

## OUTSOURCING

Former U. S. Senator Ernest F. Hollings

Today, everyone agrees that the economy is their principal concern. But no one wants to mention the most damaging affect to the economy-- the outsourcing of jobs; the outsourcing of production; the outsourcing of technology; the outsourcing of research; the outsourcing of investments; the outsourcing of the economy. We can't get the presidential candidates to pronounce the work "outsourcing." And the free press is worse. David Leonhardt, in a *New York Times* article, faults Obama for not telling "... an effective story about the economy during the campaign." Nor does Leonhardt. His article, entitled "Obamanomics," discusses every effect to the economy but the outsourcing of the economy.

Congress has become accustomed to Corporate America taking care of the economy. Henry Ford developed the most important part of the economy, the middle class, by doubling the minimum wage and instituting health care and retirement benefits. And Ford and other business foundations developed the communities. Enforcement of our trade laws was left to hearings before administrative bodies and Congress allowed treble damages to be awarded to a business that succeeded in enforcing our trade laws. Congress doesn't regulate outsourcing because the economists and business leadership keep telling us the economy may need a little stimulation

but it is fundamentally strong. And now, Congress is fearful of stopping outsourcing because Corporate America that contributes to campaigns constantly admonishes “free trade,” “protectionism.”

After World War II, the strategy in the Cold War was to defeat communism with capitalism. We instituted the Marshall Plan and entered into free trade agreements to open markets, yielding entry into our market. But Japan refused to open its market and set about taking over in international trade with an assault for market share. Japan sold its export at cost or below cost, making up the profit in its closed domestic market. It directed this global assault by financing production with the Ministry of Finance and selecting aim in trade with the Ministry of International Trade and Industry. Today, as General Motors and Ford struggle, Toyota is No. 1. Other countries followed Japan’s strategy of market share, more or less resulting in a trade war. Corporate America and Congress tried to engage, but were thwarted at every turn. Forty years ago, we passed a trade bill to protect our textile industry with a bipartisan majority in the United States Senate, only to have it defeated by President Lyndon Johnson in the House of Representatives. President Johnson joined the big banks, the Trilateral Commission, and the Council on Foreign Relations in a call for free trade, against protectionism. Banks were interested in increasing their profits by

developing economies abroad, and President Johnson was determined to defeat communism with capitalism. But back home we were losing jobs and production because we couldn't get into Japan's market. The sale of textiles in Korea was blocked because we had to secure permission from the Korean textile manufacturers. All along we couldn't get the administration to enforce the laws against dumping. Later, we passed a protectionist trade bill with the help of Corporate America through both Houses of Congress, only to be vetoed by President Jimmy Carter counseling productivity and free trade. At the time, the textile industry was upgrading \$2 billion a year and was far and away the most productive of manufacturers. Corporate America sought protection for its investment and production by passing two more trade bills, both to be vetoed by President Ronald Reagan. The National Association of Manufacturers, the American Textile Manufacturers Institute, the United States Chamber of Commerce, all joined with the textile industry in passing another bill to protect America's investment and production through both Houses of Congress, to be vetoed by President George Herbert Walker Bush again warning against protectionism. Our trading partners kept their markets protected and continued to violate free trade agreements. Not receiving protection from either Democratic or Republican presidents, industry began outsourcing. President Clinton's North American Free Trade

Agreement with Mexico and Permanent Normal Trade Relations with China turned outsourcing into a hemorrhage. Now under President George W. Bush, little South Carolina has experienced a net loss of 94,500 manufacturing jobs with an unemployment rate of 7%. The nation has lost millions of jobs and important production. And what isn't being outsourced is being bought up with the cheap dollar -- IBM with 500 patents to China; Lucent and 800 Bell Lab patents to France; Westinghouse Nuclear with all of its government nuclear research to Japan; Vodaphone to Germany; Gateway to Taiwan; Bethlehem Steel, that furnished the steel for World War II, to Russia, and now Genentech to Switzerland. Our country is going out of business.

