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How to bring manufacturing back home

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In July, our trade deficit hit yet another all-time record, \$68 billion, an annual rate of \$816 billion. Imports surged to \$188 billion for the month, as our dependency on foreigners for the vital necessities of our national life ever deepens.

China's trade surplus with us was \$19.6 billion for July alone, moving toward an all-time record of \$235 billion for 2006 – the largest trade deficit one country has ever run with another. Our deficit with Mexico is running at an annual rate of \$60 billion. With Canada, it is \$70 billion. So much for NAFTA. With the European Union, it is running at \$160 billion.

America as the most self-sufficient republic in history is history. For decades, U.S. factories have been closing. Three million manufacturing jobs have disappeared since Bush arrived. Ford and GM are fighting for their lives.

Bushites boast of all the new jobs created, but Business Week tells the inconvenient truth: "Since 2001, 1.7 million new jobs have been created in the health care sector. ... Meanwhile, the number of private sector jobs outside of health care is no higher than it was five years ago."

"Perhaps most surprising," writes BW, "information technology, the great electronic promise of the 1990s, has turned into one of the biggest job-growth disappointments of all time. ... (B)usinesses at the core of the information economy – software, semiconductors, telecom and the whole gamut of Web companies – have lost more than

1.1 million jobs in the past five years. Those businesses employ fewer Americans than they did in 1998, when the Internet economy kicked into high gear."

Where did the high-tech go? China. Beijing's No. 1 export to the United States in 2005, \$50 billion worth, was computers and electronics.

If Americans are the most efficient workers on earth and work longer hours than almost any other advanced nation, why are we getting our clocks cleaned? Answer: While American workers are world-class, our elites are mentally challenged. So rhapsodic are they about the Global Economy they have forgotten their own country. Europeans, Japanese, Canadians and Chinese sell us so much more than they buy from us because they have rigged the rules of world trade.

While the United States has a corporate income tax, our trade rivals use a value-added tax. At each level of production, a tax is imposed on the value added to the product. Under the rules of global trade, nations may rebate VAT levies on exports, and impose the equivalent of a VAT on imports.

Assume a VAT that adds up to 15 percent of the cost of a new car in Japan. If Toyota ships 1 million cars to the United States valued at \$20,000 each, \$20 billion worth of Toyotas, they can claim a rebate of the VAT of \$3,000 on each car, or \$3 billion – a powerful incentive to export. But each U.S. car arriving at the Yokohama docks will have 15 percent added to its sticker price to make up for Japan's VAT.

This amounts to a foreign subsidy on exports to the United States and a foreign tax on imports from America. Uncle Sam gets hit coming and going. It is as though, after firing a round of 66 in the Masters, Tiger Woods has five strokes added to his score for a 71, and five strokes are subtracted from the scores of his rivals. Even Tiger would bring home few trophies with those kind of ground rules.

The total tax disadvantage to U.S. producers – of VAT rebates and VAT equivalents imposed on U.S. products – is estimated at \$294 billion.

Exported U.S. services face the same double whammy. A VAT equivalent is imposed on them, while the exported services of foreign providers get the VAT rebate. Disadvantage to U.S. services: \$85 billion annually.

Why do our politicians not level the playing field for U.S. companies?

First, ignorance of how world trade works. Second, ideology. These robotic free-traders recoil from any suggestion that they aid U.S. producers against unfair foreign tactics as interfering with Adam Smith's "invisible hand," which they equate with the hand of the Almighty.

Third, they are hauling water for transnational companies that want to move production overseas and shed their U.S. workers.

How could we level the playing field? Simple. Impose an "equalizing fee" on imports equal to the rebates. Take the billions raised, and cut taxes on U.S. companies, especially in production. Create a level playing field for U.S. goods and services in foreign markets, and increase the competitiveness of U.S. companies in our own home market by reducing their tax load.

U.S. trade deficits would shrivel overnight. And jobs and factories lately sent abroad would start coming home.

Isn't it time we put America first – even ahead of China?