

SOBERING UP

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JANUARY 2009 -- As the presidential race drew to a close last November, the candidates were agreeing to a stimulation of \$300 billion to jump-start the economy. Last month, the best of economists stated \$300 billion was not enough – that \$600 billion was needed. Last week, the best of economists stated \$775 billion was not enough, but declined to state an amount. This week, the best of economists admonished us not to talk about “jump-starting” – that we should be thinking and talking long-term on the economy. Why? The economists refuse to acknowledge that the economy has been on a binge and needs to sober up and stay on the wagon.

We have kept the government on steroids for the past eight years, deficit spending for a total of \$5 trillion. Last year’s steroid dose was \$1 trillion, \$35 billion. In the first three months of this fiscal year, we have stimulated \$655 billion and we continue to lose jobs like gangbusters. One economist cited a study that \$775 billion “jump-starts” the economy in the fourth quarter of next year. Taking two years is not a “jump-start.” So the best course of action in this economic storm is to “batten down the hatches.” As they say when you’re in a deep hole from digging, “Stop digging.” Stop stimulating. Stop borrowing, and begin to pay for the government you provide. The government needs to start saving like every family is now saving.

All stimulation plans by the economists fail to create more jobs than are lost from offshoring, because the economists

refuse to acknowledge that globalization is nothing more than a trade war with production looking for a country cheaper to produce. Two years ago, Alan Blinder, the Princeton economist, estimated that the United States would lose forty million jobs in the next ten years to offshoring. At four million a year, the economists’ plan of creating four million jobs in two years is four million short. So the first order of business is to institute a value added tax to slow the loss of jobs from offshoring.

Every industrialized country except the United States has a VAT that is rebated on exports. But Corporate America has to pay all taxes with no rebate on exports. China has a 17% VAT, so a U. S. manufacturer considers producing in China to bring his production back into the United States economy 17% cheaper than at present. Equalizing this disadvantage with a VAT will put a tourniquet on the offshoring. The experts testified twenty years ago that it would take a year for business and the IRS to gear up for a VAT. In the meantime, we can rebuild our economy by levying a 10% surcharge on all imports as President Richard Nixon did successfully in 1971.

Admiral William J. Crowe, the Chairman of the Joint Chiefs of Staff, testified years ago, that we were depending too much on foreign production for our defense needs. We had to await flat-panel displays from Japan in order to invade Kuwait. We had to await Swiss crystals before invading Iraq. Our bombers need parts

from India and Sikorsky can't manufacture a helicopter without a vital part from Turkey. Turkey forbade us going through their country to invade Iraq. The next crisis could find our Commander-in-Chief grounded for want of a part for Marine One.

The law has long provided that a nation can restrict trade in order to ensure its national security. And this is reaffirmed in Title 23 of WTO. The Secretary of Commerce prepares a list of materiel necessary for our national security. Activating this list would put America back to work. When Japan attacked Pearl Harbor, FDR put everyone to work 24/7 with Ford producing the tanks and General Motors the B24 bombers. A national needs rolling stock, steel, textiles, electronics, communication equipment, technology, etc. Regulating trade to ensure domestic production amounts to industrial policy. Politicians will be whining against the government picking winners and losers. But Article I, Section 8, assigns the responsibility of regulating commerce to Congress. With provisions for the environment, safety, anti-trust, we already have an industrial policy for domestic commerce.

Congress needs to develop an industrial policy for foreign commerce by picking

necessaries for our security -- not winners or losers. This is the complexity of globalization. The comparative advantage in international trade has changed from David Ricardo's productivity with English woolens and Portuguese wines to government. 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. Now, China, with its authoritarian control of production and trade, is fastly becoming the super power in the trade war. The United States needs to get out of the Iraq and Afghanistan wars and engage in the trade war of globalization.

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).

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