

SAVING THE COUNTRY

By Former United States Senator Ernest F. Hollings

Having been governor, I am frequently asked the difference of being a governor and senator. As governor, if you want to raise revenue you raise taxes. As senator, if you want to raise revenue you cut taxes. In Washington you become smart. You become an economist and learn to stimulate the economy by cutting taxes. And promising not to raise taxes will guarantee your re-election. The Congressional Budget Office made a study of the cause of the increase in deficits the first four years of President George W. Bush: 48% due to tax cuts; 37% due to the cost of wars and national security; and 15% due to spending increases. The Bush administration and Congress have put the government on steroids for eight years, increasing the debt (as of 9/30/08) – not revenues -- \$2.672 trillion.

Another smart thing you learn is how to low-ball the deficit by subtracting the trust funds. For example, the White House projected a FY 2008 deficit of \$425 billion. The actual deficit is \$1074 billion. The President and Congress constantly use Social Security surpluses to report a lower deficit. Section 13-301 of the Budget Act forbids this. But the

President and Congress violate the law to appear fiscally responsible. Then they report Social Security is in trouble. Social Security reports a surplus of \$2.4 trillion and is not in trouble.

Now we have the economists' charade of free trade. As Henry Clay, one of John F. Kennedy's *Profiles in Courage*, said in 1832: "Free Trade! Free Trade! The call for free trade, is as unavailing as the cry of a spoiled child, It never existed; it never will exist...." After World War II, we took up the chant of free trade as we spread capitalism with the Marshall Plan. Our goal in chanting free trade was to open the markets of the assisted countries. But Japan kept its market closed, starting a trade war for market share, selling at cost in international trade and making up the profit in its closed domestic market. Concerned that capitalism prevail over communism in the Cold War, we refused to compete in this trade war. We refused to force Japan to open its market. Now, Toyota is #1 as General Motors and Ford struggle. Now Corporate America is outsourcing like gangbusters and shout free trade for fear that the U. S. will engage in the trade war and stop the outsourcing.

I worked with Corporate America to protect our textile industry by passing a protectionist trade bill through the United States Senate in 1968. President Lyndon B. Johnson had Wilbur Mills, the Chairman of the Ways

& Means Committee, block the measure in the House of Representatives.

Then we passed four protectionist trade bills through both Houses of

Congress only to be vetoed, one by President Jimmy Carter, two by

President Ronald Reagan, and one by President George H. W. Bush.

Corporate America was for protectionism not free trade. Denied protection

by both Republican and Democratic administrations, Corporate America

began outsourcing. Now making enormous profits from outsourcing they

chant “free trade” to dump their offshore production into the United States.

The Economist reports: “Globalisation used to mean, by and large, that business expanded from developed to emerging economies. Now it flows in both directions, and increasingly also from one developing economy to another. Business these days is all about ‘competing with everyone from everywhere for everything’, write the authors of “Globality”, a new book on this latest phase of globalization by the Boston Consulting Group (BCG).” But the United States refuses to compete, to trade.

Globalization is a trade war with the U. S. AWOL. We started a trade war with the Mother Country at the adoption of a Constitution in Philadelphia in 1787. England had prevented manufacture in the colony, even prohibiting the printing of the Bible. In 1787 we reached a consensus on protectionism directing the regulation of trade to the Congress in Article

I, Section 8, of the Constitution. It took the United States four more years to reach a consensus on First Amendment rights of freedom of speech, religion, assembly, and the press. President Washington, in his first message to the first Congress in 1789 counseled: “A free people should promote such manufactures as tend to render them independent on others for essential, particularly military supplies.” After the adoption of the nation’s seal, the first bill to pass Congress, on July 4, 1789, was a 50% tariff on numerous articles. We financed and built this industrial giant, the United States of America, with protectionism. We didn’t pass the income tax until 1913. Edmund Morris, in *Theodore Rex*, describes the United States winning the trade war with England: “This first year of the new century (1900) found her worth twenty-five billion 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.” Theodore Roosevelt exclaimed at the time: “Thank God I am not a free trader.”

While spreading capitalism with the Marshall Plan, the United States raised our standard of living with the minimum wage, health care, safe working place, safe machinery, parental leave, plant closing notice, and started protecting the environment by instituting NOAA and the

Environmental Protection Agency ensuring clean air and clean water. This high standard of living raised the cost of production. Corporate America could avoid this cost by outsourcing. But now, if your competition outsourced and you continued to work your own people, you would go bankrupt. Production in America, in order to compete, finds itself forced to outsource. And the outsourcing and free trade charade are destroying the economy. We are outsourcing not just jobs and production, but research, technology, investment, the economy – even the debt. With the shocking \$700 billion bailout, outsourcing the debt will be difficult. The country finds itself in the predicament of having to protect it's production and standard of living or end up a banana republic. We learn that David Ricardo's "comparative advantage" in economics is no longer English woolens and Portuguese wine, but government. The Japanese and Chinese governments set the competition of managed trade in globalization. Bottom line, we can't depend on our business leadership calling for free trade to prescribe our trade policy. Congress, under Article I, Section 8 of the Constitution, must assume the responsibility of regulating trade. Congress must make it profitable to produce in the United States.

We've got to stop our binge of free trade, cutting taxes, deregulating, contracting out, and getting rid of the government. We have to put America

back to work, pay for the government we provide, and instead of getting rid of the government make the government work.

We need to compete in globalization. We need to put a tourniquet on outsourcing. We need money. A value added tax is in order. Every industrialized country but the United States has a value added tax, which is rebated at export. Our corporate taxes are not rebated, which puts the United States at a tremendous disadvantage in international trade. A VAT would remove this disadvantage and begin to eliminate both the fiscal and trade deficits. A VAT could also provide the money to finance health care, infrastructure, and energy. Raising the price of imports with a VAT will require the consumer to save. And exports that have been saving the economy will be promoted. It will take a year for business and the Internal Revenue Service to gear up for a VAT. In the meantime, we should institute a 10% surcharge on imports as President Richard Nixon did successfully in 1971. Everyone has been worried about the shortage of troops for Iraq and Afghanistan, the exhaustion of our military. But equally important is that we don't have the military supplies to go to war. Chairman of the Joint Chiefs of Staff, Admiral Crowe, warned of this shortage in 1991. Globalization and outsourcing have imperiled our security. We had to await flat panel displays from Japan before invading Kuwait. We had to await

Swiss crystals before invading Iraq. We can't produce planes unless we get the parts from India. We can't produce helicopters unless we get the parts from Turkey. This nonsense has got to stop. We must activate the Secretary of Commerce's list of materials critical to our national security. Tariff or quota military imports and producing in country these supplies necessary to our security, we can put America back to work.

As Lincoln said: "As our case is new, we must think anew and act anew. We must disenthrall ourselves [from this free trade charade, and working together] we can save our country."