

## Employment Creation: A Plan for Stopping Big Government and Big Corporations From Being Job Killers



How government actually impacts an individual's incentive to start a business and to employ people provides solid clues about how government needs to be re-thought. The arguments presented below concerning the importance of individual incentive and the role of large interest groups and corporations in job creation are not novel; they are central themes of **Adam Smith's Wealth of Nations** which was published at about the same time as the framing of the U.S. Constitution.

- **The Federal government needs to get smaller.** It is a fact that most jobs are created by small business. The needs and struggles of these businesses are often submerged in the economic “policy” discussions between large government and large corporations or other large entrenched interests. The term “policy” is supposed to imply possessing a larger perspective, but, in reality, the debate excludes from the table all who cannot buy their way in, and all who are not career politicians and bureaucrats. This is the reason why economic policy today seems so disconnected from the lives of the average citizen attempting to make a living. Government policymakers do not have to meet a payroll; in fact, they have no idea about the specific source of the funds that pays their salaries and benefits or the overhead of their agency. The bigger the organization or interest, like Wall Street, the more likely it is that big government will be mesmerized by these special interests. In other words, big government cannot see other people's work and individual incentive as the root of job creation and sustainability. As government grows, each agency in it becomes a separate government in and of itself. It develops a constituency which becomes more and more dependent on it; and, in turn, agency advocacy for its constituents promotes a sense of political and economic entitlement which further detaches government from how spending impacts taxpayers. This sense of perpetual entitlement is the “government cycle”; this is in sharp contrast to the “business cycle” in which the existence of a particular business is wholly dependent upon paying customers.
- **The definition of Anti-Trust needs to be broadened.** Because the Federal government is an organization of groups of large entrenched interests, its primary function is to channel tax revenues to companies and interest groups that have a direct or indirect stake in maintaining their own revenue stream. One of the reasons that large corporations have been able to kill both jobs and small business competition is that government is still using older definitions of anti-trust which focuses on monopoly of a particular industry. The new definition of anti-trust should focus on the power and influence that large corporations and oligarchies have over governmental institutions, including the Federal Reserve, across sectors, and across national borders, and how this power stifles job creation. Using this definition, oligarchies rule and have virtual monopolies in the defense, banking, transportation, communications, and energy sectors, and near monopolies in several other major sectors of the economy. Again, the heart of the new definition of anti-trust should be job creation. Currently, there are no job creation

metrics attached to government spending or contracting so it is small wonder that huge government bailouts have produced virtually no real job growth. The large corporations have reduced their overhead through employee reductions, and/or compensation and benefits reductions. These same corporations have also shifted a large part of their employment and production base overseas, the effect of which has been to not only reduce or eliminate America's world competitiveness in major industries (like steel, autos, cement, metals, and equipment manufacturing), but also to destroy the employment base of communities. Unbridled corporate political influence through campaign financing and lobbying is a large part of the monopoly equation. Some corporate behemoths pay virtually no taxes. The newsprint media, in particular, has consolidated so that, with few exceptions, it no longer fulfills the role of rooting out, and sounding the alarm, on practices that weaken a competition-based democracy.

