

INDUSTRIAL POLICY

By former U.S. Sen. Ernest F. Hollings (D-SC)

FEB. 3, 2009 -- Our country is in the hands of the Philistines. The Financial Crowd and their economists have taken over the nation from the manufacturers that built a strong economy and wrecked it. Economists are so fixed on their clients' offshoring to China that they refrain from even mentioning offshoring, the nation's greatest loss of jobs. They are fearful that if anything is done to stop the offshoring, China will refuse to finance our budget deficits and their stimulation plan so they back a stimulation plan that creates less jobs than are lost from offshoring. Two years ago, Alan Blinder, the Princeton economist, estimated that in ten years the United States would lose thirty to forty million jobs to offshoring. That's an average of four million a year. And losing two million jobs in the last four months, Blinder's estimate is on target. The economists' plan, the Obama plan, the House plan, the Senate plan, all plans create at best four million jobs in two years, with less jobs created than are lost.

Economists for years have refused to acknowledge that we're in a trade war started by Japan after World War II. Japan closed its market, subsidized and targeted its export in international trade, selling export at cost and making up the profit in its closed market. China joined in the trade war with a closed market for what it produced domestically, but opened its market for foreign production in exchange for foreign investment, research, technology and production. Of course, China controls its labor, production, and trade with its authoritarian government. Globalization is nothing more than a trade war with production looking for a country cheaper to produce.

The "comparative advantage" in globalization or trade war is no longer productivity, but government. Competition in the trade war market is not company versus company but country versus country. Twenty years ago, China proved the power of economy over the military in foreign affairs when the United States had a resolution adopted in the United Nations to investigate human rights in China after Tiananmen Square. China prevailed on Zaire where it was building a railroad and other friends where it had economic ties in Africa and the Pacific Rim to delay, and there has never been a hearing on China's human rights in the U.N. China is now the superpower in the trade war in which the United States is AWOL.

We're lucky President Obama wants to be a Lincoln. The Civil War pitted those believing strongly in a market with controlled labor (slavery) against those believing in manufacture to sustain a strong democracy. Lincoln believed so strongly in democracy – of, by and for the people – that he put his people to war against his people. Today those believing in offshoring to controlled labor in China are pitted against those that realize that democracy must have a strong manufacture to sustain.

President Obama will have to satisfy both, without war. His task is to develop a limited industrial policy for the United States to compete in globalization. Immediately will be the cries of "industrial policy," "picking winners and losers." The Congress will have to calm down and realize that it has already required an "industrial policy" for domestic trade, with health, safety, environmental and

anti-trust requirements. The policy won't be "winners and losers" in foreign trade, but items necessary to our national security. President Obama will have almost as difficult a task as Lincoln. Economists, both conservative and liberal, will oppose anything to plug the hole of offshoring.

Pitted against the President will be the financial world, the big banks, Wall Street, and Corporate America, with all of its entities, coming down on his head, such as the Trilateral Commission, the Conference Board, the World Bank, the Federal Reserve, the Business Roundtable, the National Association of Manufacturers, the National Chamber of Commerce, the Retail Federation of America, the media, etc. To confront globalization and its threat to our economy, President Obama will have to go to the people. He will have to explain that the offshoring of the nation's investment, research, technology, production and jobs – literally the economy – can't continue. The United States has been on a spending binge in the Cold War, the Vietnam War, the Bosnia War, Iraq War, Afghanistan War, Terror War and now the Trade War that has exhausted our economy. And now we have to rebuild.

The good news is that the people will be with the President. Fundamental to the American culture is "no workie, no eatie." We know that the best stimulation is a job. We know that we have to work to consume. And the American people by nature are most competitive. Long since they have frustrated at our government's failure to compete in international trade. We have been giving away the store in globalization. We have been waving the white flag of surrender in the trade war. Now the people are ready to fight – to sacrifice and rebuild our economy.

President Obama can begin by putting a tourniquet on the hemorrhage of offshoring jobs with a value added tax. Every industrialized nation has a VAT except the United States. A VAT is rebated at export, but Corporate America's taxes are not. For example, China rebates its 17% VAT when its export leaves Hong Kong. When Corporate America learns that it can't increase its profits 17% by offshoring to China, the offshoring will slow. And the economy is already experiencing the slow-down that would be caused by a VAT. It will take a year for the Internal Revenue Service and business to gear up for a VAT. In the meantime, we can start competing in globalization with a 10% surcharge on imports as President Nixon did so successfully in 1971. We can adjust the corporate tax and have room for a middle-class tax cut after the VAT takes effect. We need the money today to put government on a pay-as-you-go basis.

We have offshored our ability to defend the country. Admiral William J. Crowe, Chairman of the Joint Chiefs of Staff, warned in 1992 that we were depending too much on foreign production for our defense needs. We had to await flat-panel displays from Japan before invading Kuwait. We had to await crystals from Switzerland before invading Iraq.

Boeing can't manufacture combat aircraft without getting parts from India. Sikorsky depends on Turkey to obtain the tail motor for its helicopter. Turkey prevented our invasion of Iraq through Turkey. At the next crisis, our Commander-in-Chief could be grounded because of the want of a vital part for Marine One. In World War II, FDR had Ford produce the tanks and General Motors produce the B24 bomber. We can't depend on Germany's BMW in South Carolina or Japan's Nissan in

Mississippi to produce tanks and bombers. Activating the Secretary of Commerce's list of materiel vital to the nation's security with tariffs or quotas will put America immediately back to work. This will have to be done by Congress deliberately in a measured way and with concern that an open market guarantees the best capitalism. This will be the challenge for President Obama and the Congress – to promulgate an “industrial policy” to protect our economy and standard of living in globalization.

As President Lincoln said: “As our case is new, we must think anew and act anew. We must disenthrall ourselves [from free trade economists] and then we shall save our country.

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