

POLITICS LIKE CANCER

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

JUNE 18, 2009 -- Politics is like cancer – if you don't catch it in time, you don't have a chance. If the budget deficits and deficits in jobs from offshoring are not caught now, by 2012 we'll give it back to the Republicans.

After subprime mortgages, derivatives, and credit default swaps, we should have learned by now to never let the big banks or financial crowd take charge of the U. S. economy. Banks love debt – the more debt, the more fees, the more interest costs. Debt is the lifeblood of bankers ... not the economy. If there is such a thing as greed, the big bankers have it. Overcome with greed, the big bankers knew their subprime mortgages were a Ponzi scheme, but "outgreeded" each other to collapse. The big bankers could care less about the U. S. economy. They are concerned about financing and profits from global trade, trade deficits, household debt, business debt and government debt.

Last September when the collapse of the economy was imminent, the Secretary of the Treasury, Henry Paulson, started bailing out the big banks and insurance companies and his old firm, Goldman-Sachs, changed to a bank to qualify for stimulus money. But stimulus was the problem. Stimulus for infrastructure, business development, education, health care is always good. But stimulus for consumption was the problem. The economy had been stimulated for eight years by an astounding \$5 trillion increase in the national debt, and the economy was exhausted from stimulation. Moreover, household debt had increased \$7 trillion in the same period and consumers had begun to save. They weren't looking for

loans. Paulson's concern about confidence in the failed financial system was just a cover for bailouts. Moreover, our economy's investment, research, development, production and jobs were being forced offshore by a fraudulent free trade policy, and there was little left to stimulate.

Last year we stimulated the economy \$1 trillion. Already, this year, we have stimulated the economy another \$1 trillion, \$376 billion (6/18/09) and are still losing jobs like gangbusters. Trillions are being spent to stimulate consumption and jobs, but nothing is being done to plug the offshoring hole in the economy that is killing production and jobs.

After the savings and loan debacle in the eighties, we said "never again" to "too big to fail," and passed a law that, with another collapse of the economy, toxic entities were to be put in receivership. Paulson should have complied with the law. Instead, he started throwing trillions at the problem and President Obama followed suit. Now the usual suspects that had lockjaw for the past eight years on deficits have finally found their voices.

Highly competitive, the big banks had cut their profits in-country to nil by the 1970's and started offshoring. By 1973, Citi and Chase Manhattan were making most of their profits outside of the United States. Banks funded the Trilateral Commission and think tanks like Heritage and Cato to push for deregulation against "protectionism" and "free trade," so offshored production could be dumped back into the United States. But Corporate America fought offshoring. Henry Ford had developed the middle

class by doubling the minimum wage and providing health care and pension benefits. And the Ford Foundation developed communities. Corporate America was interested in the U. S. economy and moved for the President to protect the economy by enforcing our trade laws. I know. Working with Corporate America, five of my bills to enforce trade laws passed both Houses of Congress, but were blocked or vetoed by Presidents responding to the financial crowd's cry of "free trade." Faced with offshored production, subsidized and dumped back into the United States, Corporate America was forced to offshore in order to compete. NAFTA with Mexico and PNTR with China caused the trickle of offshoring to flood to China, India and Mexico. Now Corporate America is interested in the economies of China, India and Mexico.

International trade was globalized by the transfer of finance and technology by satellite and air delivery of production. Today, globalization is nothing more than a trade war with production looking for a cheaper country to produce. Offshoring is sustained by the big banks and the financial crowd calling for "free trade," "don't start a trade war." If a member introduces a trade bill in Congress, coming down on his or her head will be Wall Street, the big banks, the think tanks, the National Association of Manufacturers, the Business Roundtable, the Retail Federation of America, the daily editorialists making their profit from retail advertising, and the National Chamber of Commerce – all calling for "free trade." This "free trade" crowd finances Congressional campaigns so members of Congress join in the chant of "free trade." Nothing gets done to stop offshoring.

As Henry Clay said years ago, free trade "never existed, it never will." Every

country moves to protect its economy. China protects its economy by controlling labor, finance, and every facet of its market and trade. Moreover, China proved that in foreign affairs "it's the economy, stupid." After Tiananmen Square in 1989, the United Nations passed a resolution to investigate human rights in China. China, with economic ties in Africa and the Pacific Rim, went to its friends, and there has never been a hearing on the resolution. Now China, with a \$2 trillion war chest of foreign reserves, a space program, nuclear, satellite, missiles, and an economy controlling in foreign affairs is already playing the tune that most countries dance. Meanwhile, our economy is enfeebled. In the worst recession since the Depression the United States cannot produce its needs. We depend on imports. Every major weapons system in our national defense depends on foreign production. We can't defend the United States except by the favor of another country. And the economy is in the hands of those who would destroy it. The President and the Congress must take over.

President Obama and the Congress are on course with health care. But the President must move Congress to control the cancer of budget deficits and the deficit of jobs from offshoring. A value added tax will go a long way to eliminate both deficits and could easily provide the cost of health care. A hundred and fifty countries levy a value added tax on business that is rebated at export and levied on imports. For example, China rebates its 17 percent VAT at export to the United States and levies a 17 percent VAT on imports from the United States. But Corporate America has to pay an income or business tax averaging 27 percent that is not rebated on export to China. But a 17 percent VAT is levied when it arrives in China. A

3 percent VAT to replace the corporate income tax would be tax-neutral. With corporate tax rates now averaging 27 percent, substituting a 3 percent VAT would save consumers 24 percent and Corporate America could cut its export cost 24 percent. This would really stimulate the economy. Many members of Congress are pledged to Grover Norquist and Americans for Tax Reform against any increase in taxes. But since a 3 percent VAT is tax-neutral they can keep their pledge. The Internal Revenue Service says it will take the IRS and business a year to gear up for a VAT, so a VAT couldn't take effect until after the 2010 election.

Pollster politics and triangulation are good for the campaign, but in governing, cutting the deficit in half, and wearing a blue tie won't do it. Governing requires decisive leadership. President Obama must get real. He can't get by his remaining 3 1/2 years and not do something substantial about taxes. Now

is the time! A 3 percent or 4 percent VAT is in order. A 4 percent VAT to replace the corporate tax would provide a trillion and a half dollars additional that the President is trying to find for health costs. If the Republicans vote either VAT down, the President can say he tried to eliminate the "highest corporate tax of any in the world" – that he tried to stop the offshoring of jobs with health care and a VAT – that he tried to stop deficit spending – but Republicans wanted to continue the corporate tax, wanted to continue the loss of jobs, wanted to continue deficit spending. The VAT is a win-win initiative for President Obama. If the VAT prevails, the President and the country win. If the VAT is defeated, the President will recoup his credibility on jobs, deficits, and the economy.

Yes, we can! Now!

P.S. I'm sending a copy of this to Robert Gibbs, who helped run my last campaign eleven years ago. He used to listen.

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).