

U.S. Must Choose - Traditional Texas or Cool California

The U.S. desperately needs jobs, but does the country need more traditional industries as in Texas or more green investments as in California? The answer is probably both.

By Louise With

Information - History

BROWNSVILLE, TEXAS (7 January 2010) – “They are just not that business friendly in the other states” says Gilberto Salinas, also called Gil, with a broad grin which seems to say: but here in Texas we are. The young cowboy boot wearing executive with Mexican ancestors has invited a group of international journalists to town in order to sell the idea of doing business in Southern Texas to the best of his ability. And he has a full program.

Salinas has lined up the local bigwigs to unanimously praise the business climate in Brownsville, a town practically on the border of Mexico and closely connected to its twin city of Matamoros, south of the border.

In this area, the unions are not something that people worry about, underscores Salinas. On the contrary, there is a lot of qualified and affordable Mexican labor available - on both sides of the border. And it is precisely the young and



Photo by Nik Wheeler / ScanPix

California is the symbol of a future with innovation, technology and green investments. This summer, *The Economist* wrote that California has much to learn from Texas – e.g. about creating better conditions for growth and reducing the tax rate - but Texas could also learn from California – e.g. about investing in education, innovation and health care.

industrious, but experienced workforce that does not make too many demands, which in recent years has made Texas look like a preview of the future growth and prosperity in the United States.

Roughly speaking there are two widely different visions of where the future American jobs and growth will come from: There is

the cool California with its green investments, innovation, technology and venture capital. A scenario in which it is OK to skateboard, eat sushi and get a back massage during working hours as long as you invent the next iPod or establish the new Google. And then there is far more traditional Texas and towns like Brownsville, where

typically Spanish-speaking workers make car seats and brake systems and cut up old, rusty ships for recycling. With the free trade agreement, NAFTA, it has been easy to move both raw materials, spare parts and finished products back and forth across the border, which has led to the growth

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in the so-called twin city industry, where the labor-intensive part of the business is located in Mexico and the administrative part in the United States. This also generates tax benefits which create jobs in the previously poor and under-developed area.

Success story?

Brownsville-Matamoros is especially known for its workers specializing in the steel and metal industry, says Gil Salinas, and the cities have been for generations. Now Salinas and the local business people hope that this experience can be useful within sustainable energy, for example, to manufacture windmills and solar panels:

“Believe it or not, it is almost the same craftsmanship as in the auto industry, so we aggressively go after those types of companies” says Salinas and reports that he and his colleagues travel the U.S. thin and has also been in several countries in Latin America and Europe hunting for new businesses that will use Brownsville's idle hands.

This week, however, the foreign countries have come to Texas in the form of journalists from China, Russia, Italy, Poland, and Denmark. The journalists are visiting a number of companies that have defied the economic downturn and created new jobs, and the next day the journalists

will be visiting companies on the Mexican side of the border.

Brownsville is a success story. Or is it? A classic criticism of the U.S.-Mexican border model - indeed of all relocation of jobs to low wage countries - is that there is a race to the bottom, a race to offer international companies the competitive wages, lowest costs and the biggest tax rebates. The companies then make their profit and relocate again as soon as a new area presents itself with even better conditions and even lower wages.

Brownsville-Matamoros has also felt this. When China began in earnest to compete in 2000-2001, the twin cities saw a significant downturn says Gil Salinas, because “many companies in the US were going: Hey, maybe we can make our products much cheaper. So they did, and a lot of them with great success.”

Western industry

Today Brownsville learned the lesson and focus on education, explains Salinas. They also focus on the companies that will dedicate and commit themselves for a prolonged period, and the companies who need to be either geographically close to the U.S. or in the U.S. time zone. The simplest factory jobs are no longer in Brownsville, they are in

China now and that is where they will stay. The city has instead set out to be an example of what the future of industrial jobs in the Western world might look like. But it takes time.

