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VISTA South Texas Economic Trends and Issues

Border Region Makes Progress in the 1990s

A key to future income growth may be a significant increase in public education spending that began in the 1990s.

The 1990s have been a decade of change along the Texas/Mexico border. In this historically low-wage, high job-growth region, income and earnings in the 1990s have outpaced the national average. The gains have come during a period marked by the implementation of the North American Free Trade Agreement (NAFTA), a sharp mid-decade decline in the Mexican peso and economy, and a prolonged expansion of the maquiladora industry in northern Mexico. While these factors have affected the fortunes of the border economy, a key to future income growth may be a significant increase in public education spending that began in the 1990s.

A Tale of Two Economies

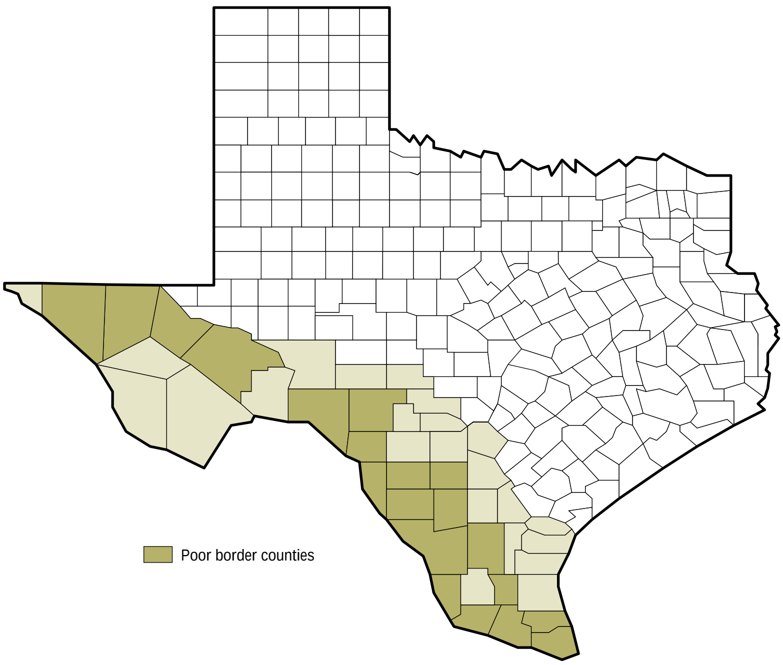
"It was the best of times, it was the worst of times." Like the famous Charles Dickens novel, the border economy's story is one of contrasts. Although historically the border has had high unemployment and low income, it also has a high job-growth rate. Just how poor is the border, and what accounts for its high rate of job growth? The answers are varied, but obviously the region's geographical and cultural ties to Mexico play a crucial role in its economy.

For the sake of uniformity, we define the border the same way the Texas Comptroller of Public Accounts did for the recent study "Bordering the Future."[1] The 43-county region begins at the New Mexico state line in Anthony and runs through El Paso to San Antonio along Interstate 10, then down Interstate 37 to the north side of Corpus Christi on the Texas Gulf coast (*Chart 1*).

Strong job growth along the border distinguishes the region from other poor areas of the nation. For example, from 1969 to 1997, annual job growth was 2.6 percent for the border overall and 3.4 percent in poor border counties. In contrast, employment grew 2.0 percent, 0.4 percent and 0.3 percent in the poorest regions in Kentucky, West Virginia and Mississippi, respectively (*Chart 2*). Compared with Texas, these three states each had a higher percentage of their population living in poor counties.[2]

But as border jobs have grown strongly, incomes have generally remained low. In 1997, per capita personal income was $17,255 in the border counties, $23,707 in Texas and $25,288 in the United States. This gap may be distorted by a couple of factors: a relatively large nonworking-age population in the border region and unmeasured income from cash-based business transactions in this area. Less affected by these factors, earnings per job ranked the border closer to the state and nation in 1997 at $25,457, compared with $31,178 in Texas and $30,842 in the United States.

Chart 1
Texas Border Region



By almost any measure the border area is poor, but it is better off in some respects than other poor areas. As shown in Chart 3, the per capita personal income in Kentucky, West Virginia and Mississippi ranged from $13,239 to $13,695, well below the $17,255 in the Texas border region but higher than the $12,103 in the poor border counties. However, earnings per job in the poor border counties were significantly higher than in Kentucky, West Virginia and Mississippi.

