

TIME IS OF THE ESSENCE

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APRIL 9, 2010 -- Apparently David Axelrod and Rahm Emanuel decided to run the President all out as a candidate for re-election his first term, finessing the immediate need of jobs and the need to stop running deficits. They thought the President could get by on jobs by stimulating like his Republican predecessor and get by on deficits with a study commission. But time is of the essence. The economy is in real trouble.

By the time President Obama moved to stimulate, President George W. Bush, households, former Secretary Paulson, and the Federal Reserve had already stimulated the economy \$13.5 trillion, and we were losing 700,000 jobs per month. Stimulation had spent. And Axelrod and Emanuel ignored the real loss of jobs to off-shoring. Three years ago, the Princeton economist, Alan Blinder, projected that for ten years the United States would be losing on an average three to four million jobs a year to off-shoring. Axelrod and Emanuel have the President furiously bailing out the sinking boat of the economy with a jobs bill, but fail to plug the off-shore hole in the bottom.

Democrats are politically vulnerable on defense, so Axelrod and Emanuel thought they could insulate President Obama on this score by having him proclaim the war in Afghanistan necessary. In the Muslim world, more important than freedom and democracy is tribe and religion. Muslim politics responds to religion, whereas in a democracy we have freedom of religion. Force feeding democracy for eight years in Afghanistan, we are really trying to force a change in culture. When we are done and gone, President Karzai has got

to live with the Afghans, and his antics against the United States are for survival. We ought to realize after eight years that we are creating more terrorism than democracy. The war in Afghanistan is not necessary.

On February 1st, President Obama submitted a budget with a deficit exceeding \$1 trillion each year for ten years. No one serious about being President would submit such a budget. Today, every governor and state legislature, every mayor and city council, is struggling to pay this year's bill. Businesses have been struggling to pay their bills for two years running. Front and center in the minds of the voters is paying bills and for Washington to consider continually running deficits in excess of \$1 trillion is shocking. The people voted for change, and President Obama's study for a year is a bitter disappointment.

Now with health reform, hospitals are crying about cuts in payments; doctors about Medicare cuts; States about Medicaid costs. The gathering storm. Cries of a government takeover of the banks; a government takeover of the automobile industry; a government takeover of communications; a government takeover of energy; a government takeover of health care – every government takeover you can think of except its responsibility under the Constitution to regulate foreign commerce. Globalization is nothing more than a trade war with production looking for a cheaper country to produce. David Ricardo's "comparative advantage" of productivity in international trade has

been changed by China to government, and Washington government needs to come in from the cold in the trade war and compete in globalization.

Corporate America with its investment, research and production in China is draining the tub of manufacturing or middle-class jobs in America. Long before President Obama's election, China had taken over a good bit of our manufacture. And today, middle-class jobs hemorrhage off-shore. President Obama has to change the politics of "against taxes and getting rid of government" to taxes and a government industrial policy. We have the makings of an industrial policy already. With devastating deficits in the balance of trade, we can move like President Nixon in 1971 by instituting a 10% surcharge on imports. Under Section 201 of the Trade Act we don't have to wait for industries like GM to go bankrupt, but we can impose tariffs or quotas when production is endangered.

Our tax laws now favor foreign production and should be changed to favor domestic production. But with jobs and deficits at a critical stage, President Obama should immediately propose a 5% value added tax to replace the corporate income tax. A 2% VAT will more than replace the revenues lost from cancelling the corporate tax. A 1% VAT will pay for the cost of health care, and 2% can be

used to stop deficits. This is realistic and doable. Responding to anti-tax members of Congress, a 5% VAT in place of the corporate income tax eliminates business taxes with more revenues. The average corporate income tax of 27% is replaced by a 5% sales tax. The cost of production is reduced, reducing the cost of products to consumers. And the VAT rebateable on exports reduces the cost of exports 27%. Small business will opt for a 5% sales tax in place of its income tax in a "New York minute." This will stem the tide of off-shoring jobs and start paying down deficits.

But the CEOs of Corporate America are not interested in coming back from China and producing domestically for less profits. Wall Street, the big banks, Corporate America, and their entities, like the Business Roundtable and the U. S. Chamber of Commerce, will fight the President and Congress to keep their off-shored profits flowing. This business crowd furnishes the contributions for campaigns.

President Obama can't get by four years keeping the country AWOL in the trade war. He can't keep the government on a credit card for \$1 trillion a year. President Obama has met his Rubicon. Is he serious as a candidate for contributions or is he serious about being President of the country? Time is of the essence.

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).