

## CAN WE SUSTAIN?

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

FEB. 4, 2010 -- Can we keep up what we are doing? We have been off-shoring our manufacture and jobs like gangbusters. In the last ten years, the United States has lost one-third of its manufacture. And long before the recession, South Carolina lost its textile industry, North Carolina lost its furniture industry and Michigan lost its automobile industry.

Three years ago – before the recession – Alan Blinder, the Princeton economist, estimated that we would lose in the next ten years thirty million to forty million jobs to off-shoring. It's almost a situation that one can't manufacture for a profit in the United States. Go to the bank and say you want to borrow \$2 million to manufacture this desk I'm looking at, or this computer, or this telephone, or any of Tom Friedman's innovation. Tom Friedman's innovation doesn't create jobs. Any innovation is immediately developed in China. The banker looks at you and asks whether you can meet the China price, because, if not, a competitor will start producing your innovation in China and put you out of business and the bank's loan goes bad. That's why the banks are not making loans. Manufacture is not looking for a loan to produce in the United States. In today's globalization or trade war, production is looking for the cheapest country to produce – and that surely isn't the United States.

But Larry Summers and Paul Krugman refuse to acknowledge the trade war. All they think of is "stimulation." Yes, the recession was caused by an economic downturn, but the recession was exacerbated by stimulation. President Bush in his eight year term had just stimulated the economy \$5 trillion and

household debt had just stimulated another \$7 trillion. When Paulson stimulated in September 2008, we were suffering from over-stimulation -- and it didn't work. The Federal Reserve's infusion of another stimulation of a trillion dollars in the following six months didn't produce jobs. Nor did President Obama's stimulation of another \$787 billion. *The New York Times* has finally acknowledged in a headline: "No Jobs; No Recovery."

Responding to Senator Arlen Specter's question yesterday on trade, President Obama stated an intent to put "bigger emphasis on export promotion." Give me a break. We don't have anything to export. We have the export profile of an eighteenth century colony – now mostly airplanes and agriculture. And airplanes and agriculture are subsidized by the government. And you can bet your boots China will soon put American agriculture and airplanes out of business. Already we have suffered a deficit in the balance of trade in cotton with China. Exports are not the problem – but imports! Here, the only country with industry after World War II is now importing the majority of what we consume. Jobs by stimulation are not the need. The need is jobs by engaging in the trade war. If we enforce our trade laws to protect and build our economy; to protect our environment; to protect our standard of living, we can sustain.

President Obama has America headed in the wrong direction. He submitted a budget that will increase the debt over \$8 trillion if he's given an eight-year term. Interest costs this year are estimated to be \$425 billion and next year \$500 billion.

All waste! We've got to stop borrowing and create wealth. We can do like we did in 1993 – cut spending and increase taxes. And most of all, engage in the trade war.

Fortunately, we can do all three immediately. We can increase revenues to lower the debt and make American production competitive in the trade war by eliminating the corporate income tax and replace it with a 3% value added tax. China has a 17% VAT. One hundred thirty-seven countries have a VAT with the average in Europe of 20%. So let's start competing in globalization with a 5% VAT and really pay down the debt. Now we head in the right direction.

Since the average business tax is 27% and China adds 17% on our export, there's a 44% incentive to produce in China rather than the United States. This incentive is immediately removed with a 5% VAT, and we head the budget in the right direction. Next, as President Obama suggested in the State of the Union, stop subsidizing the export of America's jobs by canceling the exemption for off-shore profits unless repatriated. President Obama yesterday, responding to Senator Specter, said he was going to enforce the trade laws. Section 201 calls on the government to protect production when it's endangered with tariffs or import quotas.

In the Bush eight years, Detroit suffered a trillion dollars of subsidized auto and auto

parts competition. GM was not just endangered but went broke. In spite of the bail-out, GM will still go broke unless we enforce 201 and the same with other endangered production, like steel and electronics. Activate the 1950 War Production Act recently reauthorized as the Defense Production Act of 2009 (S.1677). This requires the nation to have a ready supply of materiel important to our national security. Everybody talks about the shortage of troops to Iraq and Afghanistan, but we can't go to war save the favor of supplies from some foreign country. Activating this law will create millions of more jobs. Rather than exports, the President should be calling for a "buy domestic" program like other countries in globalization that are building their economies. With trade deficits amounting to \$5.8 trillion in the last ten years, President Obama can impose immediately a 10% import surcharge as President Nixon did in 1971.

President Obama should stop acting like an economist with all this stimulation and tax credits for small business. Small business is not looking to hire anyone; they are looking for sales. The President acts like we have a welfare problem, when it's a war problem. The necessary war is the trade war. And the "comparative advantage" is no longer David Ricardo's English woolens and Portuguese wine. It's government. President Obama needs to stop campaigning and put our government to work.

*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).*