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Southwest Economy

B2B E-Commerce: Why the New Economy Lives

In an ideal market economy, perfect competition delivers peak performance. For perfect competition to exist, not only are many buyers and sellers needed for each particular good, but perfect information about products (for example, availability, quality and specifications), demand, prices and delivery schedules is also required. As business-to-business (B2B) commerce shifts to the Internet and secure business intranets, better information will move markets closer to the textbook model of perfect competition.

By improving the flow, accuracy and timeliness of information, secure Internet-enabled systems provide greater transparency and efficiency at all points along the supply chain. Simply put, the Internet is a continuation of technological improvements that deliver information faster and cheaper, reduce search and transaction costs in online markets and improve the management of transporting and inventorying products. These savings come from both cheaper information (through lower agency and intermediary costs) and cheaper inputs (through increased supplier competition).

(Continued on page 2)

Census Data Show the Economy Matters

The U.S. Census Bureau recently completed the 2000 census. The effort was gargantuan, involving more than 3 million workers, over 20 million maps and almost 100 million questionnaires.[1] The results show dramatic population movements within the United States and equally dramatic international migration into the country.

In terms of national and international affairs, the decennial count has three main effects. First, the federal government distributes about $200 billion each year according to state population, so an accurate census ensures that fast-growing states will have the financial resources to meet burgeoning demand for government services.[2] Second, the census is used to reapportion seats in the House of Representatives, giving increased political clout to fast-growing states and ensuring that all U.S. citizens have equal weight in electing their representatives. Finally, the census gives government officials the infor-

(Continued on page 6)

INSIDE:

Japan's Economy Still Looks Recessionary

Census Data Show the Economy Matters

(Continued from front page)

mation they need to address issues from the fiscal soundness of Social Security to the effectiveness of the Border Patrol.

But the census also affects Americans in a much more down-to-earth manner. State and local governments use census information to decide where to put hospitals, roads and schools. Businesses use it to choose locations for new supermarkets, banks and factories. Charitable organizations use it to decide which regions of the country need help and where they are most likely to find volunteers. Emergency systems rely on it when natural disasters strike and an accurate block-by-block count of residents is needed. Even television is affected by the census because network executives use the data to more accurately gauge the types of programming Americans wish to see.[3]

For all these reasons, it is important to understand how much, where and why America grew during the 1990s. This article examines each of these questions. It concludes that America experienced a demographic renaissance during the 1990s, that there was a general movement of people to the South and West, and that economic forces played an important role in these population shifts.

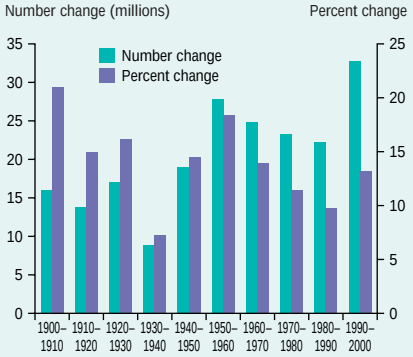
National Trends

After three decades in which growth slowed both in absolute terms and as a percentage of the total, the U.S. population grew by a robust 13 percent between 1990 and 2000 (*Chart 1*). The 32.7 million people added over the last decade represent the largest 10-year population increase in American history—even larger than the baby boom of the 1950s and the immigration boom of the early 1900s. The sharp increase caught most observers by surprise and was a full 6 million above the Census Bureau's projection.[4]

An understanding of how the increase occurred is impossible without looking at the fastest-growing ethnic group in American society: Hispanics. The number of Hispanics living in the United States grew almost 4.5 times faster than the nation as a whole, rising from 22.3 million in 1990 to 35.3 million in 2000.

Chart 1

U.S. Population Grows Sharply in 1990s



SOURCE: Census Bureau.

Hispanics accounted for almost 40 percent of U.S. population growth in the 1990s. While Hispanics still form less than 15 percent of the U.S. population, they were primarily responsible for the increased U.S. growth rate. The non-Hispanic growth rate was less than 2 percentage points higher in the 1990s (8 percent) than it was in the 1980s (6.4 percent).

