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**Tom Pauken's Prepared Remarks
at the Texas Workforce Commission Business Conference
on February 7, 2011**

On January 16, 2009, the Texas Workforce Commission hosted a forum entitled "Putting America Back to Work." At that conference, a number of our speakers made the case for lessening our dependence on unstable sources of foreign energy, changing the way we tax business in order to encourage private sector job creation here in the United States, and rebuilding our U.S. manufacturing base.

Two years later, those issues are just as critical as they were back then. Unfortunately, the Obama administration and Washington policymakers have done very little to address those issues in an effective fashion. To the President's credit, at least he acknowledged in his State of the Union address the negative impact that our corporate tax system has on job creation here in the United States. With its 35 percent tax rate and 6.2 percent employer portion of the payroll tax, it is the most onerous business tax system in the world – and a job killer here at home.

While the President called for lowering the corporate tax rate, he negated that message by saying he was going to pay for it by getting rid of the incentives for domestic energy production. That is exactly the wrong step to take if our nation is to lessen its dependence on foreign energy and create jobs in the private sector. Not only is a strong domestic energy sector an important part of a vibrant private sector and our U.S. manufacturing base, it also is critical for national security reasons – to lessen our dependence on unstable sources of foreign energy from the Middle East and countries like Venezuela where a would-be Fidel Castro, Hugo Chavez, is in power.

Texas has an important story to tell which can help policymakers here and in other states address the problem of unemployment. Texas has weathered the current recession better than any other large state. We have not been immune to its effects, but consider these numbers:

Between December 2000 and December 2010, Texas created 640,600 private sector jobs, according to the Bureau of Labor Statistics. That is an 8 percent increase over the past decade. Meanwhile, every other of the 10 largest labor market states lost private sector jobs during the same period. The nation as a whole lost 3.2 million such jobs.

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There are many reasons why Texas has fared better than so many other states during the downturn. We have no state income tax, a low business tax, and a positive regulatory climate for business. With the leadership of Gov. Perry and our Texas legislators, Texas has remained on a sound financial footing. And, we will continue to do so by keeping a tight lid on spending during these difficult times.

For these and other reasons, companies based in high tax, high regulatory states like California, Illinois, and others are voting with their feet and moving their businesses and their employees to Texas.

While this is positive for the economic climate in Texas, it ultimately is a zero sum game for our nation at large. For, just like other states are losing jobs to Texas, the United States is losing jobs to other nations at an even faster pace. Since the Obama stimulus program began in February 2009 through May 2010, we added approximately 400,000 public sector jobs while losing another 2.7 million private sector jobs. This trend didn't begin overnight. It just has accelerated during the most serious national recession America has faced since the time of the Great Depression.

In fact, from 1999 to 2009, there was **zero** growth in private sector jobs nationally. The only growth in jobs was in government jobs, and we know that government doesn't create jobs. Only the private sector does. And we need a vibrant private sector to pay for our government benefits and services.

During that same decade, we lost one-third of our U.S. manufacturing base. That's 5.5 million good American jobs which were shipped overseas, outsourced, or simply went away. In the words of the late German economist Kurt Richebacher, "Essentially all (U.S.) job losses are high wage manufacturing, and most gains are in low-wage services. In essence the U.S. economy is restructuring downward, while the Chinese economy is restructuring upward."

In his recent State of the Union address, President Obama said that we were going to fix that problem by "out-innovating" our trading competitors. But, as Andy Grove (a founder of Intel) points out, it's "hard to innovate if you don't make." And the U.S. is not making much anymore these days.

There is a common sense solution available which addresses these massive trade deficits and loss of our manufacturing base. Under a proposal known as the Hartman Plan, that onerous corporate tax system with its 35 percent tax rate and its 6.2 percent employer portion of the payroll tax would be replaced by a revenue-neutral, 8 percent business-consumption tax that would be border adjusted. This new approach to taxing business would raise just as much in revenues as, if not more than, the current system of taxation. All goods and services coming into the U.S. would pay the 8 percent tax while all exports would receive a comparable tax credit or tax abatement as an offset to its company's business consumption tax. Suddenly, the U.S. would become

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competitive again with our trading partners. And we would bring jobs home to America.

I am encouraged to see that this concept is beginning to gain broad, bipartisan support. Former Democratic Senator Fritz Hollings supports this approach to business taxation as do Sen. Jim DeMint and Congressman Paul Ryan.

I would suggest to you that the time is right for a bold initiative to bring jobs home to America and rebuild our manufacturing base. The only lasting solution to the high levels of structural unemployment we are facing these days is to get our private sector moving again as we did when Ronald Reagan and John Kennedy were President. One a Republican, the other a Democrat, both men understood the importance of private sector job creation to get us out of an economic slump. With bi-partisan support, President Reagan got Congress to pass the Kemp-Roth Job Creation Act in 1981. It spurred economic growth and put Americans back to work.

The circumstances are different today – our debt levels are so much higher (debt to GDP – corporate, consumer, and government debt – was 91 percent in 1981. At the time of the Great Depression, it was approximately 300 percent. Today it is approaching 370 percent) And the solutions called for are different in light of our high debt levels and the hallowing out of our manufacturing base, but the principle remains the same – getting the private sector growing again, particularly small businesses where most new jobs are created.

I would suggest that the time is right for such a bold move for a number of reasons:

1. Even President Barack Obama has shifted gears and called for lowering the corporate tax rate.
2. At a recent *Barron's* magazine roundtable, some of the best investment minds in the country had this to say:
    a. Bill Gross, "The solution isn't to create paper. It is to create goods and services that the rest of the world wants to have."
    b. Scott Black, "We need to focus on employment and investment in manufacturing goods and services."
    c. Mario Gabelli, "How does the U.S. compete when our jobs are being exported?"
    d. Oscar Schafer: "In the 1970s, the U.S. had 20 million manufacturing jobs, with a population of 220 million. Now we are down to less than 12 million manufacturing jobs with a population of 320 million."
    e. Mark Faber: "The government continuously implemented policies to boost consumption, when everyone should know that an economy will grow in a sustainable way through the implementation of policies that foster capital formation."

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3. More and more business executives are speaking out on the uncompetitiveness of the existing tax system.
4. Private sector union leaders have seen their workers lose their jobs to other nations and are open to business-labor coalitions to bring jobs home to America.
5. Fortunately, a positive feature of the recently passed tax bill allows companies to expense its capital investments in 2011. Under the Hartman Plan, that change would become permanent.
6. The present business tax system rewards debt while punitively taxing savings, capital investment, and employment which are the engines of economic growth. It works great for private equity financial engineers who load companies up with debt, downsize them, and then flip them to someone else in a few years, but it is terrible for creating or keeping jobs in America.
7. Even *The New York Times* acknowledged in a recent column by David Leonhardt that the current tax system "distorts incentives." It leads to business decisions being made for tax purposes, rather than making investments for commercial potential."

I would add: That onerous tax system exports prosperity and good American jobs abroad. We shouldn't tinker around the margins, but totally eliminate the existing corporate tax structure and replace it with an 8 percent business consumption tax. That is a real economic stimulus plan which would bring jobs home to America, rebuild our manufacturing, lower our trade deficits and put Main St. producers along with small business owners back in charge of the American economy.

Texas remains the number one place in America to do business. Let's make America the number one place in the world to do business again.

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The Texas Workforce Commission is a state agency dedicated to helping Texas employers, workers and communities prosper economically. For details on TWC and the programs it offers in coordination with its network of local workforce development boards, call (512) 463-8556 or visit www.texasworkforce.org.