



From the office of Texas Workforce Commission

# Chairman Tom Pauken

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Speech

For Immediate Release

## **Address of Tom Pauken, Chairman of the Texas Workforce Commission (TWC) to the 13th Annual TWC Conference in Grapevine, Texas on December 2, 2009**

In the late 1990s, my friend Charlie Bahr recommended that I read a book by William Strauss and Neil Howe entitled The Fourth Turning. Their thesis was that America was going through one of those major cycles in our history as a nation – the authors called it a crisis period.

Since that book was written, we have witnessed the 9/11 terrorist attacks on the United States, the rise of militant Islam as a major force of instability in the world, a confirmation of social dysfunction and cultural decay in the civic order (as described in The Fourth Turning), and the most serious economic crisis facing our nation since the time of the Great Depression in the 1930s.

Neil Howe is one of our speakers this year, and I will leave it up to him to explain, and expound on, his thesis as to why America is going through one of those major turning points in our history.

I share Neil Howe's assessment about the magnitude of our problems. How we respond to the challenges we face will determine whether America's future is a bright one, or whether our best days are in the past. At such a critical juncture in our history, a "business as usual" approach won't work anymore. Nor will tinkering at the margins be sufficient to prevent a bad situation from getting worse.

Let's examine where conventional wisdom is wrong, or deserves to be challenged:

### Education

The widespread notion is that every child should go to college. That attempt to push all students into a four-year institution has come from the top down. When Bill Clinton was president, he was quoted as saying that every student should go to college. Implicit in President Bush's "No Child Left Behind" educational policy is the same notion that a university degree should be the goal for all our children.

State governments have followed suit. Listen to what California State Sen. Roderick Wright had to say about his state's goal of mandating college preparatory classes at the expense of "vocational and career technical education courses." "The attempt to put every student in California on the track to college has left too many standing at the station."

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Has not Texas fallen into the same trap until recently, with a “one size fits all” solution? Fortunately our legislature has begun to recognize once again the importance of career education and the value of preparing students for entry level employment skills at the high school and community college levels. The words of Sen. Wright ring true: “Instead of pushing students down a single path, we should be celebrating the diversity of skills and interests our children bring to school. It’s time to recognize that a diverse and productive economy needs a diverse and productive workforce.”

The statistics bear out the flaws of an educational policy focused on every student getting a four year degree. Look at this disturbing statistic cited by career counselor Marty Nemko: “Among high school students who graduated in the bottom 40 percent of their classes and whose first institutions were four- year colleges, two-thirds had not earned diplomas eight and a half years later.” Are we setting young people up for failure by promoting the idea that a college education is the “ticket to the good life” for all high school graduates while saddling them and/or their families with high levels of college debt?

We have to rid ourselves of this elitist notion that college graduates are somehow superior to skilled tradesmen, and recognize that we have different God-given talents. The key is to use those talents wisely rather than simply getting a college degree in order to get our career ticket punched.

Matthew Crawford makes an effective case for working with one’s hands. He is the author of a new book entitled *Shop Class as Soulcraft: An Inquiry into the Value of Work*. Crawford is one of the speakers at this conference. As Crawford points out, “high-school shop-class programs were widely dismantled in the 1990s as educators prepared students to become “knowledge workers.”

Now, that world has changed. Again, from Matthew Crawford:

“This seems to be a moment when the useful arts have an especially compelling economic rationale. A car mechanics’ trade association reports that repair shops have seen their business jump significantly in the current recession: people aren’t buying new cars; they are fixing the ones they have. The current downturn is likely to pass eventually. But there are also systemic changes in the economy, arising from information technology, that have the surprising effect of making the manual trades — plumbing, electrical work, car repair — more attractive as careers. The Princeton economist Alan Blinder argues that the crucial distinction in the emerging labor market is not between those with more or less education, but between those whose services can be delivered over a wire and those who must do their work in person or on site. The latter will find their livelihoods more secure against outsourcing to distant countries. As Blinder puts it, ‘You can’t hammer a nail over the Internet.’ Nor can the Indians fix your car. Because they are in India.”

