



Replace the Job-Killing Corporate Tax With a Border-Adjusted Consumption Tax

by Tom Pauken

The emergence of the U.S. as the world's manufacturing superpower was the key driver of our economic health during the 20th century. The U.S. was able to provide jobs with high wages while simultaneously producing low-cost goods which kept the cost of living low.¹ What is less appreciated is that America's dominance in manufacturing also gave the U.S. a decided advantage in matters of national security.

American manufacturing superiority helped us win World War II, as the U.S. was able to rapidly build the planes, tanks, guns, and other military weapons that were vital to the war effort. Once World War II ended, our manufacturing sector provided a key advantage over the Soviet Union during the Cold War and the accompanying arms race.

Now, some 70 years since entering World War II, the American manufacturing sector has been decimated. From 2000 through 2010, we lost one-third of our manufacturing sector workers; 5.6 million American jobs were shipped overseas, outsourced, or simply went away.

Meanwhile, the U.S. is running massive trade deficits with our trading competitors. We currently have trade deficits with 98 nations. Our manufacturing-trade deficit from 2000 to 2008 was \$5.4 trillion. The revitalization of our manufacturing sector and bringing jobs home to America should be top priorities of our political leaders. The rebuilding of our U.S. manufacturing sector is essential for both economic and national-security reasons.

A central reason for the loss of our manufacturing base, lack of growth in our private sector over the past decade, and our massive trade deficits is a business-tax system that is the most onerous in the world with its 35 percent income-tax rate and its 7.65 percent employer portion of the payroll tax. Our current business-tax system rewards debt – because debt is deductible – while punitively taxing the engines of economic growth – capital investment, employment, and savings in the U.S.

Between state and federal income taxes, U.S. corporations face statutory rates roughly 14 percentage points above the average for all Organization for Economic Cooperation and Development (OECD) nations. American small businesses are particularly hard hit by the system. American-based businesses that have most of their plants and employees in the U.S. are (on the average) at an 18 percent tax disadvantage to our trade competitors. Virtually every major trading country in the world, except for the U.S., provides a tax advantage for its domestic

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manufacturers. This horrendous tax inequity has turned the trade surplus that America once enjoyed into an abysmal trade deficit. Thankfully, there is a solution.

Under an 8 percent, revenue-neutral, border-adjusted business consumption tax (BCT) called the Hartman Plan, corporate decisions would be made for business reasons – not tax reasons. Under the Hartman Plan, all goods and services coming into the U.S. pay the 8 percent tax. Exported goods and services would not be subject to the BCT and would receive rebates or credits on BCT payments made on capital inputs.

By eliminating the corporate income tax and allowing for the expensing of capital, the U.S. could better compete for new businesses and capital investment. Most Americans are concerned about the loss of good-paying American jobs to other nations and the hollowing out of our manufacturing base. A shift to a business-consumption tax would be a huge boost to the American economy. A system of taxation which rewards capital investment and savings is just the right medicine for an ailing and stagnant private sector.

Public Interest Institute's POLICY STUDY, "Replace the Job-Killing Corporate Tax With a Border-Adjusted Consumption Tax," by Tom Pauken can be viewed at <http://www.LimitedGovernment.org/publications/pubs/studies/ps-11-7.pdf>.

Endnotes

¹Clyde Prestowitz, *The Betrayal of American Prosperity*, Free Press, New York, 2010, pp. 60-61.

About the Author

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To read Tom Pauken's Editorials, Opinions, Speeches, Statements, & Press Releases visit The Chairman's Corner: http://www.twc.state.tx.us/svcs/commrs/chr_corner.html on the Texas Workforce Commission Website.

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