



RAY'S RAMBLINGS

by Ray Winn

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Carrier Math

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There has been much ado, flailing of arms, accusations and general silliness about the Carrier deal in Indiana. Being a rather staunch fiscal Republican, I am not generally one to support bailouts for companies with big, or any, incentives. On the other hand, this is such a trivial matter when compared to the failed deals the present administration has made with solar panel tax breaks and investments, electric vehicle tax breaks, wind power nonsense, solar power companies, bank bailouts, automobile bailouts, etc., etc. etc. These have amounted to billions of dollars of taxpayer money ... not a few million. It is actually stupefying to watch the little darlings on network and cable television writhe in agony over the Carrier deal. They would be better off reporting on the latest Betty Crocker chocolate chip cookie recipe. It would be far more useful, albeit less entertaining.

Direct and indirect support by federal, state, county and city governments of businesses and foundations has been going on almost since the birth of the Republic. Alexander Hamilton himself decried such actions. Special 'introductions' by government hierarchy, tax breaks, direct grants, etc. It has been the way of the world since the Roman Empire. Argue any way you want; the facts are what they are.

Allow me to digress for a moment. Yours truly was lucky enough to be elected by the state of Nevada as their JAYCEES Outstanding Man of The Year, and nominated as one of ten in the country. Don't be impressed ... Nevada was a small state then and the pickings were slim so it's truly not a big deal. I mention it only because I was then unlucky enough to be unwillingly pressed into giving brouhaha speeches to more young entrepreneur-bent audiences than I care to think about. But when duty calls ... so they say. As a pure defense mechanism, it was clear that settling on a single subject, well-oiled and rehearsed, so that it could be delivered even if I was also 'well-oiled', was the answer.

The title of the presentation was "Economics, *Point 101*". Not Economics 101, but 0.101. Suggesting that it was perhaps at least one or two steps below 101. The sometimes-meandering presentation centered around the fact that governments of all stripes operate in a very un-business-like way. And it was my mission to point this out, rather clumsily, some of the pains the bright-eyed audience was about to suffer when they stepped up to their necks into an uncertain start of their own business enterprises. Or as my friend/mathematician/comic Tom Lehrer commented ... 'starting

that long, slow, slide down the razor blade of life'. After all, this WAS the United States Junior Chambers of Commerce. The lesson ran something like this:

In one of my former business adventures, about \$35,000 was required to create a new job. So, for every \$35,000 that we didn't pay in taxes, we created a new job that paid about \$65,000 a year. Approximately half of the new employees came from the ranks of the unemployed, usually on unemployment; and about half from the existing work force and new graduates. Let's say that the government(s) decided to be nice and forgo \$35,000 in taxes ... I know, it's a real stretch, but follow the rabbit trail for a while. The new employee now starts paying federal taxes at about \$13,650 per year, and about \$2,100 in state taxes. Additionally, the employee now spends a lot more money on 'stuff', generating more income for the government(s) ... read sales tax, gasoline tax, etc. ... but we will let them have that as our gift. So, in year one, government(s) receive a return on their investment of about 45%. Not bad, huh? And they get it year, after year, after year. If the new employee was receiving unemployment benefits prior to coming to work for us, which the state no longer must pay, the return goes to about 96% in year one! If you add in food stamps, housing allowances and the like, it is even much higher. Taking the above model using an average, the total return to government(s) for year one is about 70% on net investment. In fifteen months, they have ALL their money back, and from then on, governments have an ongoing income of about \$16,000 per year. All from an investment of \$35,000. Now, how would you like to have a business with returns like that? You would, of course, say, "Sign me up"!

This scenario highlights one of the pernicious evils that a government foists on JOB-producing ... hence TAX-producing entities. They have a propensity for killing the goose so it can't lay any more eggs. It's as if they are on a fool's errand sent by roomful of blithering idiots. I know, this case is simplified, that's why it's called Point 101, but I think you get the message.

If corporations were relieved of all income taxes and be rid of the onerous regulations, there would probably never be an unemployed person in the United States who was willing to work, and the tax base would swell beyond our wildest dreams. The trouble is, it would dramatically reduce the size of government, and get rid of the legions of non-productive government 'workers' many of whom produce nothing of any real value or economic consequence. And the rulers in Washington and State Capitols would be seen mostly irrelevant. Instead, they say, no way ... get out of our playroom, you unwashed masses. We know what we are doing, we know what is best for you. You know nothing.

Our company consisted of about 250 employees in Compton, California; Watsonville, California and Burbank, California, with a small contingent in Switzerland. We used some plastics and solvents in our business, so we were constantly harangued by the EPA and State watchdogs. Each had their conflicting rules and standards, frequently 180 degrees in opposition to each other, often with stiff fines for non-compliance. If you adhered to one, you were in violation of the other. Catch 22 personified. It got so bad that I had to hire a \$50,000 a year person to determine which regulation and fine was cheaper to violate, the Feds or the State. Our fines and permits finally rose to over \$235,000 per year ... a full 20% of our gross company profits. This left a much smaller amount for business development, advertising, capital equipment investment, employee training, repairs and all

the other things needed to run a successful business. In the end, most of the senior managers took smaller and smaller salaries to keep the company viable. Finally, in desperation, I threw up my hands, surrendered to the zombies, and negotiated the sale of the entire company to a fortune 500 entity on the east coast. They were enticed by the state government with tax breaks, etc., reimbursement for the move and so on. Boom ... 250 Californians and their families were back on the unemployment rolls. Ultimately, the same obstructionist behavior in upstate New York, caused mostly by the FEDS, started plaguing them. They ultimately threw in the towel and shipped the whole factory off to Korea. The factory eventually became a publicly traded Korean company with sales of \$100,000,000+ a year with good profits, low tax rates, happy employees, and a government that mostly stays out of their way. A full 80% of the products made there are sold in the good 'ole USA, with virtually no import duty!