### The American Economy:

Speaking of outsourcing, isn’t it time that we replaced an economic and tax policy that is a job-killer for America – one which exports prosperity and jobs abroad, burdens U.S. companies with high levels of debt, penalizes companies that save and invest to create jobs in the United States, while running up unsustainable trade deficits.

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Let's talk specifics. Writing in the New York Times earlier this year, Floyd Norris observed that there has been virtually no private sector job growth over the past decade:

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

Look at what has happened to U.S. manufacturing jobs during this period. Our manufacturing sector is – and has been – in an economic depression throughout this decade, having lost 5,515,000 good manufacturing jobs from 2000 through 2009, a 32 percent decline in this decade. The loss of jobs in U.S. manufacturing is accelerating this year. Through August, the U.S. has lost another 869,000 manufacturing jobs. That's a 5.2 percent decrease in the first eight months of this year. 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.

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.”

No wonder we are running such massive trade deficits with our trading partners. We literally have a business tax system which subsidizes foreign manufacturers from countries like China, Korea, Japan, Germany and others who compete against the American worker. The U.S. government's failure to remove the tax on exports creates a large and artificial relative price advantage for foreign goods, in both the U.S. market and abroad, of more than 18 percent.

How do we expect to have a strong economy without a strong manufacturing sector? We need to move as quickly as possible to put in place a tax system which encourages savings and capital investment in the United States while leveling the playing field for our trading partners. That would be a real stimulus program which would spur job creation in the private sector, particularly small businesses where most new jobs are created.

There are differing approaches to accomplish those objectives. One solution is the Fair Tax which would replace the personal and business income tax with a consumption tax. Not only would this change in tax policy improve the international competitiveness of American producers, it also would mean for American workers that their gross pay would equal their net pay. This revenue-neutral tax would result in domestic job growth, new investment and production here in the U.S., and more U.S. exports.

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Another alternative which would lead to similar results is the Hartman Plan which also is revenue-neutral. It would replace the onerous 35 percent business income tax and reduce payroll taxes with a 9 percent border-adjusted consumption tax. The passage of the Fair Tax or 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. Both plans put economic power back in the hands of Main Street producers, small businesses, and the American middle class.

#### Financial Institutions That Are “Too Big To Fail”:

Why and when did we ever decide that some financial institutions are “too big to fail?” That policy of taxpayer bailouts of major financial institutions began during the Clinton presidency when Secretary of the Treasury Robert Rubin intervened on behalf of Wall Street firms that had gotten on the wrong side of the Mexican peso trade when that currency devalued. Later, the New York Federal Reserve organized the bailout of a highly leveraged hedge fund called Long Term Capital Management. In both cases, the justification was that the financial transactions were too big and complicated to allow these entities to suffer the consequences of their risky financial bets.

The same rationale was used by President Bush’s Secretary of the Treasury Henry Paulson when the credit crisis hit us hard in 2008, and taxpayer dollars were used to bail out a number of troubled financial institutions. Tim Geithner, the current Treasury Secretary in the Obama administration, helped Paulson craft the bailout.

That leads me to what seems like a logical question: Why should big Wall Street firms that got involved in risky, credit-derivative trades with a company like AIG get paid 100 cents on the dollar for their gambling – with the cost borne by the American taxpayer?

I call this brand of economics “crony capitalism,” one which privatizes the gain while socializing the risk. The Wall Street traders win no matter what the outcome of these risky credit derivative trades turns out to be while we the taxpayers pay the price if the trades go bad.

We can’t undo what has already happened – those are our “sunk costs.” But, we can make sure that taxpayers aren’t stuck with these bad deals in the future when the next “too big to fail” financial institution gets into trouble.

That’s why I believe that former Federal Reserve Chairman Paul Volcker has it right when he recommends we return to a framework established by the Glass-Steagall Act which isolates commercial banking from investment banking and other risky activities.

#### A Government That Is More and More Remote From Its Citizens

When Gov. Perry asked me to chair the Texas Workforce Commission, I had been out of government since serving in the Reagan administration. From 1981 to 1985, I was director of an independent federal agency known at that time as Action. It is now called AmeriCorps. I have to say that I have been surprised as to how much bigger government has become at the national level and how many more federal mandates are attached to federal spending than there were in those days.

