



From the office of Texas Workforce Commission

Chairman Tom Pauken

Opinion/Editorial

For Immediate Release

Date: July 12, 2011

Address by Chairman Tom Pauken at the Texas Farm Bureau Summer Commodity Conference in San Marcos July 7, 2011

Let me first begin by expressing my appreciation to the Texas Farm Bureau for all of the fine work your organization does in representing the views of Texas farmers and ranchers. In particular, I applaud your steadfast support of private property rights. The protection and security of private property is one of the bedrock principles of our political freedom, and it is central to our nation's economic prosperity.

Just compare the abundance of food available here in the U.S. to the dismal condition of agriculture under Communism in the former Soviet Union, or even today in Communist nations like China and Cuba where private property rights enjoy no protection.

Your work has done much to ensure that agriculture continues to play a vital role in our state's economy. The Texas Department of Agriculture estimates that one out of every seven jobs in our state is tied to the agriculture industry. And thanks to our farmers and ranchers, Texas agriculture averages more than \$4.5 billion in exports to foreign nations each year. And – for once – it's not just Texas that is doing well. In a nation where the monthly trade deficit was \$43.7 billion in April, the U.S. agriculture industry enjoys a trade surplus of \$3.3 billion.

In recent decades, our Washington decision makers have put tax and regulatory policies in place which have had the effect of decimating what once was the strongest manufacturing sector in the world.

More about that later. But, we cannot let something similar to that happen to American agriculture.

Especially important is stopping the federal government from imposing on us a proposed "cap and trade" system . . . ostensibly designed to address the problem of greenhouse gases and global warming. It would do so by establishing a nationwide limit on the amount of carbon dioxide which can be emitted into the atmosphere.

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Because fossil fuels are the largest source of carbon dioxide, cap and trade would raise energy prices by making it more costly to use oil, natural gas, and coal. Businesses would be issued permits that set limits on how much carbon dioxide they could emit. Businesses that emit less than the allowed amount could then sell the unused portion of their permit to companies that wish to exceed their carbon quota. Alternatively, large carbon emitters could buy “offsets” which are vaguely defined but essentially allow companies to avoid cutting their own emissions by investing in activities that take carbon dioxide out of the atmosphere – like planting trees in South America.

The effectiveness of this approach is speculative at best, but the high economic costs are certain. While Wall St. traders – who would make a market for the buying and selling of permits and offsets – and the Washington bureaucracy created to oversee such a program would benefit, cap and trade is a job killer for Texas and harmful to American agriculture.

An analysis by the comptroller’s office and the University of Texas found that if cap and trade becomes law, its effects on the Texas economy would be disastrous.

Increases in energy prices would result in the loss of up to 313,000 jobs by 2020 and up to 425,000 jobs by 2030.

Farmers would be among those hardest hit. Planting and harvesting crops requires the use of a great deal of heavy machinery that consumes a substantial amount of fuel. Moreover, the increased cost of transporting crops would push commodity prices up and consumer demand down.

According to one estimate, tens of millions of acres across the nation, currently used to produce food, would be converted to forests because of the market for carbon reducing “offsets.”

Higher gas prices and a higher cost to do business; less American land being used to put food on our kitchen tables; fewer jobs for our people, and more power to an out-of-touch Washington bureaucracy—that’s cap and trade. And it is truly frightening that in these economic times, that we have politicians from both sides of the aisle advocating such a policy.

Let me briefly provide an overview of our job situation here in Texas.

Texas has weathered the worst national recession since the Great Depression better than most states. Nationally, the official unemployment rate is 9.1 percent. For Texas it’s 8 percent –more than a percentage point lower than the national numbers. That’s still too high.

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From 2001 to 2010, Texas created 640,600 private sector jobs, an increase of 8 percent. In the past 12 months our state has added 195,400 total jobs and more than 183,000 of those were in the private sector. From 2001 to 2010, while we were adding private sector jobs, every other of the ten largest labor market states were losing them ... Michigan lost 20 percent of its jobs during that same period. And, nationally there was zero growth in the private sector during the past decade. The only growth in jobs was in government employment. And, we know that government doesn't create jobs. Only the private sector does.

Since the Obama stimulus plan began in February 2009 through May of this year, not only has unemployment increased but our nation has lost another 1.7 million jobs.

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.

Meanwhile, people and companies based in high tax, high regulatory states like California, Illinois, and Michigan are voting with their feet and moving their businesses and their employees to Texas. While we are poaching jobs from other states, ultimately this is a zero sum game as other nations steal jobs from the U.S. at an even faster pace – particularly manufacturing jobs.

