From the office of Texas Workforce Commission

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Opinion/Editorial

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Shifting from Consumption to Production:
What it Will Take, and Why We Must Do it Now
By Tom Pauken

America faces its most serious economic crisis since the Great Depression. While the finance economy has improved somewhat since the bursting of the credit bubble in 2008, the labor market economy continues to languish with the national unemployment rate officially at 9.2 percent. The "solution" of the Obama administration has been a massive government stimulus program designed to get the consumer to spend us out of this nasty national recession. The president's economic advisors claimed that its government stimulus program would result in unemployment coming down from 8.0 percent to 6.5 percent. Instead, unemployment is much higher today while our federal debt levels have risen significantly. Since the Obama stimulus plan began in February 2009 through May 2011, we have lost another 1.7 million jobs.

This Keynesian strategy of having the federal government spend its way out of this recession hasn't worked, and it won't work. As investment fund manager Mark Faber succinctly states, "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."

This message is beginning to resonate across a broad range of opinion leaders. *New York Times* columnist David Leonhardt recently wrote a column entitled, "As a Nation, We're Spent," which notes that "the old consumer economy is gone and it doesn't look as if it's coming back." Leonhardt points out: "We are living through a tremendous bust. It isn't simply a housing bust. It's a fizzling of the great consumer bubble that was decades in the making."

The solution to our high levels of unemployment, lack of private sector job creation, and the hollowing out of our U.S. manufacturing base is to change the way we tax business in the United States. We have the most

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onerous corporate tax system in the world with a 35 percent income tax rate and a 7.5 percent employer portion of the payroll tax. It rewards loading U.S.-based companies up with lots of debt – because debt is deductible – while punitively taxing employment, capital investment, and savings which are the engines of economic growth and job creation.

Leonhardt is on the right track in his column with his statement that the U.S. must "begin moving away from its consumer economy – toward more of an investment and production economy, with rising exports, expanding factories and more good-paying service jobs."

Rather than pass another stimulus bill, Leonhardt argues that "[a] more promising approach could instead offer a tax cut to businesses – but only to those expanding their payrolls and, in the process, helping to solve the jobs crisis."

Leonhardt is right, but he doesn't go far enough. We should scrap our existing business tax system and replace it with a revenue-neutral, 8.0 percent business-consumption tax that would be border-adjusted.

Known as the Hartman Plan, 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 U.S. would pay the 8.0 percent tax while all exports would receive a comparable tax credit as an offset to its company's business consumption tax.

Under a business consumption tax, we would immediately begin bringing outsourced jobs back to America as we transformed from a consumer economy, laden with debt, to an economy built on productivity.

Tom Pauken is Chairman of the Texas Workforce Commission and author of Bringing America Home.

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