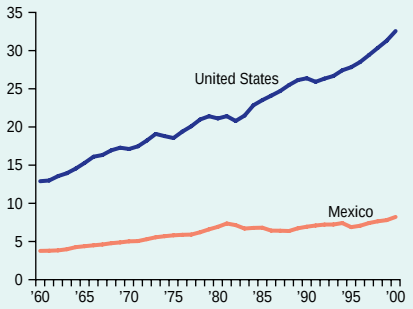
But why did the Hispanic population grow so quickly in the 1990s? Relatively high Hispanic fertility rates account for a portion of this growth, but the primary explanation appears to be an influx of immigrants—of both Mexican and Central American origin—to the United States from Mexico. To see why the influx (sometimes called the "Second Great Migration") occurred,[5] it is instructive to examine the relative economic health of the United States and Mexico over the last two decades. As is evident from Chart 2, the gap in per capita GDP (adjusted for purchasing power parity) between the two countries reached an all-time high of $21,000 in the aftermath of Mexico's disastrous 1994 peso devaluation and has continued to widen since. With an ever-growing gap between average economic well-being in the two countries, it is not surprising that a growing number of Mexicans moved north in search of work. Nor is it surprising that many Central Americans who moved to Mexico in search of a better life subsequently migrated north to the United States.

State and Regional Changes

All 50 states grew in population between 1990 and 2000. However, southern and western states grew considerably faster than the rest of the country (*Chart 3*). In fact, all four southern and western regions grew at double-digit rates during the 1990s: the Southeast (16.5 percent), Southwest (23.1 percent), Rocky Mountain (26.4 percent) and Far West (15.8 percent). The remaining regions grew much more slowly, which will ultimately move federal dollars and political power from the Northeast to the Sun Belt.

Chart 2

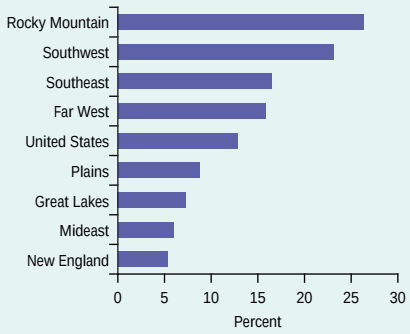
United States Continues to Outperform Mexico



SOURCES: Organisation for Economic Co-operation and Development; Bureau of Economic Analysis.

Chart 3

Big Differences in Regional Growth Rates, 1990–2000

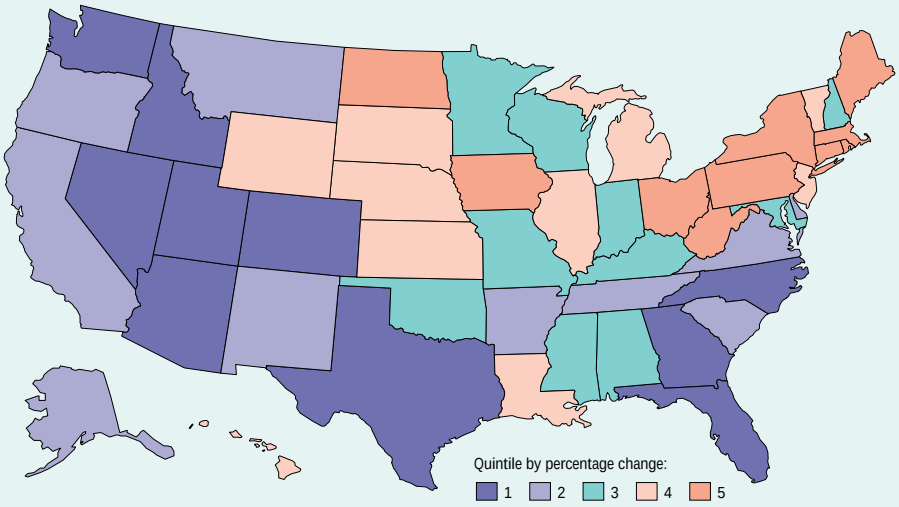


SOURCE: Bureau of Economic Analysis.

