

## IN REAL TROUBLE

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JAN. 14, 2011 -- *Time* magazine's cover article, *Where the Jobs Are*, Zachary Karabell writes "There is no going back, and the manufacturing jobs that have been lost are gone forever." Thank heavens, our founding fathers didn't feel that way.

In the beginning, the Mother Country, calling for free trade to maintain its colonization, restricted manufacturing in the Colony. Pursuant to David Ricardo's doctrine of "comparative advantage," England told the future United States: "You have a comparative advantage in timber, and we have a comparative advantage in manufacture. So exercising each's comparative advantage both countries will engage in free trade." Trade wasn't free. England used the Colony's timber to manufacture ships, but the Navigation Act of 1635 required exports from the Colony to be carried in English bottoms.

Alexander Hamilton rallied the forefathers on manufacturing, publishing his *Report on Manufacturers* in 1791, and the Constitution of 1787 called on Congress to regulate trade both domestic and foreign. The founding fathers were so intent on regulating trade that they could agree on trade in 1787, but it took the forefathers four more years before they could agree on first amendment rights. The first act of the first Congress on July 4, 1789, was a protectionist tariff bill. We built the United States into an industrial power with protectionist tariffs, not passing the income tax until 1913. Edmund Morris in his book, *Theodore Rex*, describes the nation at the turn of the century: "The 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 goods and services that she was more self-sustaining than any industrial power in history." At the time, President Theodore Roosevelt exclaimed in a letter: "Thank God I'm not a Free Trader." Morris writes: "Current advertisements in British magazines gave the impression that the typical Englishman woke to the ring of an Ingersoll alarm, shaved with a Gillette razor, combed his hair with Vaseline tonic, buttoned his Arrow shirt, hurried downstairs for Quaker Oats, California figs, and Maxwell House coffee, commuted in a Westinghouse tram (body by Fisher), rose to his office in an Otis elevator and worked all day with his Waterman pen under the efficient glare of Edison lightbulbs."

We maintained this industrial preeminence to win World War II. Franklin Roosevelt had Chrysler making the tanks and General Motors making the B-24 airplanes. At the end of the war, the United States had the only manufacture to revive the free world with the Marshall Plan. But today our manufacture is either off-shored or under foreign control. Arrow shirts are from China. Fisher is long gone. General Electric has quit making lightbulbs. Westinghouse has sold its nuclear with hundreds of government-developed patents to Japan's Toshiba. China has bought IBM Big Blue's computers, and Bethlehem Steel, that furnished the steel for World War II, is now owned by Russia. Ford has off-shored its production of cars to Mexico,

and General Motors is making more cars in China than in the United States. The majority of manufacture consumed in the United States is imported. We don't make anything any more. We keep pumping small business and ignore manufacture, the creator of jobs. Small business is not the multiplier of jobs. Manufacture is the multiplier. Manufacture is the engine of growth. Manufacture produces the middle class, the strength of our democracy. Manufacture defends the country.

*Time* magazine would have people believe that the recession is the only cause of job loss. Off-shoring is more the cause. Alan Blinder, the Princeton economist, estimated in February 2007, long before the recession, that the country in ten years would lose thirty to forty million jobs to off-shoring. In the last ten years we've lost a third of our manufacture. And we are losing job benefits, job safety, environmental protections -- our standard of living. At this rate, we'll lose our democracy.

Corporate America has already taken over the government. For fifty years after World War II, Corporate America struggled with Congress to protect its investment and production in the United States. But presidents, concerned with winning the Cold War, vetoed the strengthening of our trade laws. Finally, NAFTA with Mexico and China's entry into the World Trade Organization forced Corporate America to off-shore in order to compete in globalization.

Globalization is nothing more than a trade war with production looking for a cheaper country to produce. Off-shoring hemorrhaged under President Bush and continues unabated under President Obama. And the biggest farce today is that President Obama has to get right with

business. Business chants "free trade," "protectionism," and opposes the government competing in globalization. President Obama chants "free trade," "protectionism," and refuses to compete in globalization by enforcing our trade laws. If the President enforces our trade laws, coming down on his head to defeat him will be Wall Street, the big banks, the Business Roundtable and the United States Chamber of Commerce. So President Obama does nothing.

Globalization is not just a struggle for trade but investment, research, development, production, and jobs. Every country is building its economy except the United States. The task for the President and Congress is to make it profitable to invest and produce in the United States.

President Jack Kennedy made it profitable to produce textiles in the United States in 1961 by enforcing the War Production Act of 1950. It is still the law of the land. Congress enacted this law to make sure that the country had the manufacture necessary for the nation's security. Kennedy held a Cabinet hearing which determined that, next to steel, textiles were the second most important to our national security. We couldn't send troops to war in a Japanese uniform. The textile industry must remain competitive in globalization. It's not necessary that we produce all textiles, but we have to have a supply of camouflage, parachute cloth, and body armor. Today, the Pentagon is begging Russia for helicopters for Afghanistan. We can't defend the United States except by favor of some foreign country. To defend the country, to create jobs, all President Obama has to do is return to our roots. George Washington said in 1789 in his first address to the Congress: "A free people should promote such manufactories, as tend to render

them independent on others for essential, particularly military supplies.”

President Obama can create millions of jobs by imposing a 10% surcharge on imports as President Nixon did in 1971 when our trade deficit was a minuscule of what it is today. President Obama could create millions of jobs like President Reagan did in the eighties using our trade laws to get voluntary restraint agreements with Japan on steel, automobiles, computers, and machine tools, and saving Harley-Davidson. Instead of waiting for General Motors to go bankrupt needing a bailout, President Bush and now President Obama should have imposed quotas on foreign automobiles under Section 201.

Closing loopholes and eliminating tax expenditures is a waste of time. I've watched it for thirty-eight years and the lobbyists always win out. We end up with less revenues. The President can jump start the economy by totally eliminating the corporate income tax and replacing it with a 5% value added tax. Don't tell me the people don't understand it or it can't work. A VAT works in 135 industrial countries, and their people understand and appreciate it.

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A VAT is on consumption rather than production. The more you consume, the more you pay. The less you consume, the less you pay. The poor that are required to spend most of their income on food, health, and housing, can be exempted. But with exemptions, a 5% VAT will bring in \$400 billion more than the corporate tax, and we can start paying down the debt. The corporate tax is not rebated on exports, but the VAT is. This will immediately promote exports and create jobs. The VAT substitution will immediately free up Corporate America's \$1 trillion in off-shore profits that can be repatriated tax free for production and jobs. The average corporate tax is 27%. Replacing it with a 5% VAT is cutting taxes.

President Obama can bring the jobs home and rebuild our economy by cutting taxes. But instead of going for the country, he goes for the campaign. He hires Bill Daley from J. P. Morgan Chase to help raise a billion dollars for the campaign. This is the same financial crowd that got us into trouble. Two more years of this nonsense, we'll really be in trouble.