This has been a long-winded way to get back to Carrier and the state of Indiana. But it illustrates what happens when an egregious poorly managed government, with poor tax policy, and over burdensome regulations inserts itself into matters commercial. Most of these enforcers could not make a profit from a hot dog push cart on a sunny Fourth of July in Central Park without a government handout!

In the case of Carrier, the state offered to give the company \$7,000,00 in benefits over a ten-year period for about 1,000 employees, with the proviso that the factory stayed at the same or higher employee level. OK, get picky and argue whether it is 850 or 1,000. That's in the minutiae. Third grade math tells you that the state is giving up roughly \$700 per year per employee in tax burden. In return the state gets about \$1,800 per year per employee in income tax, and the federal government gets about \$15,250 in taxes. Let me see, for the state it is 260% **per year** return on investment for the next ten years, and infinity beyond that. The FEDS get a return of infinity to start with, as they didn't put up a single dime! Additionally, the state DOESN'T have to pay unemployment benefits to 1,000 people at a cost of some **\$18,000,000 per year** (\$18,000 per year per employee), because after all, there are simply no jobs to be had in that market and if these people lost their jobs, there would be no taxes collected by either the FEDS or the state. The cost of unemployment payments for the **first year is 250%** of the total incentive for the **entire ten-year period**. Hello, does anyone out there have an abacus? Add in the cost of food stamps, possible housing allowances and the loss of real estate taxes for abandoned or foreclosed houses, loss of sales tax and the return on investment becomes nothing short of amazing. Deal me in. Additionally, Carrier has agreed in writing to invest another \$16,000,000 in the plant. Their sales and profit will most likely boom, when considering the massive reduction in corporate income tax and reduced regulations planned.

One can't ignore the human factors and the familial misery that would be caused by the Christmas-time loss to these families. I have personally lived a life much like that as a child, and it is not fun. It is difficult for limousine liberals to understand that.

The Carrier deal is a *minuscule* bailout compared to Obama's Solyndra loss of over \$535,000,000 in Federal grants and loan guarantees ... all lost, and all taxpayer money. In addition, the investors, egged on by Obama administration officials, lost another \$600,000,000. That, in total, is 161 times the amount being granted to Carrier. The Carrier deal is mice nuts (my grandmother's

words) by comparison. And, there are many other additional examples, totaling about \$3.2 billion, not including the automotive and bank bail outs for another \$75 BILLION.

I don't think for a minute that Trump wants this to be his *modus operandi*. The new administration's job is to provide the nation with the proper governmental foundation that fosters growth, proffers a fair tax policy, limits regulations, fosters job creation, imbues mutual respect and preaches fairness. That will be the fire in the furnace that gets the engine of industry going again, and re-centers the nation on a shared future.

The federal register has grown by over one million pages in the last few years. ObamaCare is some 22,000 pages that congress never read, before passing it with a wink and a nod; nor have they read the additional 10,000 pages of how to administer it. Remember Nancy Pelosi's admonition to pass it so we can later see what it says. They have wisely determined that there are now over 1,568 ways to get sick. In the **last year** alone there have been about 100,000 pages of new regulations in the federal register, mostly aimed at controlling the lives of individuals and the fortunes of corporations. We now have hundreds of thousands of pages of new regulations giving roving gangs of robotic government bureaucrats complete control over the lives of ordinary hard working citizens. It's time to tear most of it up and commit it to the dustbin of a very bad time in the history of the Republic. Last week, the Obama administration produced another 875 pages of new regulations in one day, which is about the average day. They are 'pouring concrete' in all the toilets as they go out the door, in an attempt to make cleaning up the mess even more difficult. If the new administration needs dynamite, I suggest they use it!

You can be assured that the Obama administration will be pouring more concrete during that last futile days of the administration. Pardoning thousands of criminals, watch out for the non-vote on Israel, wimpy meaningless sanctions against Russia and others, last minute land grabs, virulent EPA regulations, and a hapless attempt to save ObamaCare. It will all happen, and will leave the American citizens in a state of frustration and disbelief. There will be a lot of messes to clean up, but the Republic has withstood worse, and it will endure this malevolent behavior as well.

We, as Americans, face a future that is in many ways uncertain. Never has there been such a mountain of personal, commercial and government debt as far as the eye can see. Undoubtedly, the debt will continue to rise. Hopefully we have not yet reached the tipping point. If we can get back to 3-4% GDP, it still won't make much, if any, of the debt go away; but will hopefully stem the tide of it rising further until we can figure out how to put out the raging fires. Never in the history of the world has there been so much governmental control over a constitutional Republic. Let's hope it does not lead to our undoing.

Time will tell if this is a new upwards turning point for our blessed Republic, or just more of the same from a broken, dysfunctional government.

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