

THE GRAND CHARADE

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JUNE 8, 2011 -- When President Obama says: "I am concerned about the fact that the recovery that we're on is not producing jobs as quickly as I want it to happen," the people feel there is no recovery. And when Mark Zandi says on ABC: "We've dug ourselves into a big hole, and it's going to take a long time to dig ourselves out," the people feel that we're still digging. The people are right. It's not an economic cycle; it's a trade war. Globalization is nothing more than a trade war, and Washington is refusing to fight. The President and Congress refuse to fight because their biggest contributor, Corporate America, is making out like gangbusters with off-shoring profits and no concerns of labor, health, safety, environment and legacy. Wall Street and the big banks want to keep these off-shore profits flowing so the business and financial elite, together with their economists, act as if anything is done to compete in this war, it will start a trade war. The President and Congress don't want to do anything to turn off their contributors, so they join in the charade.

The President and Congress encourage the off-shoring of our economy with a tax benefit. Corporate taxes are exempted on off-shore profits unless repatriated, so the incentive is to reinvest for more off-shoring. If Boeing off-shores its production to Japan or China, the government gives Boeing a tax exemption. But if Boeing locates production in South Carolina, the government sues Boeing. President Obama appoints the champion of off-shoring the economy, Jeffrey Immelt, the CEO of General Electric, to create jobs in the United States. GE has already off-shored a majority of its

production and jobs, and, shortly after his appointment, Immelt off-shored a \$550 million research center to Brazil.

To compete in globalization or this trade war, 136 countries have a value added tax that's rebated on export. With computerization, it's easily installed and administered. The average VAT in globalization is 15%. But the U. S. relies on the corporate income tax that's not rebated on export. So in globalization, U. S. exports are not only emburdened with the corporate tax, but are levied a 19% VAT when the export reaches Germany. We're losing manufacture, not only from cheap labor off-shore, but Germany uses its 19% VAT to produce the President's green jobs in Charleston, S. C. Germany produces the parts at high cost in Germany; ships the parts to Charleston at 3% cost; assembles the parts at 3% cost, producing windmills 13% cheaper than any domestic production. Any manufacture of a substantial nature in the United States will soon face off-shore competition using cheap labor and the VAT to put it out of business. Today, it's difficult to produce for a profit in the United States.

To reverse this trend, to engage in the trade war and make it profitable to produce in the United States, we need to eliminate the corporate tax and replace it with a 6% VAT. This will promote exports and permit Corporate America to repatriate \$1 trillion in off-shore profits to create jobs in the United States. Revenue for the 2010 corporate tax amounted to \$194.1 billion, whereas a 6% VAT for 2010 amounts to \$700 billion. Exemptions of \$70 billion for the poor,

leaves \$630 billion to pay down the debt. Spending cuts that Congress agrees upon gives us more than \$630 billion to pay down the debt. With an average corporate tax of 23% being replaced with a 6% VAT, those looking for tax cuts will be enthralled – even Grover Norquist of the Americans for Tax Reform. The pledge that Grover Norquist has obtained from Congressmen and Senators is against tax increases. If Norquist objects to this tax cut, it's because he would lose control of Congress.

As Paul Krugman says, we're in a "slump that goes on and on." But the slump will continue unless we expose the grand charade of the financial and business elite. They are a fifth column in this trade war. Their economists don't realize we're facing the controlled capitalism of China that has a population and market of 1.3

billion to retain control. China is determined to take over the world economically. It faces many problems at home, but to extend its power globally, China is buying up markets all around the world. We keep thinking that a nation gains preeminence with its military, but China is proving in globalization, "it's the economy, stupid."

The people are not waiting for the economy to turn around but for Washington to turn around and fight in this trade war – start competing in globalization. Quit giving us this innovation, retraining, green jobs, recovery, charade. Don't give us a long-term plan for future Congresses to pay the debt. Start paying it. Cut out the politics and replace the corporate tax with a 6% VAT. Cut spending and start paying for government.

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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