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**Job Creation in the Private Sector – A Real Economic Stimulus Plan**

*The Wall Street Journal* has said that the nation can learn from the Texas Model of economic development: low taxes, fiscal restraint, and regulatory reform. Instead, the federal government seems hell bent on following the California Model: high taxes, fiscal mismanagement, and regulatory overkill. To see the likely results, all we have to do is look at what's happening in California. To see what could happen if Washington adopted sane policies, we need only look at Texas.

California is struggling to overcome a budget deficit of more than \$40 billion; the main budgetary challenge facing Texas is to avoid being tempted into overspending our substantial budget surplus. In his State of the State address on January 15, Governor Schwarzenegger said dramatically, "The truth is that California is in a state of emergency." The deficit "is a rock upon our chest and we cannot breathe until we get it off." According to CNN Money, the state is just "days away from not having enough money to cover all its bills."

California cannot blame national and international problems for its financial woes. Jean Ross, Executive Director of the California Budget Project, admits that "California went into this downturn in a very weak position." Texas, on the other hand, can boast that its policies have cushioned the blows to its economy coming from the outside. The Texas unemployment rate is more than a point below the national average and more than three points below the California rate. As Andres Alcantar, my fellow Commissioner here at the Texas Workforce Commission has noted, "Texas employers have added a significant number of jobs in the past 12 months while the United States has lost millions of jobs." That's because "state leaders have laid a strong foundation for Texas as a business-friendly state with low taxes and less regulation."

Texas has learned the most important lesson of job creation: 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. It has to get the money to pay the people it hires from somewhere, and that somewhere will have that much less money to hire people and buy things. John Maynard Keynes, the intellectual founding father of deficit spending, said that he didn't care whether the government paid some people to dig holes and other people to fill them in.

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 economy-killing business tax system.

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At the national level, we have to scrap a business tax policy that rewards businesses for borrowing money and shipping jobs overseas and penalizes them for saving money and investing in the United States. This has to change if we are to lessen our dependence on foreign energy and rebuild our manufacturing base.

Our tax structure provides incentives for companies to incur debt in order to avoid taxation. Companies can write off debt, but savings and investment incur heavy taxes. The tax structure also makes it difficult for American businesses to compete with their foreign rivals. The United States is the only member of the Organization for Economic Co-operation and Development (OECD) that does not have a border-adjusted value-added tax, or VAT. As a result, our goods carry the full burden of federal, state, and local taxes, plus an added tax averaging 18 percent when they are shipped to foreign markets. To make matters worse, foreign goods shipped into the United States enjoy an 18 percent VAT abatement. Doug Ingram says that we are “exporting prosperity,” and that is what I believe we are doing as a result of our fatally flawed business tax system.

Austin businessman David Hartman has a thoughtful proposal as to how to level the playing field for United States businesses so that we can re-build our manufacturing base. For example, we could replace the corporate income tax, reduce the estate tax (the infamous “death tax”), and cut payroll taxes substantially with an 8 percent border-adjusted, value-added tax (VAT). The VAT would raise as much money as these other taxes but would be much less of a burden on the economy. In the long run, it would bring in a lot more money than the taxes it would replace because the economy would grow much faster. We would have a tax system that would encourage companies to create jobs in the United States and keep them here.

There are additional ways to provide an economic “stimulus” without deficit spending. We need to rekindle that strong work ethic whereby individuals take pride in their work and in using the talents God gave them. We should rescue those young Americans trapped in the destructive drug culture. And, our educational system must prepare students for real jobs in the real world with a greater emphasis on the kinds of skills training that can encourage our young people to become more self-sufficient.

Job creation in the private sector, along with a renewed emphasis on skills development and a good work ethic, is the kind of economic stimulus plan we need to put Americans back to work.

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*Tom Pauken is the Chairman of the Texas Workforce Commission.*

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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)*