop in areas with favorable cost structures.

But today, it takes more than a favorable cost structure for a city or region to build

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and sustain a flourishing economy. To attract businesses, you also need:

- **A great gateway** (typically in the form of an airport) that serves as a dynamic hub for international business and leisure travel as well as the global distribution of goods;
- **A high quality of life**, as defined by cost of living, climate, employment opportunities, and cultural, athletic, and recreational activities;
- **A large and well-educated labor pool.**

Up to this point, Dallas-Fort Worth has offered companies the key ingredients required to be successful. And our business environment has flourished. Consider these facts. Opened in 1974, D/FW International Airport is today the third-busiest airport in the world in terms of takeoffs and landings and the sixth-busiest in terms of passenger traffic. D/FW International Airport and Alliance Airport have made the Dallas-Fort Worth area one of the primary product distribution centers in the Western hemisphere, offering the lowest distribution cost to the top 50 U.S. consumer markets. Our cost of living is 3.1 percent below the national average and the sixth-lowest among 27 metropolitan areas. The DFW Consolidated Metropolitan Statistical Area (CMSA) had the sixth highest net migration of young, single, college-educated individuals among all U.S. metropolitan areas between 1995 and 2000.

So it should be no surprise that Dallas and Fort Worth have seen a tremendous influx of new businesses and corporate relocations over the past 25 years. In 2005, DFW was the home to 19 Fortune 500 headquarters, ranking fifth among metropolitan areas in the United States. [See chart at left.] In addition, *Site Selection* magazine ranked Texas no. 1 in the nation the past two years for the most jobs created and the highest number of new and expanded corporate facilities. Last year, Texas reported 842 projects for new or expanded corporate facilities.

A number of studies indicate this trend will continue. Two years ago, in a report it conducted for the Sacramento-based

California Business Roundtable, Boston-based consulting firm Bain & Co. Inc. found that 40 percent of California companies planned to move jobs out of state, and more were planning to move to Texas than any location, including other U.S. states, Asia, Canada, and India. Texas' favorable regulatory climate was cited. Companies interviewed included businesses with as little as \$1.5 million in revenues to corporations with as much as \$90 billion in revenue.

In addition to the positive outlook for the future of business in the DFW area, population studies show that Texas' greatest natural resource—our people—will increase significantly in the coming decades due primarily to a higher than average birth rate and the strong pace of net migration. This growth trend bodes well for academic institutions and businesses in DFW. But it also poses significant challenges. With the rosy projections come several thorny issues concerning the quality and education of our workforce.

According to a report released by the Federal Reserve Bank of Dallas last year entitled "The Changing Face of Texas: Population Projections and Implications," Texas will experience significant population growth and demographic changes in the next three decades. By 2020, Hispanics will make up the majority of Texas' population, while Whites fall to the second most-populous ethnicity, according to data from the Texas State Data Center. By the year 2040, Hispanics will account for over 50 percent of all Texans, while one-third of the population will be Whites, with African-Americans accounting for almost 10 percent and other races constituting the balance.

This inevitable growth in population and increase in diversity has the potential to bring corresponding increases in the overall rates of high school dropouts, unemployment, and poverty unless we are able to reverse recent trends.

With rosy projections come thorny issues concerning the quality and education of our workforce.

- **Texas high school graduation rates of Hispanics and African-Americans lag significantly behind those of Whites and Asians.** Just as troubling, only 52 percent of African-Americans and 56 percent of Hispanics passed the Texas Assessment of Knowledge and Skills (TAKS) exit-level assessment in the spring of 2005.

- **Hispanics in Texas are about half as likely as Whites to graduate from college,** severely limiting their professional opportunities in an economy that desperately needs more highly skilled employees.

- **While Texans' incomes improved in the 1990s, the state's poverty level has increased since the turn of the century,** with a growing disparity between the incomes of Whites and non-Whites. In 1999, 25.4 percent of the Hispanic population and 23.4 percent of African-Americans were living in poverty, compared to 7.8 percent of Whites.

If disparity between White and non-White high school and college graduation rates in Texas persists, the Texas State Data Center projects that more than 30 percent of the Texas labor force will not have a high school diploma by 2040, up from 18.8 percent in 2000. This is hardly a recipe for success in the global economy.

So we, as citizens of the DFW area, find ourselves in the enviable position of living in a place of economic prosperity and even greater potential. All roads, or at least a great many heavily traveled thoroughfares, are leading figuratively to our fair metropolitan area. Over the next three decades, we will undoubtedly be on the receiving end of the largest influx of the greatest natural resource in the history of Dallas-Fort Worth. But clearly, this is a double-edged sword.

In the coming years, each of us will have opportunities to make choices about the future of our state. How we nurture and educate our young people will ultimately determine our success or our failure. **D**

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