

## SOLUTIONS AVOIDED

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

MARCH 28, 2011 -- The CBS program *60 Minutes* last night related how business was avoiding "the highest business tax in the world" by moving to Zug, Switzerland. General Electric has just found another way to avoid paying the corporate tax -- hire a stable of Certified Public Accountants to prepare its Return. GE just filed a 46,000 page Return, paying no taxes, and claiming a tax benefit of \$3.2 billion. This leaves the Main Street merchant paying the corporate tax, and they need relief. Everyone agrees that the nation's number one problem is jobs while Congress is in gridlock trying to lower the deficit. Congress can solve all three problems by cancelling the corporate income tax and replacing it with a 5% value added tax.

One hundred thirty-five nations in world trade have a VAT, which is rebated on export. The U. S. corporate tax is not rebated which penalizes U. S. production in world trade. Off-shore profits by Corporate America are tax free unless repatriated, so this encourages more off-shore production. Corporate America avoids the corporate tax by off-shoring production and parking or reinvesting the profits off-shore.

Last year's corporate tax is estimated to bring in \$156.7 billion, whereas a 5% VAT reaps \$600 billion. The regressive nature of a VAT is eliminated by exempting food, health and housing for the low income which would not exceed an exemption of \$100 billion. This leaves \$350 billion to pay down the debt. At present, the Republicans in the House of Representatives are aiming for a \$60 billion cut in the budget, and the

Democrats are holding up at \$20 billion. So the \$350 billion ought please everyone. But surprisingly, Corporate America won't be pleased. It depends on the big banks and Wall Street, and beginning in 1973, the big banks made a majority of their profits off-shore. And Corporate America for the moment loves off-shore production. It has no labor worries, health costs, safety or environmental concerns. The profit is from year-to-year, and if it doesn't work out, Corporate America walks away with no legacy cost. But this system will soon run out. In four or five years China will need not just 51% of the off-shored profit, but 100% to take care of the remaining millions brought from poverty into the middle class. China has already brought 300 million from poverty to the middle class. It is on-course to bring in another 400 to 500 million in about five years, and then it will need 100% for the remaining 500 million. In the meantime, China slightly alters the obtained technology, patents it, and it is becomes the article of trade. When China kisses Corporate America "goodbye," it will return home with nothing to produce.

Globalization is nothing more than a trade war with production looking for a cheaper country to produce. If the President stayed in Washington and enforced the trade laws, far more jobs would be created than those coming from Brazil and the economy would recover. General Electric has just announced a \$550 million research center for Brazil, while the President of GE heads up President Obama's program for jobs.

Our defenses are down. The Pentagon has been off-shoring its needs for defense

material so that we are begging Russia for helicopters for the war in Afghanistan. If President Obama would enforce the War Production Act of 1950, as President John F. Kennedy did for the textile industry, millions of jobs would be created. If President Obama would impose a 10% surcharge on imports as President Richard Nixon did in 1971 when our trade deficit was a miniscule of what it is today, it would create millions of jobs. If President Obama would impose import tariffs or quotas on endangered production as President Reagan did for Harley-Davidson motorcycles, it would create millions of jobs. If President Obama would obtain voluntary restraint agreements on autos, steel, computers, and machine tools, as President Reagan did, it would create millions of jobs. We developed Sematech in the '80s, saving Intel and Hewlett-Packard. I launched the Advanced Technology Program in the State, Justice, Commerce, Appropriation Bill to support innovation. The National Academy of Engineering had to certify the technology as innovative and it had to be approved by a committee in the Department of Commerce – no earmarks. The industry had to provide 50% of the funding. The Advanced Technology Program was highly successful, but President George W. Bush defunded it as “corporate welfare.” Instead of crying for innovation, if President Obama would

reinstitute the Advanced Technology Program, it would create millions of jobs. But it doesn't pay to develop innovation in the United States. Intel has long since closed up in Silicon Valley, moved to Dublin, Ireland, then to China, and now in Vietnam. Steve Jobs has 700,000 workers developing innovation in China with more in South Korea and Taiwan. If President Obama had enforced Section 201 of the Trade Act to save General Motors when it was endangered, GM would not have gone bankrupt, needing a bail-out. Enforcing Section 201 would create millions of jobs. In the trade war which ensues, President Obama cries for education but refuses to protect the economy. We need a lot more education in South Carolina, and we never have produced an airplane. But Republican leaders in the Legislature packaged a \$900 million benefit for Boeing, and we are now producing Boeing's Dreamliner.

Governors and State Legislators know how to solve problems. But the President and Congress are so intent on getting the money for re-election that solutions to problems are avoided.

*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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