

Bringing Manufacturing Jobs Back to America

Contributed by Tom Pauken
Tue, Mar 29, 2011, 10:20 AM

A front page story in Sunday's Des Moines Register addresses the closing of the Electrolux plant in Webster City and the loss of 850 manufacturing jobs which will be moved to Juarez, Mexico. As the article points out, "the four counties in the Webster City area...have experienced a 32.1% drop in manufacturing jobs" since 2000. That mirrors what's taken place across the U.S. which has lost one-third of its manufacturing jobs during the same period of time. That's more than 5.6 million good American jobs that have been shipped overseas, outsourced, or simply gone away. In the words of the late German economist Kurt Richebacher, "Essentially all (U.S.) jobs 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."

This hollowing out of our manufacturing base also results in the U.S. running massive trade deficits with our trading competitors. We currently have trade deficits with 90 nations. In fact our manufacturing trade deficit from 2000 to 2008 was 5.4 trillion dollars.

A major cause for this decline is that the U.S. has the most onerous business tax system in the world with its 35% income tax rate and its 6.2% employer portion of the payroll tax. Our business tax system rewards private equity moguls for loading up American-based companies with lots of debt (debt is deductible under our current system of business taxation) while punitively taxing employment, capital investment, and savings — the engines of job creation and economic growth. Our existing tax system effectively exports prosperity, and American jobs overseas.

President Obama proposes to fix the problem by "out-innovating" our trading competitors. But, 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 anymore these days.

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, the onerous corporate tax system would be replaced by a revenue-neutral, 8% 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% 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 start bringing jobs back home to America.

Most Americans don't realize that on average we are at an 18% tax disadvantage with our trading competitors, most of whom have their own version of a business consumption tax back home. For example, a U.S. manufacturing company trying to export into Germany is hit at the German border with a 19% tax while a German manufacturer selling its products in the U.S. gets a 19% tax credit or tax abatement back home. Germany has maintained a strong manufacturing sector even with a high wage cost structure.

This concept of a business consumption tax to replace our current corporate tax structure is gaining more and more support. Former Democratic Senator Fritz Hollings supports this approach to business taxation as do Sen. Jim DeMint and Congressman Paul Ryan. Economist Pat Choate, who ran for Vice President in 1996 with Ross Perot, also is a strong proponent of this idea.

The time is right for a bold initiative to bring jobs home to America and rebuild our manufacturing base. The only lasting solution to a stagnant economy is to get the private sector moving again and bring jobs home to America.

Let's not tinker around the margins. This is the right time to totally eliminate the existing corporate tax structure and replace it with an 8% business consumption tax. That would be a real economic stimulus plan which would bring jobs home to America, rebuild our manufacturing, lower our trade deficits and put Main St. producers back in charge of the American economy.

The time to act is now before it is too late.

Originally appeared in the Des Moines Register.

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