

## TO GOVERN – OR – TO CAMPAIGN

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JULY 8, 2009 -- Campaigning is usually good for government. And government is good for the campaign. But the needs of the campaign sometimes conflict with the needs of the country and government -- which prevents good government. That's the situation in Washington today.

We need desperately to stop the offshoring of jobs, production, and the economy. But the President and Congress need contributions for the campaign. The financial crowd that furnishes the contributions wants to keep the U. S. market open so they can dump their offshored production back into the United States market for a big profit. To keep the market open, Wall Street, the big banks, their think tanks, Corporate America, and the Business Roundtable engage in a charade of opposing protectionism and cry "free trade." Congress, needing campaign contributions, refuses to regulate trade as the nation goes out of production.

First it was textiles, then watches, toys, athletic gear, cameras, then radios, TVs, electronics, then steel, then communications equipment and computers, now autos. GM goes broke and we say Detroit doesn't know how to make a car – Detroit doesn't know how to compete. The President and Congress know how to compete; that's how they got in office. But they refuse to compete because that would cut off contributions. They refuse to protect jobs and the economy.

On July 4, 1776, the United States proclaimed its independence. On July 4, 1789, the United States proclaimed the nation's policy of protectionist trade. On

that date, the first Congress in history, with its first Act, regulated trade with a protectionist 50% tariff on numerous articles. We financed and built the United States into an industrial power with tariffs. We didn't pass the income tax until 1913.

Edmund Morris describes in his book, *Theodore Rex*: In 1900, "[t]he United States was already so rich in goods and services that she was more self-sustaining than any industrial power in history." Protecting the economy continued: Roosevelt for agriculture, Eisenhower for oil, JFK for textiles, even Reagan for steel, autos, computers and machine tools. But President Bill Clinton threw over organized labor that elected him and went for the money. He put the white tent out on the White House lawn and the Fortune 500 came. He rammed a flawed trade agreement with Mexico through the House of Representatives and offshoring commenced in interest. Then Clinton enacted Permanent Normal Trade Relations with China causing the offshoring of jobs and production to hemorrhage.

Globalization is nothing more than a trade war for market share with production looking for a country cheaper to produce. The comparative advantage in globalization is no longer Ricardo's productivity of English woolens and Portuguese wine, but government. It's impossible to produce for a profit in globalization with U. S.'s open market unless you offshore.

After World War II, Japan started the trade war for market share by closing its market, subsidizing its production, selling its export near cost, and making up the

profit in its closed market. Others followed suit, with China becoming the supermodel in the trade war. China controls its finance and labor, subsidizes its production, rebates its taxes on exports and protects its market and trade. It does everything to attract foreign technology, investment and production. In the last ten years, China has brought 300 million of its poor into the middle class. China has become the economic superpower as the U. S. destroys its middle class, its economy enfeebled.

President Obama says “nothing is off the table,” but trade will never get on the table unless the President signals his approval. No member of Congress is about to introduce a bill to regulate trade, protect the economy and stop the offshoring of jobs unless the President approves. But the President reacting to the needs of the campaign opposes an import fee on the cap-and-trade bill, saying: “I think we have to be very careful about sending any protectionist signals out there.”

Typical Washington politics. Promise to protect jobs in the campaign but in office against “protectionist signals” for the contributions. Typical American arrogance. We think we are in charge of the global economy when we are AWOL in a trade war. In globalization, we operate on the basis of cooperation. We think by setting an example, keeping our market open, others will follow. But China, Japan and others operate on the basis of competition for market share in globalization.

The United States is not about to close its market. But we’ll have to set limits like tariffs and quotas to survive. The limits will have to be measured in order to bring the competition to open trade. It won’t be easy, but President Obama can’t

perpetuate four more years of the fraud of “free trade.” He can’t spend trillions for bail outs and stimulus to create jobs and not plug the hole of offshoring jobs. Two years ago, the Princeton economist, Alan Blinder, warned that in the next ten years the United States would lose thirty to forty million jobs to offshoring. Henry Paulson started jump-starting the economy eight months ago and last month we still lost 467,000 jobs rather than creating the 100,000 necessary to sustain the growth in population. In the trade war the United States must come in from the cold. The President has reached his Rubicon.

Fortunately, President Obama can cross the Rubicon by canceling the corporate income tax and adopt a 3% value added tax. A 3% VAT is tax-neutral and Corporate America will have less incentive to offshore. One hundred fifty countries in globalization have a VAT that’s rebated at export. For example, China, with a 17% VAT, rebates the VAT when its export leaves Hong Kong for the United States. But Corporate America has to pay all taxes which are not rebated at export; and, when its export reaches Hong Kong, China adds a 17% tax. Make the VAT 4% and the President will have his trillion dollars needed for health care. A VAT in place will position the President to pay down the debt.

Vice President Biden says the Obama administration did not realize how bad the economy was. Baloney. We don’t need more stimulus. After a \$5 trillion debt increase stimulus the past eight years, and a \$7 trillion household debt increase stimulus during the same period, and another \$2 trillion stimulus in the past eight months, we’ve had all the stimulus we can stand. The President needs to confront the loss of jobs from offshoring. The President needs to make it profitable

to produce in the United States. The President must stop campaigning for

contributions and determine to govern.

*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).*