Among the companies we visit is Cyoptics which manufactures cable parts for telecommunications technology. Many workers here start out as unskilled, but have often ended up as

working hours and contributions to the exam fee.

Gil Salinas believes that he can get even more such factories to come to the city - helped by Texas Governor Rick Perry and an aggressive business policy with hefty so-called incentives, i.e. tax rebates and other financial bait for new employers moving south. Is Brownsville and Texas the future of the U.S.



The cover of June 2009 edition of *The Economist* depicted Texas and California in two different ways.

trained specialists, explains the CEO, who emphasizes the advantage of being so physically close to the U.S. market. It is easier to communicate with headquarters north in Pennsylvania and there is no time difference and no language barrier as in China.

Several of the employees are so happy with the products that they end up training to become engineers in their free time, he explains - and the company helps out by providing flexible

workforce? Is this the end of the abstract Californian technology jobs? Back to the machines to make car seats and brakes and cable parts?

Media exaggerates

Competition between the two largest U.S. states, funky California and conservative Texas, has run in several media in recent months.

This summer, the magazine *The Economist* wrote that California has much to learn from Texas, for example about how to create good conditions for growth and reduce the tax rate - but Texas also continues to learn from California, for example about how to invest in education and innovation and in the employees' welfare, health-care, etc. In the fall, *Time* magazine also ran a story about the how the rumors about California's collapse are greatly exaggerated.

"The media describes California as a dark fantasy land of overcrowded schools, endless droughts, celebrities with nervous breakdowns, illegal immigration, traffic jams from hell, and a generally unpleasant place to be" wrote *Time* and conceded that California has been close to bankruptcy during the financial crisis, but remains a pioneer, which has enriched the United States and the world with everything from Hollywood to extreme sports to microchips, Google, iPhone, and so on.

California continues to be, according to *Time* "the greenest and most diverse, the most globalized, most

Asian-oriented state in the U.S. An innovation engine without parallel, a mecca for high technology, biotechnology, and in recent years also climate technologies."

"California stands for change and a break with the status quo," wrote *Time*. Still true today - one might add.

Need for both cities

The problem is that California does not rate highly according to the traditional metrics of business climate, which typically gives priority to taxes and wages over softer factors such as productivity and creativity.

According to these measurements, Texas on the other hand rates highly and this is made evident by a corresponding low unemployment and net influx of new residents to the state, while California has lost residents and revenues in a big way in recent years.

What is the future: Tradition and factory jobs in Texas or high-tech in California? The most sensible answer is probably that the U.S. needs both. Both sophisticated innovation and IT dudes on skateboards, but also more traditional jobs in industry.

The U.S. needs to produce and sell something again, and there are plenty of unemployed who would much rather be working at a car seat factory than leave their homes. In a situation where unemployment has reached 10 percent, there is a need for all types of jobs, said Ethan Harris, chief economist of Merrill Lynch Bank of America when he recently presented his and the analysts' expectations for the economy in 2010:

"Hopefully, we will get all types of jobs back. In the longer term I believe in California and the green economy, but I hope that the first years of job growth will mean that some of those people who have been laid off will be re-employed - in all sorts of industries."

There is also another lesson to learn in Texas, says the vice-chancellor of the small local university we visit on the last day of our tour of Brownsville-Matamoros.

Texas may need to invest more in education but in Brownsville we know something about border cooperation and about bilingual people and diversity:

"We are in a sense the

U.S. that everyone will be living in 20-30 years," he says and explains that just over half of university students work and study at the same time. Ninety-eight percent of the city is comprised of Spanish speakers and many from families without a tradition of studying.

The question is how long the new graduates will accept the Texas model and factory work before they also start to make more demands, maybe not about sushi, skateboards and back massages, but about access to more and better education, better health care and higher pay - or whether there may be a viable middle ground between the Texas and California model? Gil Salinas is certainly a man who has decided to see the global economic downturn as an opportunity to grab new customers.

"It may well be that the economy is sluggish at present, but here we are busy!" he says.

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