China now engages in this trade war with the supermodel of government controlled capitalism. It has opened its market, but only on condition. China demands research and technology for Corporate America to produce in China. Twenty years ago, General Motors located the most modern automotive research lab in Shanghai for permission to produce its Buick automobile in China. The best of U. S. technology, Microsoft and Intel, have followed suit. Today, China already has a space program and nuclear and by this time next year will out-produce the United States of America. China alters the technology, patents it, and Chinese production

becomes the best and cheapest in international trade. In a few short years, when China tells Corporate America it doesn't need it anymore, Corporate America will return home unable to produce anything for a profit.

Globalization is nothing more than a trade war -- with the United States AWOL. We refuse to fight; we refuse to compete in globalization; we refuse to protect our economy and standard of living like the plague. Ironically, the United States was founded on protectionism. We obtained a consensus for a Constitution in 1787, but it took four more years to reach a consensus on First Amendment rights of the freedom of speech, religion, assembly and the press. Foremost in the minds of the forefathers in 1787 was manufacture. The Crown had forbidden manufacture in the colonies -- one couldn't even print a Bible. So President George Washington, in his first message to the Congress in 1789, counseled: "A free people should promote such manufactories as tend to render them independent on others for essential, particularly military supplies." And the first bill to pass Congress in history, on July 4, 1789, called for a 50% tariff on numerous articles. We financed and developed the economy of this great nation with protectionism. We didn't pass the income tax until 1913. Today, all in Congress swear by free trade. None other than Teddy Roosevelt exclaimed: "Thank God I'm not a free trader." Edmund Morris, in *Theodore Rex*,

reported that the United States when Teddy Roosevelt was President “found her worth twenty-five billion dollars more than her nearest rival, Great Britain, with a gross national product more than twice that of Germany and Russia.”

Few realize the business leadership of America has been outsourced. Corporate America has changed sides and along with the Business Round Table, National Association of Manufacturers and the United States Chamber of Commerce opposes our country competing in globalization. As a “fifth column” in the Trade War, they shout “free trade,” “protectionism,” to protect Corporate America’s record profits from outsourcing. This leads the people and us in politics to think free trade is a sound policy to build the economy. Nonsense! As Cordell Hull said: “It is reciprocal free trade.”

Article I, Section 8, of the Constitution, assigns the responsibility for trade to Congress. We’ve got to get out of the Iraq War and the Afghanistan War and get into the Trade War. First, Congress must organize to do battle by correlating the Special Trade Representative and other entities of trade into a new Department of Trade and Commerce. We don’t need any new trade laws; all we need is to enforce the laws on the books. We enforce the trade laws against domestic production with an Assistant Attorney General for anti-trust. Have the same attorney general enforce trade laws governing

foreign production. We can abolish the International Trade Commission and take the tax benefits to outsourcing and give them to domestic production. We need a value added tax to remove the disparity (17%) or penalty for the United States in international trade. Every industrialized country has a VAT that's rebated at the time of export. But Corporate America's taxes are not rebated. It will take a year for the IRS and business to organize for a VAT. In the meantime, we can enact a 5% to 10% import surcharge as President Richard Nixon did in 1971. This will stop the hemorrhaging of outsourcing, remove the disparity in trade, and provide the money for the health, infrastructure, energy and deficit problems. The Secretary of commerce is emburdened with the duty to prepare a list of materials critical to our national security. We have now some 500 items on the list, some of which we will have to enact quotas or tariffs to produce for our defense. For example, we are getting in a position that we have to depend on China, Japan and India for vital plane and automobile parts. Rolling stock is necessary for our defense. In World War II, Ford produced the tanks and GM produced the B-24s. Activate the Secretary of Commerce's list and put America back to work.

As Lincoln said: “As our case is new, so we must think anew and act anew. We must disenthrall ourselves [from free trade and protectionism and begin trading], and then we can save our country.”