

TrendLines
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Remarks
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“Four Trends That Will Shape Greater Houston’s Future”

When I consider your previous speakers, I am at once honored and humbled and, frankly, a little apprehensive. They say the best way for a speaker to overcome apprehension is to know what he or she is talking about. Let’s hope they’re right.

It’s always a little dangerous for anyone to get too far out on the limb of trends and predictions. For example:

- An internal memo from Western Union in 1876 stated, “This ‘telephone’ has far too many shortcomings to be seriously considered as a means of communications.”
- The English scientist Lord Kelvin concluded, “Radio has no future, heavier-than-air flying machines are impossible, and X-rays will prove to be a hoax.”
- And perhaps most famously, Thomas Watson, the founder and president of IBM, said, “There is a world market for about five computers.”

So while predicting trends can be hazardous, circumstances often leave us with no choice. Our ability to identify the challenges that linger just beyond the horizon can mean the difference between creating the future and simply letting it happen.

Of course, any discussion of future trends has to start with a baseline – where we are now. And I have to tell you, greater Houston is in a pretty good place:

- *Fortune* magazine has rated us the nation’s No. 1 region for fastest-growing companies.

- According to the U.S. Bureau of Labor Statistics, we're No. 1 in job growth.
- *Forbes* says we're the third-best metropolitan area for business and careers.
- We have 23 Fortune 500 companies with headquarters here – the fourth-highest in the country – and 13 of Fortune's 100 fastest-growing companies are headquartered in the region.
- *Expansion Management* puts us at No. 5 for best business opportunities.
- *Site Selection* ranks us No. 7 for new and expanded facilities.

All of this underscores my belief that we live in a region of endless possibility – a place that gives us a chance to not only achieve, but to achieve greatly. Our obligation as business leaders is to ensure we stay that way – a sponsor of progress and innovation, a creator of wealth and prosperity, and a champion of growth and opportunity.

At the Partnership, we have a plan to promote that kind of success, and I will discuss it in a moment. But first, I'd like to share some thoughts on four trends that loom large on the path to tomorrow – trends that demand our attention, advocacy, and action.

I'll start with what is probably the most visible: Immigration. Undocumented workers contribute about \$27.3 billion to our Gross Regional Product – that's more than 8 percent of total GRP. They are represented in 16 different economic sectors, including high-growth areas like construction, professional services, accommodation and food services, and healthcare. Statewide, the Comptroller's office estimates that without these workers, the Texas labor force would shrink by 6.1 percent.

The fact is, immigrants are essential to our current and future economy. We cannot afford policies that force them into the shadows or push them underground. And the idea that overnight we can somehow send millions of people back to their country of origin is logistically impossible and economically unsound.

But if you listen to the debate, that's where the trend is heading – and that is absolutely counterproductive. So it is imperative that we stop the heated rhetoric and steer the dialogue back onto a common-sense path – one that ensures genuine immigration reform and creates an efficient temporary worker program that supports the regional economy.

Certainly, this should provide for the safety and security of our borders. But at the same time, it should allow employers to recruit skilled and unskilled immigrant workers when there's a labor shortage, and offer legal status for qualified, screened undocumented workers who are already here.

Before leaving this subject, I'd like to say one other thing. We are among the most diverse metropolitan areas in the country. All of our ethnic communities are "minorities," and if you look at what the Census Bureau says America will look like in 2060, you'll pretty much see what we look like now.

Beyond that, we're also known as an open and "welcoming" region, with a willingness to embrace new people and cultures. We are connected to the world in ways that go beyond our economy alone. And we have always believed everyone deserves a chance to elevate their life through conscious endeavor. Any policy that substantially erodes this tradition also erodes the core and the character of who we are.

The second trend that is likely to challenge us should come as no great surprise – it's on the front page of the newspaper just about every day: The high price of oil. Make no mistake: We benefit greatly from a robust energy sector. Energy companies account for 47 percent of our economic base employment. In the 12 months that ended in September, we had the highest rate of job growth among the country's dozen largest metropolitan areas. A strong performance in the upstream energy and oil and gas extraction segments drove the increase.

But higher oil prices can also have a chilling effect on the economy. They force people to make choices – a tank of gas, for example, over consumables. They can hurt retail spending. There was an article in *The Chronicle* recently suggesting that as gas prices take a bigger bite out of household budgets, Americans could be forced to fall back on their credit cards and thus push consumer debt even higher.

It's easy to frame this issue in terms of oil company profits versus people. That's not just simplistic. It's flat wrong. The issue is energy security versus energy uncertainty.

Last year, the United States produced only 33 percent of the oil we need – down from 45 percent in 1996. Our net imports were bigger than the total combined production of Saudi Arabia and Kuwait. We use 10,000 gallons of oil per second.

