Do we need tax cuts or smart tax cuts?

If we're going to give tax breaks, they should go to the exporting companies that generate the country's wealth.

By DILEEP RAO

The key question that we need to ask ourselves is whether we want more after-tax income or to pay less in taxes. Before we go there, a few facts may be of interest.

Dileep Rao. Photo by Glenn Stubbe, Star Tribune.

In the past 20 years, the United States has shipped about $7 trillion of its wealth abroad. This is the total of all the trade deficits. The United States has been becoming poorer.

We have not felt the impact of this diminishing wealth until now, because we have been a borrowing nation. In the 1990s, our businesses borrowed during the dot-com boom -- creating then-Fed Chairman Alan Greenspan's "irrationally exuberant" stock market -- and led to the dot-com bust in 2000. During the past decade, the perfect storm of Greenspan's easy money, securitization of mortgage and other loans and the political philosophy that everyone should be able to own a home created the housing bust.

Now we are on a government borrowing binge. This, too, shall end.

We are not addressing the underlying problem of our trade deficit and the loss of manufacturing jobs. Are all trade deficits created equal? Our oil trade deficit does not cost the country many jobs. But our manufacturing trade deficit also sends our manufacturing jobs abroad. Without these manufacturing jobs, the United States needs to create more jobs in services, high-tech, health care and elsewhere.

So how can we address this problem? We have to ship manufactured goods -- or something valuable -- to other countries, and cannot let countries casually violate our intellectual property while they are busy building their economic and military might. If we are going to start shipping only our raw materials, then the United States will become like many third-world countries. This could negatively affect our standard of living.

Recognize the problem

For those who propose more "innovation" (the magic buzzword of our day), Apple, one of our most innovative companies, creates 10 jobs in China for each job in the United States. And, I am sure, it is contributing mightily to our trade deficit. Apple's employees, shareholders and merchants in Silicon Valley do well. The rest of us do not (except perhaps from their products).

The first step is to recognize this problem. We have to sell high-value products abroad if we want a high-benefits lifestyle, or one of these days we will not have the means to buy imported goods, or afford this economic model of free trade.

This means that we have to encourage exporters. Our best and brightest are busy going into law, medicine and whatever they are doing on Wall Street to cook up our next economic disaster, because they pay well. We need to make it more attractive for our best and brightest to export. Our large corporations will not do this without some incentives. They can ship to Europe from China. So why should they do it from here?

And that's where the tax incentives should go. Let's target tax incentives to those who bring wealth into our state, i.e. those who export from the state. The taco joints, real estate developers and others who benefit from the efforts of these exporters can pay more in taxes if we decide that we want to keep this state great and its citizens educated. And they may be glad to pay more if they are making more income (although I would not take a bet on this). Last time I saw, you still need an income to pay income taxes.

This does not mean that we "pick winners" by adopting some form of national industrial policy. Let's simply encourage the exporters by giving them a tax credit for results. Given that our supposedly expert venture capitalists come up empty 80 percent of the time, I don't think we have eggheads who are smart enough to pick winners. Let's pay for results. For every dollar worth of goods or services you export, you get a tax credit.

So let's focus the tax cuts on the catalysts of job creation that enhance our economic wealth. To create jobs, the United States and states like Minnesota need to increase purchasing power -- assuming that we cannot borrow unlimited amounts and forever.

The only way to increase purchasing power is to export more high-value products from the region and from the country. This means that job creation should focus not on the creators but on the catalysts that generate wealth and increase purchasing power by encouraging exporters.

That's where the tax incentives should go if we want to be smart about it.