Chart 4

Fastest Growing States Are in West and South

State Population Growth by Quintile, 1990–2000



SOURCE: Census Bureau.

The state-by-state numbers clearly reflect this trend. Each of the 10 fastest-growing states is either west of the Mississippi River or south of the Mason-Dixon Line (*Chart 4*). Nevada and Arizona led the nation with growth rates in excess of 3 percent per year, with Colorado, Utah and Idaho close behind. The next four states are all southern and include the megastates of Texas and Florida. Washington rounds out the top 10, due primarily to that state's burgeoning high-tech economy and an unusually large number of immigrants from Asia.

The 10 states whose populations grew most slowly during the 1990s tell the opposite story. Each of the 10 slowest-growing states is either east of the Mississippi River or north of the Mason-Dixon Line, including four of the six New England states, New York and Pennsylvania. Slowest of all was the District of Columbia, whose population actually fell by 5.7 percent between 1990 and 2000.

Many factors affect the decision to live in a particular state, but did the population movements of the 1990s occur in part for economic reasons? Answering this question requires a look at how state economies performed during the past decade. Unfortunately, there is no perfect measure of this phenomenon. The total growth in gross state product (GSP) reveals how much each state's output grew, but it tends to favor states with high population growth because additional people almost always contribute at least a small amount to GSP. On the other hand, GSP growth per capita reflects the output produced by the average person but almost certainly understates the economic attractiveness of high-population-growth areas in the 1990s. This is because the Mexican immigrants who made a disproportionate contribution to U.S. population growth are less skilled than longtime residents and hence may hold down growth in per capita output.

Keeping in mind that per capita GSP almost certainly understates the economic attractiveness of high-population-growth areas, Table 1 presents population and per capita GSP growth for the 10 states whose populations grew fastest in the 1990s. The chart reveals a surprisingly strong relationship between population and per capita GSP: Five of the top six fastest-growing states (in terms of population) are among the top 10 for per capita GSP growth, and only two states are among the bottom 20. This suggests that economic forces played a key role in the population shifts of the 1990s.

A Closer Look at Texas

From 1990 to 2000, the Texas population rose by an all-time high of 3.9 million (*Chart 5*). Texas became the second-

Table 1

High Population Growth vs. High Economic Growth

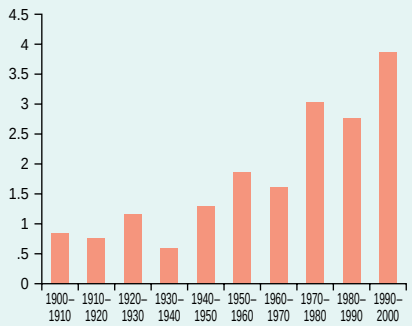
State	Population growth, 1990–2000 (percent)	Rank	Real GSP per capita growth, 1990–99 (percent)	Rank
Nevada	66.3	1	17.3	41
Arizona	40.0	2	36.6	6
Colorado	30.6	3	37.7	4
Utah	29.6	4	33.5	8
Idaho	28.5	5	37.7	5
Georgia	26.4	6	32.2	9
Florida	23.5	7	19.2	36
Texas	22.8	8	29.3	16
North Carolina	21.4	9	28.8	18
Washington	21.1	10	24.0	29
United States	**12.8**		**23.3**	

SOURCES: Census Bureau; Bureau of Economic Analysis.

Chart 5

Texas Population Continues to Grow

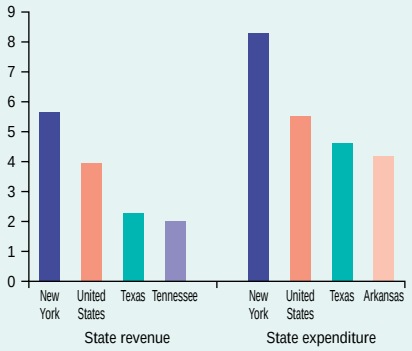
Number change (millions)



SOURCE: Census Bureau.

