NOW AND FOR THE LONG RUN

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

MARCH 16, 2009 -- The United States has always paid for its wars. For 200 years we paid for the Revolution, World War I, World War II, Korea, Vietnam, even LBJ's Great Society, and had yet to reach a national debt of $1 trillion – until 1982. Now our government in the past eight years has borrowed, spent, and added to the national debt $5 trillion. The Congressional Budget Office reported that in the first four years of the Bush term deficits were caused by: 48% tax cuts, 37% wars, and 15% increased spending. We kept the government on steroids during the Bush years and household debt of $7 trillion joined the binge. By the time Obama took office the Federal Reserve had injected another $2 trillion steroids. With $14 trillion stimulation, we were losing jobs like gangbusters. Stimulation was not working.

Last year we stimulated exactly $1 trillion, $35 billion, and lost jobs. According to the Secretary of the Treasury, we have a deficit or stimulated the economy $960 billion this fiscal year (3/16/09) and are still losing jobs. Last night, Ben Bernanke on *60 Minutes* said he saw light at the end of the tunnel at the end of the year. So any more stimulation is politically out of the question. So the government, like households, should hunker down, stop spending where it can, and plug the hole of offshoring jobs in the ship of state.

The need to act now and for the long haul is to dismiss Larry Summers and Timothy Geithner to be replaced by Paul Volcker and Jared Bernstein. Plug the hole of offshoring and raise revenues for the government we provide by:

1. Enacting a 10% value added tax to be effective the first of next year. It will take the rest of this year for the Internal Revenue Service and business to gear up for a VAT. But even in these lean times a 5% VAT would bring in $700 billion; and once we start operating in the black, we can let up on corporate and middle income taxes. The VAT is double-whammy. It will not only help us pay our bills, but eliminate the 17% Chinese VAT as an inducement to offshore to China.

2. Cancelling the tax benefit to offshoring.

3. Immediately quota automobile imports. In the last eight years we've caused Detroit a trillion dollar competition in foreign subsidized car imports. Bailouts for GM and Chrysler will be wanting next year when cheap Chinese hybrids start coming in.

4. Globalization is nothing more than a trade war with production looking for a country cheaper to produce. Globalization is not going away, but governments have to compete. Economically, our government is at a "comparative disadvantage" in international trade. We insist on industry providing a high standard of living, but refuse to protect industry when it does. We stupidly cry "free trade." If any in Washington thinks China is going to engage in free trade, they need

custodial care. At present, we couldn't go to a real war if we wanted to because we would have to wait for the troops' equipment to be imported. Activate the Secretary of Commerce's list of those items critical to our national security by exacting tariffs or quotas.

5. Start developing an industrial policy. We want to keep markets as open as possible, but Chinese, Japanese and Korean competition in globalization won't permit it. We can keep trying; but a measured industrial policy will be necessary, using our country's production and rich market to open world markets. At present, our production and rich market is in disrepair, needing rebuilding. We have an industrial policy for domestic commerce like anti-trust, provisions against price fixing, etc. But we need an industrial policy for foreign commerce like agricultural quotas. This will put America back to work and save our economy.

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 recently published book, Making Government Work (University of South Carolina Press, 2008).