Oddly, certain indicators that usually accompany poverty are missing in South Texas, even in the poorest counties. Mortality rates and infant death rates are close to the national average and much lower than in the poor counties in Kentucky, West Virginia and Mississippi. The border region's high birth rates result in a very young and growing population. Only 52.8 percent of the poor county population is over age 25, compared with 63.7 percent in the United States and about 60 percent in other poor regions we looked at. Typically, one makes more money as one gets older. Thus, with fewer people in the prime of their working lives, wages will be lower.

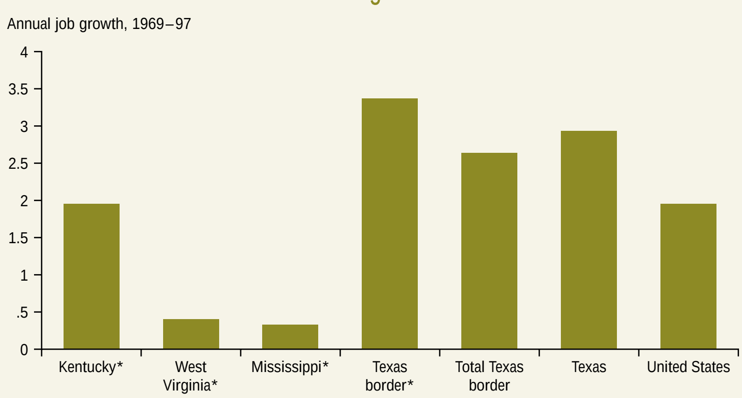
Another factor in determining border income levels is education. Of the population over the age of 25, 47.2 percent in poor border counties have a high school diploma. Only Kentucky's poor counties have lower graduation rates, and the national average is a much higher 77.6 percent. On the other hand, college graduates make up 10.9 percent of the adult border population, compared with 9.5 percent, 7 percent and 6.9 percent in Mississippi, Kentucky and West Virginia, respectively. The U.S. average, however, is 21.3 percent, twice the border percentage.

The lack of education contributes to lower wages along the border. The comptroller's study reports that, for U.S.-born residents, the incomes of border workers relative to all Texans are higher for workers with at least a high school education. For example, the 1990 census showed that for workers in the 45 to 64 age group, native-born border workers without high school diplomas earned 78.2 percent of the state average income for the same education level/age group, while those with a high school education earned 92.6 percent and those with a bachelor's degree earned 85.3 percent. Also, in 1993–94 the border unemployment rate for workers without a high school diploma was 11.5 percent, compared with 2.9 percent for college graduates.

1990s Bring Progress

The 1990s have been eventful for the border region. NAFTA became effective in January 1994.

Chart 2
Border Job Growth Stands Out Among Poor Counties



* Poor counties.

SOURCES: Bureau of Economic Analysis; authors' calculations.

A significant peso devaluation in December 1994 was followed by a sharp recession in Mexico in 1995. After increasing strongly in 1994, employment growth slowed significantly in 1995. Job growth rebounded in 1996 and continued to pick up strength until the second half of 1998, when a steep decline in oil prices hit the oil-dependent areas of the border and caused some slowing in the Mexican economy.

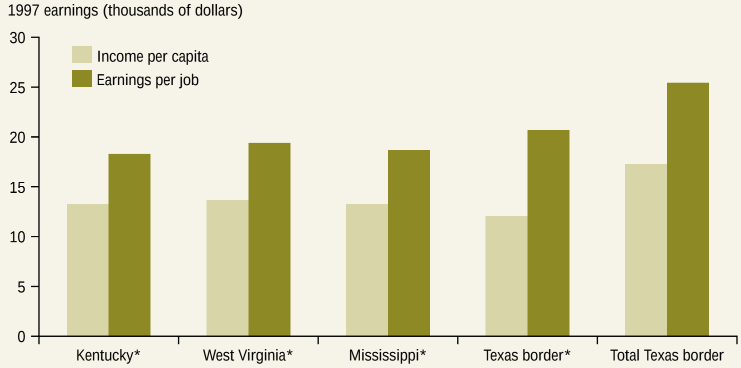
Overall, however, the 1990s marked a period of progress for the border economy. Gains in state funding for public education and increased funding for Border Patrol and Customs created many new high-paying jobs. The maquiladora industry (mostly foreign-owned industrial plants on the Mexican side of the border) boomed, increasing demand for retail and banking services on the Texas side of the border. And while NAFTA may have played a role in the decline of apparel manufacturing and other low-skilled industries, transportation and warehousing got a boost from strong gains in trade.

The most recent income data show that border earnings per job rose at an average annual rate of 3.9 percent from 1990 through 1997, versus 3.5 percent in the nation. During the 1980s, border growth was slower than the nation's. As shown in Chart 4, average earnings growth varied from a low of 3.5 percent for Brownsville to 5 percent for Laredo. No border metro area grew more slowly than the national average.

