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An Economic Policy to Put America Back to Work
By Tom Pauken
(Speech to the Texas Business Conference in Abilene, Texas on Aug. 14, 2009)

As of June 2009, the Abilene area had an unemployment rate of 6.3 percent. While Texas remains the number one place in America to do business, nonetheless, this serious national recession is taking a toll on our state. (The Texas unemployment rate rose to 7.5 percent in June from 7.1 percent a month earlier.)

While the percentage of Texans out of work is much lower than the 9.4 percent national figure, continued unemployment claims for individuals out of work for more than a week are approximately 150 percent higher than they were in our state a year ago.

The national jobless rate is the highest since July 1983, and this current economic environment has a more worrisome feel to it than the recession back then. What is troubling is the sense that there is no place to hide when it comes to loss of jobs in the private sector. The job losses are across the board, with the manufacturing sector being one of the hardest hit in terms of layoffs and plant closings. Moreover, debt levels are much higher today than they were back in the early 1980s.

These trends have been developing for some time now. For example Floyd Norris pointed out in the August 8th edition of the New York Times:

“For the first time since the Depression, the American economy has added virtually no

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jobs in the private sector over a 10-year period. The total number of jobs has grown a bit, but that is only because of government hiring. For the decade, there was a net gain of 121,000 private sector jobs, according to the survey of employers conducted each month by the Bureau of Labor Statistics. In an economy with 109 million such jobs, that indicated an annual growth rate for the 10 years of 0.01 percent.”

Let’s address the loss of U.S. manufacturing jobs first. Our manufacturing sector is – and has been – in an economic depression throughout this decade. As far back as February 2006, former Reagan Assistant Secretary of the Treasury Paul Craig Roberts was warning of the devastating loss of good manufacturing jobs. As Roberts noted, “U.S. manufacturing lost 2.9 million jobs (from 2000 through 2005), almost 17 percent of the manufacturing workforce.”

The job situation in the manufacturing sector has continued to deteriorate at an even faster rate since then. In fact, throughout the entire eight years of the Bush presidency, the decline in manufacturing jobs averaged a 3.1 percent fall each year. That loss of U.S. manufacturing jobs has accelerated in the first year of the Obama Administration. Through May of 2009, the U.S. has lost another 654,000 manufacturing jobs. That is a 5.2 percent decrease. Our own state of Texas has experienced a 4 percent loss of manufacturing jobs this year.

The hollowing out of our U.S. manufacturing base also is a major contributor to the huge trade deficits the U.S. has been running this decade. As Austin businessman David Hartman has noted, the U.S. manufacturing trade deficit in goods totaled \$5.4 trillion from 2000 to 2008.

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The late Dr. Kurt Richbacher pointed out the devastating consequences of these huge trade deficits to our economic future: “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.

How do we expect to have a strong economy without a strong manufacturing sector? And, what impact will a weakened U.S. manufacturing structure have on our national security in the future? In addition to providing good paying jobs, that solid U.S. manufacturing base allowed us to build up our national defenses quickly in order to address the security threats posed by Japan and Nazi Germany during World War II. It also helped pave the way for the rebuilding of our nation’s defenses by the Reagan Administration to meet the challenges of the Soviet Empire in the 1980s.

Another significant reason why this national recession appears worse — and more persistent— than previous recessions is the higher debt levels in the U.S.

During the “go-go” years of what turned out to be a bubble economy, consumers, businesses, and most governmental entities (the Texas state government being a notable exception) went on spending sprees as though there were no tomorrow – and no day of reckoning.

American consumers had a negative savings rate in both 2005 and 2006. Consumer debt has been piling up as evidenced by credit card defaults which rose to record highs in May of this year. Meanwhile, state governments like California found it difficult to say no to any proposed spending schemes. Now, the state of California has run out of money and faces a budget deficit in excess of \$24

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billion. By contrast Texas, thanks to Gov. Perry and our legislative leaders, has balanced its budget again in 2009 and even maintains a rainy day fund, in case the economy continues to deteriorate.

The credit excesses of the late 1990s and early part of this decade have resulted in a “mountain load of debt.” John Riley of Cornerstone Investments has cited figures about overall debt to GDP (gross domestic product) which should concern all of us. In 1981, when President Reagan assumed office, debt to GDP – that is, consumer debt, corporate debt, and government was 91 percent. In 1930, at the time of the Great Depression, it was 300 percent. At the end of 2008, it was nearly 400 percent. That is way too much debt to get this economy moving again. Moreover, rather than reducing government debt, the Obama Administration is piling on more government debt with a stimulus package designed to get the American consumer to spend our way out of this serious national economic recession. Our federal budget deficit is expected to be nearly \$2 trillion this year. The Bush Administration tried to engineer a similar short term fix in early 2008 with a \$168 billion package of tax rebates to individuals (including money to those who had never paid taxes in the first place).

