

## ENGAGING IN THE TRADE WAR

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MARCH 26, 2010 -- Every Southern governor has participated in the trade war to create jobs. We started it after World War II with our right-to-work law, raiding the northeast for its textile industry. We enacted sales taxes for the public schools, balanced our budget with a Triple A credit rating, instituted the technical college system for the skills that are now building automobiles for BMW and the Dreamliner for Boeing in South Carolina. And Southern governors are still competing in the trade war with tax deferral packages, bringing back automobile jobs that John McCain said in the campaign would never come back.

But Japan globalized this trade war for production and jobs when it closed its market, subsidized its manufacture, and sold its exports below cost, making up the profit in the closed market. The United States, anxious to spread capitalism to defeat communism, did nothing to open Japan's market. Presidents called for free trade, but Japan's market today remains substantially closed.

I was drafted in the trade war by the northern and southern textile industries to testify before the old International Tariff Commission against Japan's dumping textile imports below cost. We lost the case, but I got President Kennedy to promulgate his 7-point program stabilizing the textile industry in May of 1961. Under the War Production Act of 1950 permitting the President to act, we had a hearing finding textiles as second to steel most important to our national security.

But Japan kept cheating, and we couldn't get Presidents to enforce our trade agreements. I helped pass protectionist enforcement measures through both Houses of Congress only to be vetoed, one by President Carter, two by President Reagan, and one by President Bush I. But then China began acting like a Southern governor, leasing you the building for nothing; guaranteeing cheap labor with no labor problems; and a guaranteed profit so long as you furnished the technology and production techniques. Corporate America, seeing protection for its investment and jobs in-country continually vetoed, resorted to the old axiom: "If you can't beat them, join them." And under President George W. Bush, we off-shored almost a third of our manufacture and manufacturing jobs.

Three years ago, the Princeton economist, Alan Blinder, projected that for ten years running the United States would off-shore on an average of three to four million jobs a year. More jobs are lost today from off-shoring rather than from the recession. Yet Washington does nothing about off-shoring because that's what the business leadership wants.

Wall Street, the big banks, and Corporate America want to keep flowing these guaranteed off-shored profits from China, India, Vietnam, etc. They know that they can make more profit off-shoring than they can domestically. And, as long as Washington fails to engage in the trade war, refuses to enforce its trade laws and adjust its tax laws, the flow will continue. Thus, President Obama and Congress keep calling for jobs, jobs, but we keep losing jobs. To cover themselves

politically, they stimulate for small business jobs and give tax credits to small business that can't afford to hire additional employees. They do nothing about off-shoring middle-class jobs. Political contributions keep flowing, and the country goes broke.

The amazing thing is that the free press not only ignores the trade war, but obscures it. In *The Nation's* cover article entitled "18 Million Jobs By 2012," the author, Robert Pollin, describes the creation of jobs, but doesn't even mention the trade war and the off-shoring of our jobs. In *Time's* cover article entitled "How to Create a Job," the author, Barbara Kiviat, not only refuses to mention the trade war for jobs, but obscures the off-shoring problem by stating: "... there's not much Washington can do ... on such short notice," and "[i]n the long term, there is only one way to create enough jobs for the economy: innovation." Tom Friedman, reporting on the Intel science finals, highlights the fact that innovation in the United States does not create jobs in the United States. Friedman reports: "If I just have the spark of an idea now, I can get a designer in Taiwan to design it. I can get a factory in China to produce a prototype. I can get a factory in Vietnam to mass manufacture it." Cheaper production off-shore is the jobs problem.

The important point of the *Times's* mislead is "...there's not much Washington can do." In globalization or the trade war only Washington can do. Globalization is nothing more than a trade war with production looking for a cheaper country to produce. The United States, with its open market and high standard of living, can't compete with China's communist control and production. The competition in globalization is not company vs. company, but country vs. country. And Washington is AWOL in the trade war.

We've got to come in from the cold and begin to compete in globalization -- to trade.

Subsidizing off-shoring should be immediately stopped by eliminating the tax exemption for off-shored profits unless repatriated. We can levy a 10% surcharge on imports, like President Nixon in 1971. With the economy down, we can eliminate the corporate income tax and produce more revenue with a 2% value added tax. This will easily give a charge to President Obama's plan to boost exports. With the average corporate income tax at 27% and a 2% VAT on exports rebated, the price of exports is reduced 29%. Enforcing the War Production Act of 1950 will create millions of jobs. But this won't be easy.

Of all things, Corporate America will oppose the repeal of the corporate income tax. The CEOs trying to get their stock up in three years with off-shore profits don't want to come home to work for less in the United States and worry about Labor. The United States Chamber of Commerce will contribute against anyone opposing free trade or engaging in the trade war.

The 2% VAT ought to be increased to 5%. A 1% VAT raises approximately \$131 billion – over 10 years \$1 trillion, 310 billion. We shouldn't be wasting time waiting to see whether we can save \$500 billion from Medicare. The 1% VAT can guarantee that health care reform can either be paid for or the extra money used to pay down the debt. Then the other 2% VAT should be dedicated to paying down the debt.

For those nervous about taxes, let's vote. Any voting against this approach will be voting against paying for health care, against paying down the debt, against

relieving Corporate America of income taxes, against promoting exports by 32%, against stemming the flow of off-shoring

jobs, and voting against middle-class jobs and saving the economy of the United States. Let's vote!!

*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).*

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