Chart 6

Texas Spends Little and Taxes Less



SOURCE: Census Bureau.

largest state during the 1990s, growing more than 70 percent faster than the nation as a whole, and now has almost 2 million more people than third-place New York. There is virtually no chance that another state will become more populous than Texas during the 21st century, and it is actually possible that Texas could surpass California by 2065.[6]

Much of the state's population growth occurred in suburban counties such as Collin (Dallas), Williamson (Austin) and Montgomery (Houston); all three were among the 100 fastest-growing counties in the nation. Growth was also exceptionally strong along the Mexican border. In order, the five fastest-growing metro areas were McAllen (48.7 percent), Austin (47.7 percent), Laredo (44.9 percent), Dallas (31.5 percent) and Brownsville (28.5 percent).

Texas grew quickly in the 1990s for several reasons. First, it is adjacent to Mexico and hence participated in the influx of Hispanic immigrants. The number of Hispanics in Texas rose from 25.5 percent in 1990 to 32 percent today, and it is estimated that non-Hispanic whites will form a minority of the state population by 2010. In fact, Hispanics could form an absolute majority of the U.S. population as early as 2050 if present trends continue.

Second, Texas has a relatively high birth rate. Of the 50 states and the District of Columbia, Texas' fertility rate is higher than all but three and exceeds the national average by over 16 percent. While the higher fertility rate cannot fully explain the fact that Texas grew 70 percent faster than the United States, it certainly contributed to Texas' above-average population growth during the 1990s.

Finally, Texas has a favorable business climate. Texas is widely regarded as one of the nation's most business-friendly states because of the low burden its regulations impose on firms.[7] In fact, the Texas government is one of the least activist in the nation: It spends less per capita than all but eight states and receives less revenue per capita than all but five states (*Chart 6*).[8] While government certainly has an important role to play in some contexts, one recent study[9] found that Texas' business climate was responsible, in 2000 alone, for creating 180,000 jobs.[10] These jobs provided much of the fuel for Texas' economic expansion in the 1990s, attracting domestic and international migrants alike.

Balanced against this encouraging news are some sobering statistics from West Texas. According to Census Bureau data, more than one-quarter of Texas' 254 counties lost population during the 1990s. These 68 counties were almost uniformly rural and dependent on industries such as agriculture and oil whose fortunes declined precipitously during the 1990s and whose production processes increasingly rely on machine rather than man. Almost all of these counties (56) are located in the northwestern part of the state, including 26 of the 41 counties that make up the Panhandle. While telecommunications innovations such as the Internet may ultimately help these counties grow, it is clear that these areas did not participate in the population growth experienced by the rest of Texas in the 1990s. In fact, 61 Texas counties now meet the 19th century federal definition of frontier—six or fewer people per square mile (see box titled "A Roll Call of Frontier Counties").

With the income gap between rural and urban areas in Texas rising to an all-time high of $7,800 per person during the 1990s,[11] it is not surprising that the population of predominantly rural Northwest Texas rose by only 7.1 percent (*Chart 7*). Nor is it surprising that the remaining three regions, each anchored by fast-growing cities, grew far more rapidly. Booming Dallas/Fort Worth propelled Northeast Texas to a 27.3 percent growth rate and served notice to the nation that it had arrived as a high-tech center.[12] Southwest Texas (including the border) grew by 23.1 percent as the region's labor markets achieved their lowest unemployment rates in recorded history. And Southeast Texas grew by a slightly lower figure of 22.1 percent as the volatile energy sector alternately pummeled the region and bestowed extraordinary prosperity upon it. On the whole,

(Continued on page 12)

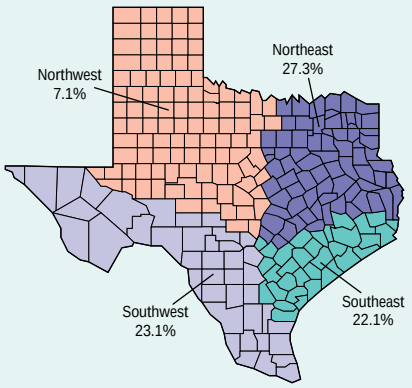
A Roll Call of Frontier Counties

Sixty-one Texas counties meet the 19th century definition of frontier—six or fewer people per square mile. Panhandle counties are denoted by **bold** type and other Northwest Texas counties by *italics*.

