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Do the Math -- Lower Corporate Tax Rates = More Jobs, Growing Economy

By Rodney P. Mock

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The good news came in March. The February unemployment rate dipped slightly below 9 percent to 8.9 percent, according to the U.S. Bureau of Labor Statistics, with nonfarm payroll increasing by 192,000 jobs.

But before we pop the Champagne and toot our patriotic Made-in-China horns we need to keep in mind that until this latest miniscule decrease, the unemployment rate had held over 9 percent for a staggering 21 consecutive months.

Not only that but the unemployment rate among blacks and Hispanics continues to be north of 10 percent; the jobless rate among our teenage youth also remains at a jaw-dropping 23.9 percent; and more than ever college graduates are returning home unemployed and crippled with mortgage size student loan debts.

Even with the lower February unemployment figure, at some point our employment rate will clearly reach a glass ceiling as the number of jobs fleeing overseas continues to rise, with more and more U.S. corporations, particularly in the technology and pharmaceutical industries, setting up shop in friendly-tax countries like Ireland, Switzerland and Bermuda.

If the U.S. is ever going to emerge from this economic abyss, if our government is truly serious about stimulating growth and significantly cutting the unemployment rate, the federal income tax rate on American corporations must come down so that we can create a sustainable economy again.

Indeed, at 35 percent, our country has one of the highest statutory corporate tax rates in the industrialized world. This rate increases even higher to an astonishing 40 percent when including the state and local taxes typically paid by corporations. In contrast, countries such as Ireland, Switzerland, and Bermuda have corporate tax rates of 12.5 percent, 8.5 percent, and 0 percent, respectively.

Moreover, a recent report by The Cato Institute estimates the United States also has the highest effective tax rate on new investment 34.6 percent among all countries in the Organization for Economic Cooperation and Development. While other countries are lowering their rates to compete, ours have remained steadfast and for no particular reason. The average OECD effective tax rate on new investment was 18.6 percent.

In his State of the Union address, President Obama acknowledged that American corporations were faced with a seemingly insurmountable competitive disadvantage given the corporate tax rates. Of particular note, there are millions of corporations stuck doing business in America, unable to use the various tax loopholes entailed with conducting business offshore. In Mr. Obama's own words, this "makes no sense," and "has to change."

That change will only come by lowering the rates, which will spur significant economic development, bring our American jobs back to our shores, let the part-time employees become full-time, let the discouraged workers become encouraged, and let the unemployed become employed.

And the government should be salivating at this prospect. As it stands now, the percentage of federal revenue generated from U.S. corporations has been significantly decreasing over the last half a century thanks to the incredibly high rates.

Meanwhile, the financial burden of revenue generation has been pushed off almost exclusively onto the individual income taxpayers. And with apologies to the Bard, William Shakespeare, "there's the rub." Indeed, more than one-third of American individual tax filers – a full 36 percent, to be exact - pay absolutely nothing into the system, except for Social Security and Medicare. And far too often, these non-tax payers even receive money back on April 15th.

In 1960, individual income taxes comprised 44 percent of all federal revenue sources. If you included Social Security taxes, it zoomed up to 60 percent. In comparison, revenue from corporations at the time was 23 percent.

Fast forward to 1994, when individuals were paying 43 percent of all federal revenue, and when combined with Social Security the number nearly doubled to 80 percent. Meanwhile, corporations paid only 11 percent of all revenue. And now to the more recent present. In 2009, the number for individuals was 44 percent and when Social Security was included it reached a staggering 86 percent. Corporations on the other hand, paid only an anemic seven percent of all revenue.

This ridiculous number is directly correlated to the grossly high corporate tax structure. So, it should come as no surprise that for many years now American corporations have been packing up their bags and shifting their profits and jobs overseas to jurisdictions with lower taxes. It is only those unfortunate corporations stuck here that end up footing the cumbersome Made-in-America tax bill.

The multinational corporations that do set up shop overseas use a series of sophisticated and perfectly legal loopholes in the Internal Revenue Code to avoid paying taxes in the United States, while their earnings stock pile overseas in their foreign subsidiaries. (The total amount of money U.S. companies have trapped overseas is $1.2 trillion). And, in what can only be described as the ultimate in “chutzpah,” it is these same corporations that will then aggressively lobby members of Congress for such legislation as The American Jobs Creation Act of 2004, where corporate foreign earnings were repatriated back into the U.S. almost entirely tax-free.

So where exactly do we go from here? The only solution is lowering the rates to create a more permanent and competitive tax structure for U.S. corporations so they can effectively compete. In an op-ed published last year in the Wall Street Journal, Cisco Systems Inc. Chief Executive John Chambers and Oracle Corp. President Safra Catz argued that temporarily reducing the rate on overseas earnings from 35 percent to 5 percent would generate as much as $50 billion in tax revenues.

At the moment, under our current system, while Americans may be the society of “great innovators,” when that next rocket ship is created and sold at Best Buy on the weekend, it will mostly likely be developed and manufactured overseas, where the jobs are cheap, the sun is shining, and the profits remain untouched from the grasp of scraggly old Uncle Sam.

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