

THE BEST POLITICS IS NO POLITICS

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FEB. 3, 2011 -- People don't realize that the jobs problem is not caused by a downturn in the economy or recession but the off-shoring of investment, research, development, production, jobs – the economy. The recession has been over for a year and a half. But, in the last ten years we have off-shored one-third of the nation's manufacture. South Carolina has lost 26,600 jobs, Michigan 832,000 jobs; Ohio 610,600 jobs. South Carolina lost the textile industry long before the recession; North Carolina the furniture industry; Michigan the automobile industry; and long before the recession the best of innovation, Intel, had left for Ireland, then to China, and now in Vietnam. Last year Silicon Valley had 22% unemployment.

The Princeton economist, Alan Blinder, long before the recession, in February 2007, estimated that in the next ten years the United States would lose an average of three to four million jobs a year to off-shoring. General Motors is producing more cars in China than in the United States.

Corporate America is investing and producing off-shore not only for the bigger profit but for the comfort of production. In China, U. S. production doesn't have to worry with labor, health costs, safety rules or the environment. Management in New York has a quality control supervisor in China and checks production daily on the internet. If the venture works out, no income tax unless the profits are repatriated. Invest in another plant for more profit. If the venture doesn't work out, there are no legacy costs. Management sits back and as

The Wall Street Journal headlines: "Corporate Profits Are Up Like Gangbusters."

People don't realize that over the years the United States has adopted trade laws and policies to protect Corporate America's investment, production and jobs. For example, President John F. Kennedy enforced the War Production Act of 1950 to save the textile industry. President Nixon in 1971 levied a 10% surcharge on imports when our trade deficit was a miniscule of what it is today. President Reagan saved Harley-Davidson and used Section 201 of the Trade Act to obtain voluntary restraint agreements with Japan on steel, automobiles, computers, and machine tools.

But now Corporate America doesn't want our trade laws enforced, and President Obama is obliging. Enforcing these laws would make the United States competitive in globalization but displease China in its headlong drive to take over the world economy. Corporate America will do anything to please China for its off-shored production. In short, Corporate America is interested in the economy of China, not the United States. To obscure its interest in China, Corporate America engages in a tremendous charade to obscure the trade war. Globalization is nothing more than a trade war with production looking for a country cheaper to produce. So Corporate America cries: "Anything can be produced anywhere." "The world is flat and nothing can be done to bring the jobs home." "Free trade;" "don't start a trade war." This belies our history.

The United States was born in a trade war, which continues today. The Mother Country prohibited manufacture in the

Colony. The Navigation Act of 1635 required the Colony's trade to be carried in English bottoms. The Tea Tariff that caused the Boston Tea Party triggered the Revolution. Under the Constitution of 1787, Article I, Section 8, called on Congress to regulate trade, not free it. The founding fathers agreed on trade four years before they could agree on first amendment rights. Thank heavens the founders didn't opt for innovation, education or freebies for small business.

Under the leadership of Alexander Hamilton they opted for manufacture, the engine of growth. The first act of the first Congress in history on July 4, 1789, was a protectionist trade tariff. We didn't pass the income tax until 1913. Manufacture financed and built the United States into an industrial power the first hundred years with protectionism. Speaking of free trade, in 1832 Henry Clay said: "It never existed; it never will exist" And President Teddy Roosevelt exclaimed in a letter: "Thank God I'm not a Free Trader."

With a chance to report on the state of the union, the President makes a campaign speech. Ten years ago, we had a balanced budget. But in the last ten years, we have added \$9 trillion to the national debt. During the same period, the country has suffered \$6 trillion in trade deficits. Sitting on \$3 trillion in reserves, Corporate America invests off-shore, not in-country because the government won't protect its investment from predatory practices. Nobody can find a job, but the President states: "... America still has the largest, most prosperous economy in the world."

We haven't paid for the government in Washington in ten years, and all the President suggests is to freeze some spending, which guarantees continuing

deficits in excess of \$1 trillion each year. President Obama doesn't mention off-shoring of jobs or the trade war. But he gets dramatic with a "Sputnik moment," calling for innovation and education to create jobs. As Andy Grove has shown us, it pays to develop innovation off-shore. Silicon Valley has engineers and Ph.D.s looking for a job for more than a year. South Carolina needs a lot more educating, but we have the skills to produce "the ultimate driving machine" for BMW and the Dreamliner for Boeing. Draining the country of its manufacture and middle class, this is a "Pearl Harbor moment." We need to get in the trade war.

We need to make it profitable for Corporate America to invest in the United States rather than off-shore. We can pay down the debt and start competing in globalization by canceling the corporate income tax and replace it with a 5% VAT. One hundred fifty nations use the VAT to compete in globalization because it is rebated on exports, whereas the corporate tax is not rebated. Germany uses its 19% VAT to produce windmills in Charleston 15% cheaper than any domestic product, putting domestic green jobs out of business before they can get started. A 5% VAT would promote exports, create jobs, and free up a trillion dollars of Corporate America's off-shore profits to invest in production and jobs. The 2010 projected revenue of the corporate tax is \$156.7 billion, whereas a 5% VAT would net \$600 billion. With exemptions for the poor that spend most of their income on necessities, it still leaves \$300 billion to start paying down the debt.

But President Obama heads the country in the wrong direction with the appointment of Jeffrey Immelt as Chairman of his Council on Jobs and Competitiveness. Let me identify as a

friend of GE and Immelt. As Governor of South Carolina, I brought three GE plants to the State, and today the Greenville plant is the best paying industry in South Carolina. I was GE's "boy" for years in the United States Senate until Jack Welch started the off-shoring by announcing at a stockholders' meeting in the early '90s that, unless GE suppliers moved to Mexico, next year GE would not consider them as suppliers. "Squeeze the lemon" was the Welch program to cut costs.

Now Immelt follows suit. In the *Harvard Business Review* last year, Immelt states: "To tap opportunities in emerging markets and pioneer value segments in wealthy countries, companies must learn reverse innovation; developing products in countries like China and India and then distributing them globally." At his appointment Jeffrey Immelt published "A blueprint for keeping America competitive," in which he states: "Those who advocate increasing domestic manufacturing jobs by erecting trade barriers have it exactly wrong." Immelt is exactly wrong. With communist China controlling every phase of its economy, the only way for the United States to compete in the trade war; the only way for the United States to protect its production, environment and economy is

by enforcing the trade laws – by raising barriers.

Immelt knows how to compete, how to trade. GE just announced it will be sharing its most sophisticated airplane electronics, including some of the same technology used in Boeing's 787 Dreamliner, with a state-owned Chinese company. Immelt doesn't want the United States to compete, the United States to trade.

In globalization the competition is not just company versus company but country versus country. China uses its economy for diplomacy, whereas we use our military in foreign affairs. Without an industrial production, without a strong economy, the United States is becoming a second-class power, Obama ran on getting us out of war, but now sticks with Iraq and Afghanistan because of politics. Democrats have the reputation of being weak on defense, and President Obama doesn't want to be blamed for losing Iraq and Afghanistan. We went in both countries to make them safe for democracy. Now Iraq is safe for Iran, and Afghanistan is safe for China. The President has to get out of the Iraq War, the Afghanistan War, and get into the trade war. That's the way to create jobs. The President must learn that the best politics is no politics.

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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