

WHAT'S WRONG WITH WASHINGTON

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MAY 24, 2010 -- People keep asking me: What's wrong with Washington? Nothing gets done. To understand, Washington has two problems: No one wants to pay for government and the economy is being off-shored.

We haven't paid for government in eleven years. We didn't pay for President Bush's tax cuts, his prescription drugs for Medicare, and his wars in Afghanistan, Iraq, and Pakistan. President Bush borrowed and added \$5 trillion to the debt in eight years. If the CBO estimate is correct, by the end of September President Obama will have added \$4.5 trillion in three years. We had a strong government and a balanced budget in 2001. Now that everyone wants to start paying for government, spending cuts can take care of the regular increases in government for eleven years, but we'll need tax increases to pay for the tax cuts, prescription drugs, and wars. You can't pay \$9.5 trillion for these things with just spending cuts or just tax increases. We need both.

We've been hemorrhaging investment, research, technology, manufacture, jobs – the economy for eleven years. It's not an economic cycle with the economy coming back. The economy is hemorrhaging off-shore. We've off-shored our defense so much that we are now begging Russia for helicopters for Afghanistan. And it has become difficult to produce for a profit in the United States. In this week's *Time*, Fareed Zakaria lists "five ways to bring unemployment down." He cites

Germany's technical education that brought unemployment down "to an astonishing 20-year low in the midst of a global recession." We Southern Governors realized the need for technical education when we carpetbagged the North for industry. Fifty years ago I instituted a technical education system in South Carolina that today produces Germany's BMWs and Boeing's Dreamliner. The country has technical training galore. Zakaria and Washington totally ignore the value added tax that 136 countries rebate on exports. Our corporate income tax is not rebated. Germany's 19% VAT is added when U. S. exports reach Germany. It's not just losing jobs to China, but Germany uses its 19% VAT to produce the President's green jobs or windmills in Charleston, S. C. Parts are manufactured at high cost in Germany; shipped to Charleston at 3% cost; assembled in Charleston at 3%, selling windmills 13% cheaper than any U. S. production.

Both problems can be solved by eliminating the corporate tax and replacing it with a 5% VAT. Revenues for 2010 corporate tax amounted to \$194.1 billion, whereas a 5% VAT for 2010 amounts to \$583 billion. Give \$83 billion in exemptions for the poor and we still have \$300 billion to pay down the debt. Spending cuts that Congress can agree upon gives us more than \$300 billion to pay down the debt. This immediately makes it profitable to produce in the United States; makes the United States competitive in globalization; stops the hemorrhaging of

the economy; promotes exports, and releases \$1 trillion in off-shore corporate profits that can be repatriated for production and jobs.

Here's a winner for all interests. With an average corporate tax of 23% being replaced with a 5% VAT, those looking for tax cuts are enthralled.

But President Obama ignores the VAT solution. Why? A friend who knows the President tells me it's because of Grover Norquist and the Americans for Tax Reform. President Obama doesn't think he can get the votes for a VAT. But the pledge to Norquist by a majority of the House Members and forty-one Senators is against tax increases. If Norquist objects it's because his lobby will lose control of the Congress. That makes the VAT more than a winner.

President Obama led from the front on getting rid of Osama bin Laden. But he leads from behind on jobs and the economy. When the debt was reaching its limit in May, the President moved the debt limit to August; let the Vice-President talk to Congress about the debt limit, and he went fundraising in Texas. The country doesn't need a candidate traveling the country raising \$1 billion. It needs a president in the White House who leads to pay for government and rebuild the nation's economy. The CEO of Corporate America is responsible to build the company. The President is responsible to build the country. President Obama needs to lead the Congress against his G.E. Job Czar who has off-shored a majority of his production and is now off-shoring his

research. President Obama needs to lead against the big banks, Wall Street, and the multi-nationals off-shoring for easy profits.

The lesson of Vietnam was that you couldn't spread democracy militarily. Apparently, the lesson of China is that you can't spread democracy economically. If China had U. S. democracy and freedom, it would come apart as a country. To remain a country, China has to remain totalitarian with controlled capitalism. Rather than the United States developing democracy, China is impoverishing the United States. The President has to lead against the Council on Foreign Relations spreading democracy.

Presidents know how to get the votes in Congress. Without a single Republican vote, President Clinton cut spending and raised taxes, even on Social Security, in 1993 that gave us eight years of the strongest economy and a balanced budget. We had the vote count in 1994 to defeat NAFTA, but President Clinton gave Jake Pickle a cultural center; another Congressman two C-17s, golf rounds and other freebies, and passed NAFTA. *The New York Times* listed the twenty-three freebies.

The Republicans have yet to field a winner against President Obama. But next year it's going to be "the economy, stupid." Unless the President leads on the economy, jobs, and on paying for government, he could defeat himself.

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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