- **Government should not tax a business prior to its generation of revenues.** The meeting of social service needs is an important aspect of our society, but, literally, everything that government has in resources comes from the revenues and profitability of the private sector. Taxing a business before it earns revenues, by definition, puts a false-face on public revenues because all upfront and start-up taxation and costs do is siphon off of a portion of the capital invested. Government should not be benefiting from a business before the business actually gets off the ground. This practice unduly raises the entry barriers for entrepreneurs and risk-takers and innovators – the sources of business ideas that create jobs. Government does not need these upfront taxes and costs to pay for infrastructure costs of the new business; in fact, this notion is ludicrous. In reality, the capital invested in the new business is used to make payments to established suppliers, lawyers, accountants, staff, landlord, etc. who are using the roads and infrastructure and who are already pay taxes on the profits that they make.
- **Small business effective tax rates should be set significantly below those of major banks and corporations.** Borrowing is required by most businesses to start-up and to stay in business, either in the form of obtaining revolving lines of credit or taking on short or long-term debt. Banking institutions, credit unions, investment funds, venture capitalists, investors and others provide this essential capital. The government does not really have any money of its own; all of the funds it holds are derived from taxpayers or from user fees. The banking system receives the benefit of public revenues by being able to borrow from the U.S. Federal Reserve for, virtually, no interest; the banks, then, re-lends this taxpayer money at rates of interest which range from nominal to exorbitant. In effect, major banks make their profits from lending back the taxpayer's capital. Because there are administrative costs and government spends more than it takes in, the costs of capital are quite high, especially for small businesses. The banking system in the U.S. is at the heart of the major downturn in the U.S. economy. The major banks are, at least, quasi-public entities now: they act as pass-through vehicles from the taxpayer to the private sector, and they are beholding to the U.S. taxpayer for bailout assurance. Since small business does not have the same direct or indirect access to taxpayer money as do major banks and corporations, and since small business generates the jobs, small business should pay significantly lower rates of taxes than do banks and major corporations.

- **Government must be prohibited from diverting employment based pension revenues to other purposes.** Government also does not supply the second important component of job creation—the workforce itself. Even though government does not provide the labor components, it does derive revenues from a business’ labor. The income taxes paid by individuals and businesses which support general social purposes should be viewed as entirely separate from the pension revenues that government takes in – particularly Social Security taxes. Pension revenues are for the future needs of the contributors. These pension revenues have been diverted or borrowed from by the Federal government for purposes other than to pay back retiree contributors. Because this diversion and borrowing creates governmental indebtedness, this debt not only reduces the value of the employee’s contributions, it also raises the cost of capital because the government competes with the private sector for capital, and the resulting increase in borrowing costs stifles job creation.
- **Government should not make or change a law or regulation without first broadly informing the public of its impact on taxes and employment.** Since government is the only institution that can make law and create the authority for regulatory agencies to operate, government determines where a business can operate and under what rules, what agency it must report to, how much legal or administrative costs will be involved, what its environmental and legal limits are, etc. Government has to have the authority to change the rules of the game, but the impacts on employment and job creation should be precisely indicated and independently verified in the law or regulations. Given that a recent U.S. Supreme Court ruling disables limits on campaign contributions, mandating that legislation reveal job impacts should greatly reduce pork barrel politics because providing the evidentiary proof of job creation will be reasonably more economic and less political in nature.
- **Government should not tax the gain from selling a business.** If a business has been paying its taxes all along, the increased value of the business is not something that government is entitled a piece of. The government did work in the business; the government did not put up the capital; the government does not own the business; therefore, it has not earned any rights to the increased value. People who spend their lives owning and operating a business, sacrificing, and taking the risk have earned the right to reinvest the capital they receive back without government gaining a one-time, 20% or windfall on the increased value of the business.
- **Government should not receive taxes from inheritances.** When parties are related, an inheritance of a business should be viewed as little more than a transfer of the title because while human beings have an assumed lifespan, businesses do not and are assumed to go on in perpetuity. By taking 50% of the business’ value through inheritance taxes, the business owner is leaving 50% of the business to the government; in effect, the government has been a lifelong partner. The government has already received dividends in the form of annual tax payments;

by forcing a sale of the business or the taking on of new indebtedness, to pay off its lifelong government partner, jobs will be lost.

It is very difficult to imagine that the framers of the Constitution, many of whom were devotees of Adam Smith, would agree that the wealth of the nation would be so concentrated in the government and in so controlled by a few corporate groups or oligarchies. On the contrary, they recognized that the rights of the people needed to be protected from the tyranny of the few. If a plan to reduce big government and big special interests is not enacted soon, the incentive for individual creativity and hard work will be lost for generations and the gap between those that have and those that do not will widen. The middle class is shrinking dramatically already and many people who were formerly believers in the American Dream are convinced that we should be planning for a much lower standard of living, and even for economic, political and social chaos. **Is this your plan for America?**