Speech

For Immediate Release
Date: November 30, 2010

Address of Chairman Tom Pauken to the 14th Annual TWC Conference in Dallas, Texas, November 17, 2010 (Abbreviated Version)

Today, I want to focus my thoughts on how we have gone from having the strongest economy in the world to facing the most serious national recession since the time of the Great Depression. How do we get this economy moving again, and how do we put people back to work?

What a difference a few years make. When Governor Perry named me Chairman of the Texas Workforce Commission in the spring of 2008, unemployment in Texas was at 4.5 percent. While the country as a whole already was in a national recession, the Texas economy was still booming. Yet, I suspected that it was only a matter of time before Texas would feel the ill effects of that economic hurricane. In fact, I said when I was sworn into office, "If the credit crisis worsens, Texas will not be immune to the consequences of the fallout from the effects of a bubble economy." Needless to say, the credit crisis worsened; and we began to feel the adverse impact of that national recession here in Texas.

Two and a half years later, national unemployment continues to remain persistently high as it hovers in the ten percent range while unemployment in Texas has climbed to 8.1 percent. While Texas is doing better than any other large labor market state in the country, that is no consolation to those Texans who have lost their jobs through no fault of their own and who are having a difficult time finding suitable employment, or any employment for that matter. To borrow a saying from Ronald Reagan, a recession is when your neighbor is out-of-work; a depression in when you are out-of work.

No matter how well we do in Texas, continued stagnation and decline of our national economy ultimately will take Texas down as well.

None of this has to be.

These economic problems didn't just appear overnight. They have been building for more than a decade. What a combustible combination for our American economy: credit excesses, the hallowing out of our manufacturing base, a decline in private sector jobs nationally, and, the excessive concentration of governmental power in Washington, D.C.

-more-

Americans are beginning to wake up to the reality that there has been a huge shift in economic power in recent decades away from the small businesses and Main St. producers (who historically have created a majority of new private sector jobs in America) to the Wall St. financial engineers and private equity moguls. An example of this power shift was in evidence during the credit crisis of 2008 when then-Secretary of the Treasury Henry Paulson engineered a government bailout of so-called “too-big-to-fail” financial institutions. Paulson used taxpayer dollars to bailout Wall St. traders from their risky credit derivatives bets. For example, Goldman Sachs, European financial institutions and other U.S. firms were huge beneficiaries of the $80 billion AIG bailout as they got paid 100 cents on the dollar for their risky trades.

That didn’t happen to the counterparties when Enron – which was an energy derivatives trading company at the end – or when Lehman went bankrupt. The counterparties were lucky to get 15 cents on the dollar in those cases.

These taxpayer bailouts of Wall St. traders actually started in the Clinton administration when Robert Rubin was Secretary of the Treasury. When the Mexican peso devaluation crisis hit and later when Long Term Capital Management failed, Rubin was there to bailout the Wall St. financial institutions that got on the wrong side of these risky credit derivative trades and that were deemed “too big to fail.” I call this process “the privatization of the gains and the socialization of the risk.” If these highly leveraged trades go well, the Wall St. traders get all of the benefits. If they go badly, we the taxpayers pay for the losses. This is “crony capitalism,” not the free market system at work.

Thomas Hoenig, the Federal Reserve Board head of the Kansas City region had this to say recently, “We’ve had a Treasury Secretary from Goldman Sachs under a Democratic President and a Treasury Secretary from Goldman Sachs under a Republican President. The outcomes have not been good.” I agree. If a financial institution is too-big-to-fail, then I suggest that it is “too big” in the first place.

But the fundamental question remains: How do we end Wall St. dominance over the American economy without resorting to massive government controls? The solution is less complicated than you might think: Replace our onerous business tax system with a revenue-neutral, business consumption tax.

