

QUIET CONSPIRACY

Former U. S. Sen. Ernest F. "Fritz" Hollings (D-SC)

NOV. 19, 2009 -- Fifteen years ago, I called my friend Walter in California to ask that his next expansion be in South Carolina. Walter responded: "I don't produce anything in the United States. It's all in China. I lease the plant for a year. They provide the workers, and I put a quality control man in charge, keeping up with him on the internet. If I make a profit, I don't have to pay any tax. I just invest in another plant and expand. If business has a downturn, I just walk away. I haven't lost any capital investment or incurred any legacy costs."

The conspiracy begins with business keeping this deal quiet. It is globalization. Nothing you can do about it. If one tries, call for "free trade," "protectionism," "don't start a trade war." Instead of leading the way in Congress for a strong economy, hush! Or better still, call for "free trade. Thus, business began the conspiracy of silence on the Trade War that rages in globalization. Globalization is nothing more than a Trade War with production looking for a cheaper country to produce, and producing off-shore one doesn't have to bother with health care, labor laws, protecting the environment, OSHA's safety rules and anti-trust provisions.

Next in the conspiracy is Wall Street interested in off-shore profits and the banks and investment houses like Goldman-Sachs that finance off-shore production.

Then comes the conspiracy of silence on the Trade War by the President and Congress. Both go along with the charade because Wall Street, the financial crowd,

and Corporate America furnish the contributions for the campaigns.

The fourth and cancerous part of the conspiracy are the economists and free press. They give credibility to the charade of silence on a Trade War. The economists follow the adage: "Whose bread I eat, his song I sing."

The best of the best, Paul Krugman, recommends more stimulation, "New-Deal-style employment programs," such as the WPA and the CCC, and Germany's reducing "workers' hours rather than laying them off" --everything about creating jobs, but nothing about stopping the loss of jobs in the Trade War. Krugman has to know that off-shoring our production and jobs at the present rate will soon put the economy beyond repair.

The media avoids mentioning the Trade War like the plague. Last week's *Time* magazine lists "5 Things We Can Learn From China." (1) "Be ambitious;" (2) "Education matters;" (3) "Look after the elderly;" (4) "Save more;" (5) "Look over the horizon." *Time* ignores China's employing every device to secure research and technology and China's total control of its financing, labor, production and trade. As the United States government remains AWOL, *Time* ignores China's lesson that government is the "comparative advantage" in the Trade War.

I was drafted in this Trade War by the northern and southern textile industries to testify before the old U. S. Tariff Commission in 1960. I told how we were losing textile production and jobs because

Japan was dumping its textile exports at less than cost into the U. S. market. John Kenneth Galbraith later helped draw up President John Kennedy's seven-point program in 1961 to protect textiles from Japan's trade practices. But Japan continued building plants around the Pacific Rim and transshipping in violation of its trade agreements into the United States. Twenty-five years ago, U. S. Customs estimated that the textile industry was suffering from \$5 billion in textile transshipments. We were receiving textiles from Matsui that didn't even have a textile plant.

In 1968 we passed five bills to counter this conduct and have the President enforce our trade agreements, but President Lyndon Johnson blocked one in the House of Representatives, President Carter vetoed one, President Reagan vetoed two, and President George H. W. Bush vetoed one. In passing bills through both Houses of Congress, we proved the textile industry was the most productive in the world -- investing \$2 billion a year in new machinery, downsizing the card room from 25 employees to none, downsizing the weave room from 112 to 12.

Zenith spent three years and \$3 million going through the courts to protect its production and finally won before the U. S. Supreme Court. But President Ronald Reagan said we had to help his friend, Nakasone, in Japan and overrode the Supreme Court decision. Industry, seeing it could get no relief in the courts or from the Congress, started off-shoring in earnest. And under President Clinton's and George W. Bush's free trade policies off-shoring hemorrhaged.

Milliken Textiles, that launched the program "Crafted with Pride in the USA," had to move its carpet production to Beijing in order to sell the carpet for the

Chinese Olympics' Bird Nest. In the last ten years, the United States has lost one-third of its manufacturing and now imports a majority of what we consume. Long before today's recession, the United States lost a substantial portion of its production of textiles, shoes, watches, radios, TVs, steel, electronics, computers, machine tools, robots, communications equipment, automobiles, advanced technology and now research. But Corporate America, the financial interests, the government in Washington, the economists and media, act as if there is no Trade War.

The President, as he dithers on how to get in a war that he should be out of, now calls a White House summit on jobs to dither about how to stay out of the Trade War that we ought to be in. We need to:

- (1) Stop subsidizing off-shored production transferring its tax benefit to domestic production.
- (2) Corporate America can't produce for a profit in the U. S. in the Trade War. One hundred twenty-three countries in globalization compete with a value added tax that's rebated at export. The corporate income tax is not rebated. Cancel the corporate tax and replace the revenues with a 3% value added tax. The average corporate tax is 27%, and together with China's 17% VAT, constitutes a 44% incentive to produce in China rather than the United States. Removing this incentive and canceling the corporate tax with a 3% VAT that's rebateable, Corporate America becomes competitive in the Trade War.

- (3) Under Section 201 of the Trade Act, institute quotas on imports endangering our production like automobiles and auto parts. In the last eight years, Detroit has been subjected to \$1 trillion worth of subsidized automobile and auto parts competition. The bailout can't work if this continues.
- (4) We have off-shored our defense production to such an extent that we can't go to war except with the approval of a foreign country. For example, Boeing can't produce a fighter plane or Sikorsky a helicopter without vital foreign parts. Globalization is so rampant that I doubt a policy requiring complete production in the United States would pass. But a studied policy under the Defense Production Act of 1950 is absolutely necessary. By a studied policy, the Congress working with industry must determine what major production is required in-country and what can be warehoused, so that the nation is ready to defend.

These steps should be taken immediately, rather than dithering with a summit.

Don't give me this "free trade," "protectionism," nonsense. The country was founded in a trade war with England. Protectionist tariffs financed and built the country into an industrial power superior to England in the first hundred years. We did not pass the income tax until 1913. As Henry Clay on the floor of the United States Senate said of free trade: "It never existed; it never will exist." And don't give me this education or innovation sing-song like there's some magic bullet to the creation of jobs. South Carolina needs more education.

But we are presently making turbines for G.E., tires for Michelin, automobiles for BMW and vital sections of the 787 Dreamliner for Boeing. We confronted the innovation problem in Congress twenty years ago with an "Advanced Technology Program" that worked extremely well until terminated by President George W. Bush. Any innovation today in the U. S. like windmills is immediately developed and produced in China. And stop spreading the myth that John McCain started in the campaign in Michigan by telling the voters that in globalization automobile jobs are not coming back. There're coming back like gangbusters in South Carolina, Alabama, Mississippi, Tennessee and Kentucky.

And don't give me this put-off of exports. The United States has off-shored so much of its value added production that we have ended up with the export profile of an eighteenth century colony. Today's plus-balance of trade is made up in agricultural products, chemicals and most of all airplanes, engines and parts. But last week, China announced the flight testing of a fighter plane of the same technology as the Lockheed Martin F-22. And this week, GE and China announced a 50/50 deal for the production of avionics – in China. Ignoring the Trade War, our country will soon lose a major contributor to our defenses and the balance of trade.

Stop dithering. Stop the summits. Get into the Trade War and trade.

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).