This growing reliance on imported oil reduces consumer savings rates adds to inflation, worsens the trade deficit and makes it tougher for the Federal Reserve Board to both fight inflation and sustain growth.

What's the solution? I think the best one is probably the most obvious: Recognize that while we can never eliminate uncertainty, we can maximize the opportunities at hand to better control it.

John Hofmeister, the president of Shell and chairman of the Partnership Board, spoke in Fort Worth last week, and he laid out what sounds to me like a pretty good framework for doing just that. First, he said, we all need to get realistic about something. Even with an aggressive strategy over the next 45 or 50 years, the world is only going to get about 20 percent of its energy from alternative sources – biomass, hydrogen, solar, and wind. That's not to say we shouldn't pursue those technologies. It is, however, to recognize that fossil fuels will continue to provide the large majority of global energy in the decades to come.

Given that fact, he recommended a strategy that includes more offshore drilling and development of unconventional petroleum deposits. The U.S. Outer Continental Shelf holds an estimated 110 billion barrels of oil – but 85 percent of it is off limits for exploration and production. Canadian oil sands and U.S. shale oil deposits are estimated at the equivalent of 2 trillion barrels. Altogether, that adds up to about 340 years of supply.

I don't think John is saying oil companies are the only solution; he also argued for a "culture of conservation" as well, which includes reducing energy usage and reassessing the efficiency and design of homes, offices, and appliances.

The point is this: If we're going to reverse the growing trend toward dependency on foreign oil, it is going to take a multifaceted approach. But practically speaking, oil should remain the centerpiece of the strategy, and we should pursue policies that encourage rather than impede the goal of energy security.

Earlier this year, when the bridge over the Mississippi River in Minneapolis collapsed, it put a spotlight on America's transportation infrastructure. What we saw was not comforting:

- 33 percent of major U.S. roads are in poor or mediocre condition.
- A quarter of our bridges are structurally deficient or functionally obsolete.

- Our interstate system, which handles 240 million vehicles traveling 3 trillion miles annually, has changed very little since its creation in 1956 – when it was designed to serve 65 million vehicles traveling 600 billion miles annually.

But the issue doesn't end with roads and bridges. U.S. airline delays are at their highest level in more than 10 years – and it is estimated that passenger traffic could hit 1 billion annually in the next decade.

There are predictions that by 2020, every major U.S. container port will at minimum – at *minimum* – double the volume of cargo it was designed to handle.

Railroads will need about \$200 billion over the next 20 years to maintain their existing infrastructure and manage the projected growth in freight.

Clearly, a declining infrastructure – in some cases, a crumbling infrastructure – is a trend that we have to face. Because if we can't get people and products where they need to be, we will put the dream of future prosperity at severe risk.

Most of you probably know of Jesse Holman Jones. He was one of Houston's great businessmen and builders – the man largely responsible for securing funding for the Houston Ship Channel.

A report from the Harvard Business School said he was "responsible for the transformation of Houston into the most important city for international commerce in the South." *The Saturday Evening Post* wrote in 1940 that, "Next to the President, no man in the government and probably the United States wields greater powers."

But Jesse Jones was also responsible for what is widely believed to be one of the greatest infrastructure-building programs in history. As head of the Reconstruction Finance Corporation, he oversaw a multi-billion-dollar effort from 1933 to 1937 that included construction of the Hoover and Grand Coulee dams; river diversion, flood control, levee, and irrigation projects; the Golden Gate Bridge; and the Pennsylvania Turnpike.

Given the current state of our infrastructure, we need to reinvestigate the RFC model. I'm certainly not advocating direct government involvement in business, nor am I suggesting we need the kind of massive job-creating public works programs that by necessity emerged from the Great Depression.

But let's face it: One of the reasons for the current infrastructure crisis is that the federal government has pretty much removed itself from the process. Here is a stunning fact:

China spends 9 percent of its Gross Domestic Product on infrastructure, and India, 5 percent. Since 1980, America has spent, on average, less than 2 percent annually. Meanwhile, states, facing constrained budgets, have been left to their own devices and forced to make priority decisions among competing interests. And the demands of increased capacity keep growing year after year.

We're not immune to these problems here, either. If current spending levels remain constant, we'll have a \$16 billion shortfall between now and 2025 for new transportation capacity in this region. We'll be able to fund just 40 percent of needed roadway improvements. That can only lead to more congestion, which will impact the operations of companies whose profits depend on continued over-the-road efficiency.

Money spent on transportation is money well spent, too. For example, U.S. industries save 24 cents on production and distribution costs for every dollar put into non-local road systems. A \$2.75 billion public investment in freight railroad would save \$10 billion in highway costs over the next two decades. And as the gateway to more than \$100 billion per year in foreign trade, I don't need to remind anyone of how far a dollar invested in the Port of Houston goes.

In short, we need to build a 21st century infrastructure to support a 21st century economy. And we need to start now.