The Bush Plan didn’t work; and, I submit, the Obama stimulus plan won’t work either to get our economy out of the ditch – and growing again. Consumers aren’t going to spend if they are worried – as they are today – about whether they will have a job tomorrow, or about the very survival of their businesses. Instead, Americans are saving again – putting money away for their own “rainy day” fund. Personal savings were at 4.5 percent in April, jumped to 5.7 percent in May, and were 6.9 percent in June – the highest level of savings in 15 years.

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Meanwhile, however, government spending at the national level is totally out of control. With these massive budget deficits (and huge trade deficits as well), don't we run the risk of opening the door to runaway inflation, similar to what happened to Germany in the Weimar Republic after World War I?

The question you may be wanting to ask: Well, if you don't like what the Bush and Obama Administrations have done to address the most serious economic crisis our nation has faced since the Great Depression, what do you propose?

That is a fair question!

Government cannot create jobs – only the private sector can. While the government may seem to create jobs when it hires people or buys things, it destroys at least as many jobs as it creates when it does so. That is why you need a vibrant private sector to pay for and support the public sector.

The number one economic issue facing us today is – how do we encourage job creation in the private sector – particularly, small businesses where most new jobs originate – and put America back to work? No matter how well we do here in Texas – and Texas remains the number one place in America to do business, as *Forbes* magazine recently noted – we are still not immune from the national economic storms which hit our state hard late last year.

The United States went through difficult economic times in the late 1970s and early 1980s where we had high unemployment and a sluggish economy. With bi-partisan support, President Reagan got Congress to pass a job creation plan in 1981 which led to a spurt of economic growth

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throughout the decade of the 1980s. President Reagan believed – as did President John F. Kennedy – that “a rising tide lifts all boats.” Both Presidents – one a Republican, the other a Democrat – put policies in place that provided incentives to create private sector jobs in a stagnant economic environment. And, those policies worked – they put Americans back to work.

What troubles me about the economic policies of the Bush Administration in 2008 and the Obama Administration in 2009 is that the primary emphasis seems to be on bailing out the Wall St. crowd and troubled financial institutions – entities that bear a significant share of the blame for the economic mess we find ourselves in these days. I find disturbing this recent trend of these so-called “Washington experts” invoking the power of the federal government to pick winners and losers in the private sector. Don’t we run the risk of losing our free enterprise system and having it morph into something along the lines of “crony capitalism” and “state capitalism,” if we continue down this path?

The federal government does not have to spend trillions of dollars in a vain attempt to “stimulate” the economy. Indeed, one of the most important things it could do to encourage economic development and job creation would be revenue neutral; and, over time, this change in economic policy would bring in extra money to the treasury: The time has come to reform our job-killing business tax system. One way to do that would adopt the Hartman Plan which would replace our onerous 35 percent business-tax with an 8 percent border-adjusted consumption tax.

Our current tax system rewards debt while penalizing companies that save and invest to create jobs in the United States. Hartman’s proposal would change all of that by leveling the playing field

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with our foreign competitors and by keeping good-paying jobs here at home, rather than exporting prosperity abroad. Not only would this badly needed business-tax reform help put America back to work, it would also begin the difficult process of rebuilding our hollowed-out manufacturing base while lessening our dependence on unstable sources of foreign energy. Passage of the Hartman Plan would end the dominance over the American economy by Wall Street investment bankers and private-equity moguls who take advantage of the current tax system to burden U.S. companies with high levels of debt and ship American jobs overseas. David Hartman's tax reform proposal puts economic power back in the hands of Main Street producers, small businesses, and the American middle class.

A lot of what we need to do to turn our national economy around is just "common sense." We have to do a better job of teaching the basics at the elementary and secondary school level, encourage more of our young people to take advantage of the opportunities awaiting them in the skilled trades, and restore a strong work ethic which promotes the idea of working hard for future rewards.

We Americans are a funny lot. Sometimes, it seems like it takes a crisis to wake us up to the serious nature of the challenges we face. Obviously, the credit crisis has hit us with the force of an economic hurricane. The time for action – along with a new direction in economic policy – is now. Texas is the best place in the country to do business. Let's make the United States the best place in the world to do business again – and put America back to work.

Tom Pauken is Chairman of the Texas Workforce Commission.