Our present tax system rewards corporate debt – which is deductible – while punitively taxing employment, savings, and capital investment – the engines of economic growth and job creation in the private sector. The U.S. has the most onerous business tax in the world with a 35 percent corporate income tax rate, high payroll taxes, along with other heavy tax and regulatory burdens.

The consequences of this punitive business tax system are massive trade deficits, no private sector job growth, and the hallowing out of our manufacturing base. According to the Bureau of Labor Statistics (BLS), from 1999 through 2009 there has been ZERO growth in the private sector nationally. In fact, we lost 1.4 million private-sector jobs during that decade. The only growth in jobs in those 10 years has been government jobs. In that 10-year period, the United States has lost one-third of our manufacturing base – that’s a total loss of 5.5 million American jobs that have been shipped overseas, outsourced, or simply gone away. Austin businessman David Hartman notes that the U.S. manufacturing trade deficit in goods totaled $5.4 trillion from 2000 to 2008. We are currently running trade deficits with 90 nations around the world.

-more-

The late German economist, Dr. Kurt Richebacher, pointed out the devastating consequences of what we are doing to ourselves economically, “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.” As Andy Grove (a founder of Intel) has pointed out, it’s “hard to innovate if you don’t make.” And the U.S. is not making much in the way of manufactured goods, anymore. Intel’s former chairman Craig Barrett has said, “Intel can move wherever it must to survive, but I sometimes wonder how my grandchildren will earn a living.”

The situation has worsened recently. Since the Obama stimulus program started in February 2009 through May 2010 nationally we have added approximately 400,000 public-sector jobs while losing 2.7 million in private-sector employment. Government is dependent on a vibrant private-sector to pay for our benefits and services, and we are losing that with a shrinking private sector.

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

Adopting a business consumption tax to replace our current system would reduce the outsourcing of American jobs, encourage long-term investment in U.S. businesses, rebuild our manufacturing base, reduce our trade deficits and put business owners back in charge of the American economy. This is a real economic stimulus plan to get Americans back to work.

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.

We all know that, in light of these recessionary times, spending at every level of government will have to be restrained. Those in positions of responsibility from the federal governmental level all the way down are going to have to figure out how to do more with less. Given our extraordinary levels of government debt, we have no alternative except to get our federal debt levels under control before it is too late.

Any major effort to rein in federal spending also must address the excessive concentration of power in Washington, D.C., with its ever mounting federal mandates and earmarks. This is an apt moment for a major shift away from the concentration of power in Washington, D.C., to a decentralized approach which would allow the states and local communities to exercise a much greater control over how those federal dollars are best spent in their respective areas. “One size doesn’t fit all” when it comes to dictating policy by a centralized bureaucracy headquartered in Washington, D.C. 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, communities, and the people themselves.

-more-

We did this successfully before with welfare reform where the money and power over programs to help the needy were returned to the states. We can do something similar with education. Make the federal Department of Education a research arm for education in America while returning the money and the control over programs to the states and local communities. Just in Texas alone, the educational needs and interests vary widely from the Panhandle to Beaumont, from the DFW Metroplex to the Rio Grande Valley. Our local parents, teachers, principals, and administrators at the elementary, secondary, and post-secondary levels have a better feel for the needs of their local area than remote Washington, D.C. officials, fourteen hundred miles away, who all too often make subjective decisions about how much of our tax dollars we will get back and where those dollars are going to be spent in our state. Washington doesn't always know best – one size doesn't fit all.

Wouldn't it make a lot more sense to develop an equitable system of allocation of federal transportation, education, housing, labor, Medicaid, and social service dollars to the states and local communities where those locally affected could make the decisions as to how those dollars could be most effectively spent? What special expertise do federal regulators have that makes them so much smarter than local officials when it comes to doling out our tax dollars?

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."

In closing, let me quote from *One Father's Words*, a letter 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.

Media Contact: Ann Hatchitt
(512) 463-8556

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 unison with its network of local workforce development boards, call (512) 463-8556 or visit www.texasworkforce.org.