Armstrong, *Baylor*, *Borden*, Brewster, **Briscoe**, **Cochran**, *Coke*, **Collingsworth**, *Concho*, *Cottle*, *Crane*, Crockett, Culberson, **Dallam**, **Dickens**, **Donley**, Edwards, *Fisher*, *Foard*, **Garza**, *Glasscock*, **Hall**, **Hansford**, **Hartley**, **Hemphill**, Hudspeth, *Irion*, Jeff Davis, Jim Hogg, Kenedy, *Kent*, Kimble, **King**, Kinney, *Knox*, La Salle, **Lipscomb**, *Loving*, McMullen, *Martin*, *Mason*, *Menard*, **Motley**, **Oldham**, Pecos, Presidio, *Reagan*, Real, Reeves, **Roberts**, *San Saba*, *Schleicher*, *Shackelford*, **Sherman**, *Sterling*, *Stonewall*, Sutton, Terrell, *Throckmorton*, *Upton*, **Wheeler**.

Chart 7

Ten-Year Population Growth in Texas by Region



SOURCES: USDA Economic Research Service; Texas Comptroller of Public Accounts.

Census Data Show the Economy Matters

(continued from page 8)

though, the 1990s have brought good economic times—and unprecedented population growth—to Texas.

Conclusion

For the United States in general and Texas in particular, the 1990s was a time of change. On the international scene, millions of immigrants from Mexico entered the United States in search of a better life. Domestically, economic growth in the South and West fueled a Sun Belt population surge that will have far-reaching public policy effects in the years to come. And economic factors contributed to astonishing population growth in Texas, with rural weakness offset by the booming border and metro areas.

—Jason L. Saving

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Notes

I would like to thank Steve Brown, Alan Viard, Daniel Wolk, Charis Ward and Lori Taylor for their helpful comments and assistance. Any remaining errors are my own.

1 See "Census 2000 in a Flash," Bureau of the Census publication no. D-3237 (11-99).

2 For more information, see *The Department of Commerce Budget in Brief, Fiscal Year 2001*, available online at http://www.osec.doc.gov/bmi/budget/PB2001/browse/BIB_ALL.pdf.

3 Dianne Sols (2001), "Census to Change TV Ratings," *Dallas Morning News*, June 6, p. 1D.

4 Charles Ornstein (2001), "U.S. Added More Residents in 1990s Than Ever Before," *Dallas Morning News*, April 3, p. 12A.

5 See Pia M. Orrenius and Alan D. Viard (2000), "The Second Great Migration: Economic and Policy Implications," *Southwest Economy*, Issue 3, May/June, pp. 1–8.

6 If current population growth trends continue, Texas would become the most populous state in the year 2065. If current trends (especially Mexican immigration) do not continue, California will retain its position as the nation's most populous state for the foreseeable future.

7 See Thomas J. Holmes (2000), "The Location of Industry: Do States' Policies Matter?" *Regulation* 23 (1), pp. 47–50.

8 The data include local as well as state government. Alaska and the District of Columbia are excluded.

9 *North American Business Cost Review*, 7th ed. (West Chester, Pa., economy.com, 2001).

10 By contrast, New York lost over 300,000 jobs last year for these reasons.

11 See Carole Keeton Rylander (2001), *Rural Texas in Transition*, available online at http://www.window.state.tx.us/specialrpt/rural.

12 See *Cyberstates 2001: A State-by-State Overview of the High-Technology Industry*, American Electronics Association.

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