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We send our tax dollars to Washington, D.C. and hope to persuade those in charge of the various federal agencies and departments to give us back a reasonable portion of our pro rata share of federal tax revenues. Unfortunately, the federal mandates often make it even more difficult for those tax dollars to be productively spent.

Take transportation, for example. Sen. Tom Coburn of Oklahoma recently offered an amendment to the Department of Transportation budget which would have allowed states to opt out of a federal mandate that 10 percent of surface transportation funding go for “transportation enhancement” activities. Sen. Coburn argued that states and local communities should be able to spend those tax dollars – if they choose – on more critical repairs to our roads and bridges. Sen. Coburn cited a 2008 U.S. Transportation Department study that one-fourth of the bridges in the U.S. were deficient – and 12 percent were “structurally deficient”. There are similar problems with deteriorating water systems across the country. Sen. Coburn’s legislation seemed to me a common sense approach to allow the states and communities to make the decisions themselves on what their priorities were with respect to their own infrastructure needs. Unfortunately, Sen. Coburn’s amendment was defeated. I guess the folks in power in Washington D.C., know what’s best for the rest of us. So, local and state officials have to continue traipsing up to Washington, hat in hand, hoping to get their small piece of the large federal pie.

Wouldn’t it make a lot more sense to develop an equitable system of allocation of federal transportation, education, housing 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.”

Why not apply that same principle of decentralization to health care policy? It is a fact that in these difficult economic times, more and more Americans are losing their health care coverage, or paying more to get less.

What is the best solution? Should we add additional layers of government control over a health care system which, as Dr. Stephen Hyde points out, is one in which the federal government already controls “prices on virtually all doctor and hospital services.”

In his book Cured, Dr. Stephen Hyde, who has been a public company chief executive officer and involved in the health care field for nearly forty years, makes an observation about health care financing which sure got my attention. It may seem obvious, but I had not thought of it. As Hyde points out, everyday American consumers make decisions “for virtually everything they buy – food, clothing, housing, transportation, and recreation – everything that is except health care.” That’s why Hyde calls our current system an example of “upside down economics”.

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How do we deliver better care at a lower cost while ensuring that a safety net is available for all who need it? That is the key question. Both sides of the health care debate would agree on that proposition, I suspect. Why not move beyond narrow partisan politics and craft a consumer-driven, health care policy which would reduce the “gaming of the system” while providing real health care reform?

Americans face a more serious set of challenges than at any time in my lifetime. Previous generations of Americans have risen to the occasion. We can, as well. In fact, we have to, for the sake of our children and grandchildren.

A lot of what we have to do to get America back on the right track is just “common sense.” In addition to having an economic policy which rewards companies for creating and keeping jobs here in the United States, we need a return to a sound dollar policy. Our schools must do a better job of teaching the basics at the elementary and secondary school level. We need to encourage more of our young people to take advantage of the opportunities awaiting them in the skilled trades. And, we must restore that strong work ethic which once was an essential feature of the American character. With respect to an increasingly remote federal government, we need to restore the principles of federalism – with governmental power closest to the people, wherever possible.

I think that most Americans sense the seriousness of the moment. In fact, sometimes it seems like it takes a crisis to wake us up and get us to do what is necessary to get us headed in the right direction again.

Texas can lead our nation back. Our state is the best place in America for business. Let’s make the United States the strongest economy in the world again – and put America back to work.

Texas values also have a critical role to play in getting our nation back on the right track. A free market only works in the long run if you have an ethical compass underpinning it. The late Texas author Elmer Kelton wrote westerns about the cowboy’s way of life. Aren’t the following words from Kelton about the cowboy what Texas values are all about?

“What the cowboy is and always has been – a common man in an uncommon profession, giving more than he receives, living by a code of conduct his detractors will never understand.”

Good words for all of us to ponder.

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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 unison with its network of local workforce development boards, call (512) 463-8556 or visit [www.texasworkforce.org](http://www.texasworkforce.org).*