

## IT'S THE GOVERNMENT, STUPID.

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AUG. 6, 2010 -- In commenting on Harold Meyerson's *Washington Post* column "Jobs in the cards?" (8/4/10), let me first acknowledge: Meyerson is brilliant and knows way more about the economy than I do. And I agree that Elizabeth Warren should head the new Consumer Protection Agency.

But ever since Robert Reich wrote twenty years ago in *The Work of Nations* that the Fortune 500 hadn't created a job in ten years and that the only jobs created have been by small business, Meyerson, Congress, and the President have been off touting small business and totally ignoring manufacturing. Manufacturing generates small business, and the reason small business isn't creating jobs is that we have been off-shoring manufacturing for fifty years. Textiles, electronics, computers, communications, automobiles and other industries have been decimated. One-third of the nation's manufacturing was lost in the ten years ending President Bush's term, and President Obama, like Bush, has done nothing to stop the hemorrhage.

Economists ignore the fact that the recession started with a double dip. Bush increased the debt \$7.5 trillion, and household debt increased or stimulated the economy another \$7 trillion for a total of \$14.5 trillion stimulation in eight years. When President Obama moved to stimulate, we were losing 799,000 jobs a month. And with Obama's stimulation of \$2.5 trillion, we still lost jobs the past two months. Stimulation is spent. Consumers are saving. As Robert Kuttner writes in his new book, *A Presidency in Peril*: "We need a comprehensive industrial strategy to reclaim manufacturing and a

companion trade policy ...." We need to make manufacturing profitable in the United States. In globalization, "It's the government, stupid." Globalization is nothing more than a trade war with production looking for a country cheaper to produce. The competition is not company versus company but country versus country. And China has turned the trade war into a war for the economy – a war for investment, research, technology, development, production, jobs, trade, the economy.

All countries compete fiercely in the economy war – except the United States. Germany has just announced a windmill plant for Charleston, South Carolina. Germany will manufacture the parts with its 19% VAT rebated in shipment to South Carolina. Shipping costs 3% and producing the parts in Germany at high cost, the U. S. facility will not pay more than a 1% corporate income tax. Producing windmills in the United States 15% less than any domestic production, Germany has already coppered the green jobs that President Obama politicked for.

We have the makings for an industrial policy to reclaim manufacturing already in place with our trade laws. In the past ten years we have suffered a trade deficit of \$1 trillion. In 1971, President Richard Nixon instituted a 10% surcharge on imports when our trade deficit was a fraction of the deficit today. But President Bush and President Obama refused to act. President Obama is now hailing a successful bailout of General Motors and Chrysler. Chrysler was bailed out for the Italians and suffering devastating trade deficits in the past ten years of a trillion dollars in subsidized autos and auto parts.

GM is still in doubt. Bush and Obama should not have waited for bankruptcy.

Under Section 201 of the Trade Act, when an industry vital to the economy as automobiles are, President Bush and President Obama are called upon to institute tariffs or import quotas to protect the endangered industry. But Bush, and now Obama, fail to act. Our manufacture can be rejuvenated and millions of jobs created under the War Production Act of 1950. This law protects the production and jobs for materiel and equipment necessary to the nation's security. In 1961, President John F. Kennedy called a Cabinet hearing on the damage done to textile production which subsidized imports and determined that next to steel, textiles was the second most important to our national security. I can hear President Kennedy now: "We can't send them to war in a Japanese uniform." It is not necessary or desirable to save the entire industry in globalization, but today textile items like winter clothing, camouflage, parachute cloth, composites for body armor, must be at hand. We have the troops for Afghanistan, but not the equipment. The Pentagon has just pleaded with Russia for helicopters. We can't go to war or defend the country save the favor of some foreign nation.

The United States is comprised of the most competitive people. People are not uptight about health care or financial reform or any Supreme Court appointment. People of all political stripes are uptight that our country is not competing in globalization. Pundits keep nagging that: "Government doesn't create jobs, only business creates jobs." But in globalization our government in Washington is the only entity that can save the nation from going broke. Corporate America, with its research, investment, development and production,

has gone to China, India, Vietnam, and other countries. Only the Washington government can make it favorable to produce in the United States.

European countries with their VAT tax advantage have already made a beachhead in the United States with automobile and green jobs. And Microsoft, the best of research, and Intel, the best of technology, are already in China. We're in real trouble. But we can begin the march back by cutting out the childish politics of "the government is too big," "get rid of the government." We are number one in the world because of our government in Washington, and the people ought to sober up from pandering politics and call on the government to act.

The march back to the strongest economy can begin by canceling the corporate income tax and replacing it with a 2% VAT. The average corporate income tax is 27% and cutting its taxation 2% will eliminate the principal cause of off-shoring, production and jobs. Moreover, it will immediately comply with the President's goal of boosting exports by reducing the cost of exports by one-third. A 2% VAT as a replacement for the corporate tax will be cutting taxes, raise more revenues (about \$86 billion more), and we can start paying down the debt. But Wall Street and the financial crowd that got us into this trouble will oppose our country getting competitive in globalization because they want to keep the China profits flowing to keep the market up. And Corporate America's CEOs, with few exceptions, will be with Wall Street. The CEOs are not about building a strong economy but about keeping their stock up for the golden parachute. And the question is will President Obama and Congress yield to the need of the country for a strong

economy or to the needs of contributions for the campaign for re-election?

First, President Obama has to get a new economic team. As Kuttner writes:

“They richly deserve to be thrown under the proverbial bus.” Then the President and Congress and the people all have to learn that in globalization, “It’s the government, stupid.”

*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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