The last trend I want to discuss is less controversial than immigration, less global than energy security, and less tangible than infrastructure. But is no less important than any of those issues.

I'm talking about our declining power in Washington.

We often speak of the "good old days," when Lyndon Johnson was majority leader of the Senate, and Sam Rayburn was speaker of the House, and Texas had more influence over more issues than any other state.

But let's not forget that as recently as 2005, we were in an equally strong position. We had the No. 2 and No. 3 leaders in the House. A Texan chaired the House Ways & Means Committee. And on the Senate side, we had the head of the appropriations subcommittee of the Commerce Committee.

What a difference a decade makes.

A president from Texas will be leaving office in a year. We've lost much of our seniority in Congress. And if reports are true, and Sen. Hutchison decides to leave Washington to run for state office, we're going to lose even more.

Let me say quickly that this is in no way a comment on the leadership of Senators Hutchison and Cornyn or our Congressional delegation. They have protected our interests, and ensured that liberty, opportunity, and possibility continue to be uniquely American possessions.

But the reality of politics is this: When you lose seniority, you lose clout; and when you lose clout, you lose money. It goes someplace else – to another program, in another district, in another state. So until time and the electoral calendar restore our seniority, we have some uncertain years ahead of us.

Perhaps nowhere will this have greater regional consequence than in the future of the Johnson Space Center. It's no secret that funding for NASA has been flat in recent years. A debate continues over whether the agency's money is better spent in space exploration or Earth observation. Questions have arisen about how NASA plans to proceed after the shuttle flights end in 2010.

One report stated flatly, "there is no obvious groundswell to give NASA more money."

I spoke a moment ago of how a willingness to accept people is part of our tradition. The space program is, too – and it's essential to our economy. JSC has 17,000 employees, with annual expenditures in the neighborhood of \$4 billion. If we're going to counteract the trend toward reduced Congressional influence, we're going to have to do whatever it takes – advocacy, increased awareness, public education, whatever – to make the case for JSC and other programs whose existence depends on a fair share of federal dollars.

The Partnership, I am proud to say, is already undertaking initiatives designed to deal with many of these issues. They're part of a 10-year Strategic Plan for economic development that we adopted in 2005.

It's an ambitious strategy whose targets include 600,000 net new jobs, \$60 billion in new capital investment, and \$120 billion in new foreign trade. We plan to reach those goals by focusing on a number of key industry clusters: aerospace and technology, medical and biotechnology, energy and petrochemical, information technology and nanotechnology.

I should point out, too, that as we add jobs in those industries, we're going to

need more offices, warehouses, and manufacturing facilities. We're going to need space to accommodate high-tech enterprises. We're going to need innovative, alternative options like green buildings. In other words, we're going to need you to keep doing what you do so well.

But beyond creating jobs and opportunities, this plan also commits us to taking a proactive, substantive role in the public policy process. I'm not talking about just being "a" voice on issues that affect the economy. I'm talking about being "the" voice – *the* leading advocate for legislation, initiatives, and programs that foster growth and position our business community as a national and global leader. This will enable us to shape the trends of the future – rather than be shaped by them.

In some cases, we're already doing it:

- Our board passed a resolution that calls for a rational, pro-business, pro-growth plan for immigration reform.
- We formed a national coalition – Americans for Immigration Reform – to advocate the positions of the region's business community.
- We joined in lawsuits seeking to prevent the government from sending "no match" letters that threaten actions against employers who do not resolve workers' mismatched Social Security numbers. These letters amount to a weapon against undocumented workers, while imposing unreasonable regulatory burdens and unfair costs on businesses.
- And on the issue of energy security, we will host a presidential summit in February focusing on "America's Energy Future." It will move us from being a City of Production to a City of Policy – and further secure our claim as the energy capital of the world.

The world looked a lot different 10 years ago than it does today.

Crude oil prices were down to \$12 per barrel in the wake of the Asian currency crisis. We were in the middle of a dot-com boom. Microsoft bought a \$150 million stake in a financially troubled little computer company called Apple.

It's going to look just as different 10 years from now, too. The issues I've touched upon this evening will have given way to new issues, which in turn will have given way to new trends, new predictions, and new possibilities. That's the natural cycle of events – how things flow.

My daughter is a freshman in high school. She'll be entering the workforce in 10 years. I think my job – as a parent, and as someone involved in the business community – is to help make sure she can find her way in that world, and succeed. And that means doing whatever it takes to minimize the challenges she faces today because there will be even more challenges tomorrow.

We can all do much the same thing on behalf of this region. By recognizing some of the current trends – and by helping overcome the difficulties they pose – we can help ensure that greater Houston succeeds in the world that awaits. And by doing so, we will once again prove that our enduring commitment to opportunity will forever have the power to transform us as a region, as businesses, and as people.

Thank you all very much.