Job growth also has been strong in the 1990s. From 1990 through 1997 annual job growth averaged 2.8 percent for the entire border region, versus 1.6 percent in the nation. Growth in the metropolitan areas ranged from 1.9 percent in El Paso to 5 percent in Laredo (*Chart 4*). In 1990 El Paso had a larger share of employment in manufacturing than any other border metropolitan area; hence, it has been hit hard by losses in apparel manufacturing. Laredo, on the other hand, has the largest share of employment in transportation services and has benefited from being the biggest land port for trade between Texas and Mexico. Total shipments through the Port of Laredo increased 89.5 percent from 1994 to 1997 and, in 1997, were valued at about $50 billion—twice the amount of goods traveling through El Paso, the next largest land port.

Chart 3

Border Earnings Per Job Relatively Higher than Per Capita Personal Income



* Poor counties.

SOURCES: Bureau of Economic Analysis; authors' calculations.

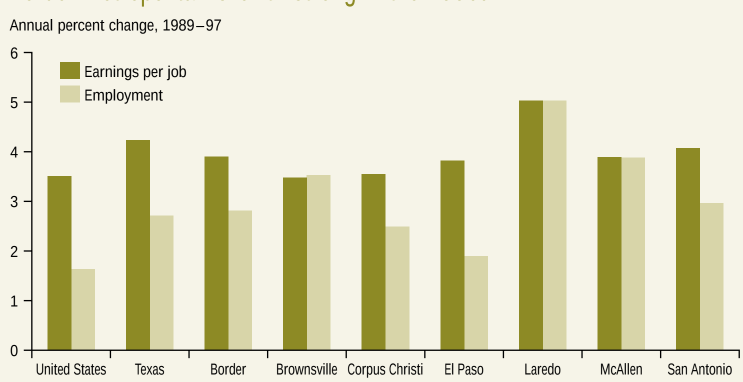
Increased Focus on Education[3]

The most important change along the border in the 1990s may be the least observed. Restructured funding methods beginning in 1992 dramatically increased the amount of money available to border schools. By 1997, border schools had seen their total revenue increase by 57 percent, to $5,269 per student—$134 more than non-border districts and $103 more than the state average. While the comptroller's study gives evidence that the funding increase has already begun to improve school performance, the greatest effects will likely take hold in decades to come.

Another important change in the 1990s was the South Texas/Border Initiative, approved by state legislators in 1989. The initiative provided additional funding for

Chart 4

Border Metropolitan Growth Strong in the 1990s



SOURCES: Bureau of Economic Analysis; authors' calculations.

border universities and authorized new academic programs and courses. Lawmakers merged some public border institutions with the University of Texas and Texas A&M University systems and upgraded the status of five higher education institutions.

From fiscal year 1990 through fiscal 1996, state funding of border higher education increased $87 million, a 69 percent gain. In 1996, South Texas institutions, with 15.6 percent of the state's full-time students, received 15 percent of the general revenue funding for higher education. By comparison, 1990 enrollment at these universities accounted for 13.7 percent of college students but only 11.1 percent of the state's higher education funds. As with the increased funding of public schools, most of the return on the additional investment in higher education will come in future decades.

Summary and Conclusions

NAFTA's implementation, a mid-decade peso devaluation and Mexican recession, and strength in the Mexican maquiladora industry have left their mark on the border region during the 1990s. Earnings per job and the number of jobs have increased at a faster pace than the national average, allowing this low-wage region to make small relative gains.

If Mexico continues to make economic and political reforms, banking and retail services that border communities now provide to Mexican nationals may be reduced. However, if the border population takes advantage of a significant investment in education that began in the 1990s, it can create its own economic opportunities.

The border's warm climate and proximity to Mexico should ensure a steady supply of workers. Marked gains in the percentage of the workforce with high school and college degrees would attract employers, particularly as the U.S. workforce ages. Also, workers in the area will likely start more of their own businesses, capitalizing on their education and their knowledge of the language and culture of the expanding Hispanic population within Mexico and the United States.

— Eric Dittmar
Keith Phillips

Notes

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1 A copy of the comptroller's study can be obtained from the web site http://www.window.state.tx.us/border/border.html or by calling 1-800-531-5441, ext. 3-4900.

2 We define poor counties as those ranked among the lowest 250 counties in the United States in per capita personal income in 1997.

3 Most of the data in this section come from the study cited in footnote 1.

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