America once was the world leader in the manufacturing industry. But, in the last decade that's changed and to someone like myself, who believes that you cannot have a strong economy without a strong manufacturing base, the numbers are sobering. Do you realize that in the 1960s there were twice as many jobs in U.S. manufacturing as there were government jobs? The reverse is the case today. Over the past decade, we have lost one-third of our U.S. manufacturing jobs – that's five and half million American jobs that have been outsourced, shipped overseas, or simply gone away.

The late German economist Kurt Richebacher observed, "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."

Meanwhile, the U.S. is running massive trade deficits with our trading competitors. We currently have trade deficits with 90 nations. In fact, our manufacturing trade deficit from 2000 to 2008 was \$5.4 trillion.

President Barack Obama proposes to fix the problem by "out-innovating" our trading competitors. But, as Andy Grove, one of the founders of Intel, has pointed out, it's "hard to innovate if you don't make." And the United States is not making much these days.

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I believe the number one reason for the decline in manufacturing over the last decade is that the United States has the most onerous business tax system in the world with a 35 percent income tax rate and a 7.5 percent employer portion of the payroll tax. In addition, we are, on the average, at an 18 percent tax disadvantage with our trading competitors who provide tax incentives for their domestic-based manufacturers while we have tax incentives to export prosperity and good American jobs abroad.

Our business tax system rewards private equity moguls for loading up American-based companies with lots of debt because under our current tax structure debt is deductible while employment, capital investment, and savings . . . the very engines of job creation and economic growth . . . are punitively taxed.

There is a common-sense solution available that addresses these massive trade deficits and loss of our manufacturing base. Under a proposal known as the Hartman Plan, the onerous corporate tax system 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 revenue as, if not more than, the current system of taxation. All goods and services coming into the United States 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 United States would become competitive again with our trading partners. And we would start bringing jobs back home to America.

Most Americans don't realize how much of a tax disadvantage we are at with our trading competitors, most of whom have their own version of a business consumption tax back home. For example, a GM Cadillac made in the U.S. and priced to sell for \$50,000 to compete against a European-made Mercedes-Benz is hit at the German border with a 19 percent tax while the European-made Mercedes-Benz imported into the U.S. gets a 19 percent tax credit against its taxes back home. The result is that Germany has maintained a strong manufacturing sector even with a high-wage cost structure. No wonder our manufacturers can't compete. It isn't a level playing field.

I am encouraged to see that this concept of eliminating our job-killing corporate tax and replacing it with a business consumption tax that would tax all goods and services coming into the U.S. at an 8 percent level 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. Pat Choate, who ran for Vice President as an Independent with Ross Perot, supports this idea. 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.

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When I was a young man, “made in the U.S.A.” was a symbol of pride for what was then a strong and vibrant U.S. manufacturing base. It can be again if we have the political courage to stand up to the powerful interests that benefit from a tax system that exports prosperity.

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.

If we are determined to make sure that what happened to manufacturing doesn’t happen to agriculture then we must be committed to real reform. 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 Street producers, farmers and ranchers, along with small business owners back in charge of the American economy.

Finally, a word about a larger trend that threatens our nation. The Obama administration has made centralization and consolidation of power the driving principle of its policy agenda. I believe that we should be going in the opposite direction . . . that what we need more of is *decentralization*.

And I believe that now is an apt moment for a major shift away from the concentration of power in Washington, D.C., to an approach which would allow the states and local communities to exercise a much greater control over how best to order their communities.

“One size doesn’t fit all” when it comes to dictating policy by a centralized bureaucracy headquartered in Washington, D.C. Those of you here from small towns across rural Texas know that your needs are different from those who live in large metropolitan areas.

Diversity is a strength, not a weakness of our great nation. As quickly as possible, we need to move power and money away from Washington, D.C., and back into the hands of the states, cities, and the people themselves.

E.F. Schumacher wrote a book called *Small is Beautiful*, published in 1973, which challenged the notion that “bigger is better” and called for “decentralization” when economic, political and social structures became too large and complex. Schumacher bluntly stated, “Any intelligent fool can make things bigger, more complex, and more violent. It takes a touch of genius – and a lot of courage – to move in the opposite direction.

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In closing, let me quote from One Father's Words, a letter that a dying father from Brenham, Texas wrote to his son, Tieman Dipple. It seems to me that this brief excerpt from that letter provides good guidance for us as our nation wrestles with these serious issues:

"The time that we spend on earth is relatively small in comparison with the great movement of history. All we can do in our life span is to make the world better than when we first arrived. All fortunes ultimately are dispersed, but the ideas and values that you leave to society can live forever... We must try to make every generation's character better than the one before it and build a higher standard of living through wise policies."

It is not about Right vs. Left. It is about Up or Down. If nothing is done the American dream will die for future generations. Are we going to change course and make America an even greater land of opportunity than it was for us and those who came before us? Or, are we going to go the way of so many other great nations throughout history that stumbled, declined, and fell – never to recover. The choice is ours.

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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.