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Texas v. Ohio

As Barack Obama and Hillary Clinton race around Ohio and Texas for tomorrow's primaries, they are telling a tale of economic woe. Yet the real story isn't how similar the two states are economically but how different. Texas has been prospering while Ohio lags, and the reasons are instructive about what works and what doesn't in economic policy.

Growth and Pain

Comparing the March 4 primary states

	Texas	Ohio
New Job creation 1997-2007	1,615,000	-10,400
Net domestic migration*	667,000	-362,000
Unemployment rate December 2007	4.5%	6%
Per Capita Income Growth 1996-2006	55%	43%
Exports 2006 (in bill.)	$150.9	$37.8

*Net increase in state population excluding foreign immigrants.
Sources: Census Bureau and American Legislative Exchange Council

There's no doubt times are tough in Ohio. The state has lost 200,000 manufacturing jobs since 2000, home foreclosures are soaring, and real family income is lower now than in 2000. Meanwhile, the Texas economy has boomed since 2004, with nearly twice the rate of new job creation as the rest of the nation. The nearby table compares the states over a decade or so.

Let's start with the fact that Texas's growth puts the lie to the myth that free trade costs American jobs. Anti-Nafta rhetoric doesn't play well in El Paso, San Antonio and Houston, which have become gateway cities for commerce with Latin America and have flourished since the North American Free Trade Agreement passed Congress in 1993. Mr. Obama's claim of one million lost jobs due to trade deals is laughable in Texas, the state most affected by Nafta. Texas has gained 36,000 manufacturing jobs since 2004 and has ranked as the nation's top exporting state for six years in a row. Its $168 billion of exports in 2007 translate into tens of thousands of jobs.

Ohio, Indiana and Michigan are losing auto jobs, but many of these "runaway plants" are not fleeing to China, Mexico or India. They've moved to more business-friendly U.S. states, including Texas. GM recently announced plans for a new plant to build hybrid cars. Guess where? Near Dallas. In 2006 the Lone Star State exported $5.5 billion of cars and trucks to Mexico and $2.4 billion worth to Canada.

Ohio Governor Ted Strickland, a Democrat who supports Mrs. Clinton, blames his state's problems on President Bush. But Ohio's economy has been struggling for years, and most of its wounds are self-inflicted. Ohio now ranks 47th out of 50 in economic competitiveness, according to the American Legislative Exchange Council. Ohio politicians deplore plant closings even as they impose the third highest corporate income tax in the country (10.5%) and the sixth highest personal income tax (8.87%). A common joke is that Ohio lays out the red carpet for companies -- when they leave the state. By contrast, Texas has no income tax, a huge competitive advantage.

Ohio's most crippling handicap may be that its politicians -- and thus its employers -- are still in the grip of such industrial unions as the United Auto Workers. Ohio is a "closed shop" state, which means workers can be forced to join a union whether they wish to or not. Many companies -- especially foreign-owned -- say they will not even consider such locations for new sites. States with "right to work" laws that make union organizing more difficult had twice the job growth of Ohio and other forced union states from 1995-2005, according to the National Institute for Labor Relations.

On the other hand, Texas is a right to work state and has been adding jobs by the tens of thousands. Nearly 1,000 new plants have been built in Texas since 2005, from the likes of Microsoft, Samsung and Fujitsu. Foreign-owned companies supplied the state with 345,000 jobs. No wonder Texans don't fear global competition the way some Presidential candidates do.

So tomorrow the eyes of America will be on these two states moving in different directions. Ohio has an economy burdened by high taxes and work rules that impose heavy costs on employers. Texas embraces free trade, keeps taxes low, doesn't impose unions on business and has tooled itself for 21st century global competition. Ohioans may not like to hear this, but for any company considering where to locate a new plant or move an existing one, the choice between Ohio and Texas isn't even a close call.

The challenge for our national economy in a world of competition is to become more like Texas and less like Ohio.

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