

SAME OLD, SAME OLD – NO CHANGE

By former U.S. Sen. Ernest F. Hollings

JANUARY 2009 -- Two years ago the Princeton economist, Alan Blinder, estimated that in ten years we will lose forty million jobs to offshoring. Now economists, both conservative and liberal, recommend a plan to create 3 million jobs in two years -- five million short. They avoid the real cause of job loss – offshoring. So the economists' plan to stimulate loses more jobs than are created. Why? Answer: A Ponzi scheme worse than Madoff.

After World War II Japan determined to take over the world economically by starting a trade war. Japan subsidized its manufacture, targeted items of export, closed its market and sold the targeted export at cost, making up the profit in the closed domestic market. After fifty years Toyota is #1, while Ford and General Motors struggle. The big banks, Trilateral Commission and the Council on Foreign Relations with the Marshall Plan were interested in new markets and spreading capitalism. Their economists called for free trade, but the financial and foreign policy world opposed any enforcement of trade laws to open Japan's market. Corporate America tried numerous times in Congress to have its government enforce free trade, but rebuffed again and again, began offshoring in order to compete in globalization. Globalization is nothing more than a trade war with production looking for a country cheaper to produce. And economists, both conservative and liberal, recommend outsourcing accordingly. China turned the offshoring into an economic hemorrhage. In a race to the bottom the United States outsources its investments,

research, technology, jobs -- literally its economy. But economists are not about to recommend a policy that limits the enormous profits from offshoring. They continue to call for offshoring, and they are the same economists counseling Congress.

Congress hates to raise taxes and loves spending. They can spend and not raise taxes so long as China finances our deficits and China finances our deficits so long as we continue to offshore our investment, research, technology, jobs and economy to China. The economists counsel stimulation to continue the offshoring for fear that if we stop offshoring, China will retaliate by refusing to finance our deficits. Of course, the best stimulation is a job. Charged with regulating commerce, Congress abdicates its duty to protect jobs and engage in globalization because they need the contributions of the big banks, Wall Street, and Corporate America. All continue in a quiet conspiracy that remains silent in the press.

On February 27, 2001, President George W. Bush submitted a budget plan to pay down the debt in ten years. Instead, he doubled the debt in eight years. The economists and the candidates for president said nothing about keeping the government on steroids for the past eight years to the tune of \$5 trillion. The economists say nothing about last year's deficit or stimulation of one trillion thirty-five billion dollars and still losing jobs. In the last three months they say nothing about stimulating the economy \$655 billion (Dec. 8th) and are losing

more jobs. Now the economy is over-stimulated. Spending for needed infrastructure is good, but won't jump-start the economy. But, stimulation won't work.

The economists counseled the banks, housing and automobile industry to go broke. The economists recommended a bail-out of the financial industry without accounting. Now the economists, conservative and liberal, employ the Vietnam approach of destroying the economy in order to save it by throwing a trillion dollars at the problem.

The people know the country is in trouble. They're trying desperately to save. They are ready to sacrifice. We've got to produce before we can consume. We suffer not from an economic cycle that needs stimulation, but from a depleted economy for the failure of the United States to compete in globalization. David Ricardo's "comparative advantage" in international trade is no longer productivity like "English woolens and Portuguese wine," but government. And our government is AWOL in the trade war. President Obama must lead us out of the Iraq and Afghanistan wars and into the trade war of globalization. He can begin with a value added tax to put a tourniquet on the loss of jobs from offshoring. With a VAT we can cut the corporate tax and provide the money for middle-class tax cuts and universal health care. When the experts testified on a VAT twenty years ago, a VAT of 1% would raise \$50 billion. Even with a depressed economy now, 1% will raise \$70 billion to \$75 billion. A 10% VAT will raise \$750 billion and eliminate deficit spending. It will take the Internal Revenue Service and business a year to gear up for a

VAT. In the meantime, we can impose a 10% surcharge on all imports as President Nixon did so successfully in 1971.

President Obama can create jobs and rebuild the nation's economy by harkening our country's first President's first message to the first Congress. President George Washington stated: "A free people should promote manufactories to render them independent of essential, particularly military, supplies." Years ago, Admiral William J. Crowe, Chairman of the Joint Chiefs of Staff, admonished the Congress that we were relying on foreign production for too much of our defense needs. We had to await flat-panel displays from Japan to invade Kuwait. We had to await Swiss crystals to invade Iraq. We can't produce fighter planes without parts from India. Sikorsky can't manufacture a helicopter without a vital part from Turkey. Turkey prevented our going into Iraq through their country. At the next crisis, the Commander-in-Chief could be grounded for want of a part for Marine One. President John F. Kennedy used national security provisions to promulgate his 7-point program that saved the textile industry forty-eight years ago. Title 23 of WTO permits the Congress to activate the Secretary of Commerce's list of items necessary to our national security so that a nation can be assured of domestic production and supply. When Japan hit Pearl Harbor, President Roosevelt put everyone to work 24/7 and had Ford produce the tanks and General Motors produce the B24 bombers. A nation must have rolling stock. A nation must have food, clothing, steel, electronics, computers, communications equipment, technology,

etc. If President Obama reactivates the Secretary of Commerce's list, he can put America back to work and rebuild the economy.

We suffer not from a lack of confidence in the economy, but from a lack of confidence in a government that continues to cut taxes, borrow and spend, increases the debt and waste of interest cost, offshores the nation's production and jobs, refuses to protect our standard of living and refuses to engage in the trade war or globalization. Instead of calling for sacrifice, President-elect Obama calls for the same old, same old – no change.

Senator Hollings of South Carolina served 38 years in the United States Senate, and for many years was Chairman of the Commerce, Space, Science & Transportation Committee. He is the author of the newly published book "Making Government Work" (University of South Carolina Press, 2008).