

DOING NOTHING

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FEB. 11, 2010 -- I thought my begging President Obama for an industrial policy to make the United States competitive in globalization was futile – until this morning. In this morning's *The Wall Street Journal* (2/8/10) on the lower right-hand corner of the Op-Ed page appears the headline: "The U. S. Needs An Industrial Policy." Thank the Lord for the author, John Hofmeister, former President of Shell Oil Company.

When my friend, John McCain, told the Michigan automobile workers in the Presidential campaign that their jobs were not coming back, I knew then John didn't understand globalization. Globalization is nothing more than a trade war with production looking for a cheaper country to produce. And BMW automobile jobs had already "come back" in South Carolina; Mercedes Benz in Alabama; Nissan in Mississippi; Honda in Tennessee, and Toyota in Kentucky.

Competition in the trade war was so fierce that the enemy had already invaded the United States with its production and jobs. Germany, with a 19% value added tax that's rebated at export allows Mercedes Benz to ship the engine and parts from Germany at a cost of 4%, making its U. S. production 15% cheaper than any Detroit production. These automobile jobs were brought back by each state's industrial policy. For example, South Carolina has just packaged an industrial policy of over \$900 million to have Boeing produce the Dreamliner in South Carolina. This is the frustration in Massachusetts and over the country. States are bending over backwards to attract investment and jobs while

Washington does everything possible to get rid of the jobs. Washington loves to require business to comply with labor rules, safety rules, environmental rules, a high standard of living, but it refuses to protect its environment, economy and high standard of living, forcing U. S. manufacture to off-shore its production and jobs. As Hofmeister relates: "The rest of the world actively promotes its core industries." Washington stimulates tax credits for small business and welfare to keep teachers and firemen employed, but opposes promoting "its core industries" by engaging in the trade war for investment, research, technology, development, production, and jobs.

Washington's indolence amounts to an industrial policy for China. Its failure to enforce our trade laws; its outright subsidizing the off-shoring of jobs; its failure to compete with a value added tax, forces Corporate America to off-shore. Any United States manufacture that can readily be off-shored will go and produce in China and export its production to the United States cheaper than the U. S. production. It's gotten so that one can't manufacture for a profit in the United States.

A country founded on manufacture in a trade war has become a country AWOL in a trade war. In our early days, the Crown prohibited manufacture in the Colony. The Mother Country required the Colony's exports to be carried in English bottoms, and the Townsend Act that triggered the Boston Tea Party triggered the Revolution. After we adopted the Seal of the United States, the first bill to pass our national Congress on

July 4, 1789, was a 50% tariff on imports - protectionism. We were fortunate not to have banks and corporations in those early days. Alexander Hamilton, who gave us the bank, first delivered his famous "Report on Manufactures," resulting in an industrial policy that financed and developed the Colony into a nation state and an industrial power. We did it all with protectionist tariffs. We didn't pass the income tax until 1913. As Edmund Morris, in his book *Theodore Rex*, describes the nation under Theodore Roosevelt:

This first year of the new century found her worth twenty-five billion dollars more than her nearest rival, Great Britain, with a gross national product more than twice that of Germany and Russia. The United States was already so rich in foods and services that she was more self-sustaining than any industrial power in history.

At the end of World War II, the United States was the only country with manufacture or industry. We knew that countries in Europe and the Pacific Rim must have manufacture for capitalism to develop a middle class to support democracy. So we fashioned the Marshall Plan, and capitalism defeated communism in the Cold War. But Japan had already started today's trade war. Japan closed its domestic market, subsidized its manufacture, sold its export at cost, making up the profit in the closed market with Toyota putting General Motors into bankruptcy. South Korea followed suit; and when China joined, it taught all except the economists that the "comparative advantage" in international trade or globalization was no longer productivity like Ricardo's English woolens and Portuguese wine – but government.

Twenty years ago I called my friend Walter, whom I helped develop Italian production in South Carolina. Walter had gone out on his own, headquartered in California. His stock was up, and I asked Walter for his next expansion to be in South Carolina. Walter shocked me when he said he didn't produce anything in California or the United States. I can hear him now: "You can go to China, they furnish the plant, and if it doesn't work you walk away without any capital or legacy cost. If it works, you don't have to pay any income tax. Just get another operation in China for more profit." Today, Corporate America off-shored to China doesn't have to worry about a labor stoppage, retirement costs, health care, OSHA's safety minions, clear air, clear water, etc. All it needs is a young "eager beaver" watching quality control in China; and the CEO back in the United States can keep up on the internet – have time for a round of golf or drinks at the Links Club.

Job loss from the recession will rebound when the recession ends. But the job loss from off-shoring won't rebound until we adopt an industrial policy to compete in the trade war. It won't be easy. Corporate America and Wall Street love the bigger profits from off-shoring. They'll oppose any trade bill or measure to develop an industrial policy with cries of "free trade," "protectionism," "educate," "innovate." As Henry Clay long ago cried on the floor of the United States Senate about free trade: "It never existed ... it never will exist." We have enough education to attract Boeing. Tell Tom Friedman innovation doesn't produce jobs in the U. S. Innovation is immediately developed with jobs in China. Microsoft and Intel have already gone to China. We've got to wake up and start manufacturing again. But it won't happen with Wall Street and Corporate America

furnishing Congress the contributions to do nothing.

Congress must adopt an industrial policy that the people will support and pressure Congress to adopt. For example, cancel the corporate income tax and replace it with a 3% value added tax. The average business tax is 27% with China adding a 17% VAT on U. S. imports to China, amounts to a 44% incentive to produce in China rather than the United States. Replacing the corporate tax with a 3% VAT raises more revenue, removes the incentive to off-shore, saves jobs, and promotes exports creating jobs. The people will favor this. But the people will have to pressure Congress to enact it because the CEOs of Corporate America don't want to have to go back to work producing in the United States.

Cancel the exemption for off-shore profits as President Obama called for in

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his State of the Union, and make it a 5% VAT with the added 2% paying down the debt. Those wanting to reduce the deficit will join in support. Don't wait for production to go bankrupt like GM, but once production is endangered impose import quotas and tariffs under Section 201 of the Trade Act. Today, the United States can't go to war except with supplies from foreign countries. Activating the Defense Production Act of 1950 as reauthorized last year will create millions of jobs. Get President Obama to impose a 10% surcharge on imports like President Nixon did in 1971. An industrial policy like this will get Washington rebuilding our economy.

People wonder why Washington does nothing. It's because business doesn't want its taxes cut making Washington find a war that's not "necessary."