The Phyllis Schlafly Report

VOL. 40, NO. 10 | P.O. BOX 618, ALTON, ILLINOIS 62002 | MAY 2007

Prepare for the Big Issue in 2008

Ronald Reagan's amazing victories in 1980 and 1984 were based on a coalition of three groups: (1) traditional (Goldwater) conservatives, (2) the new pro-family movement motivated by social issues (ERA and abortion), and (3) the Reagan Democrats (middle-class workers who discovered that New Dealism was going in the wrong direction and should be replaced by Reagan's "morning in America"). This third group was kicked away from the Republican/conservative movement by the big-business domination of the Bush 41 and Bush 43 Administrations, and their failure to stand up for American workers against the foreign governments subsidizing *moving millions of good American jobs overseas,* cheating *us with their anti-American tariff-tax policies, and* stealing *our technology and intellectual property.*

The stock market has risen to new highs, but wages of the middle class are stagnant and thousands have had to take lower-paid jobs. The law of supply and demand really works — a bigger supply of workers depresses wages. The Bush Administration wants to bring in millions of "guest workers" to take low-wage jobs away from our own large supply of high-school dropouts, as well as bring in more workers skilled in computers and engineering (using H-1B visas) to take the jobs of U.S. college graduates.

American workers are not impressed with talk that "globalism" is inevitable, that educated foreigners have better skills than Americans, or that uneducated foreigners do "jobs Americans won't do" — because that forces us to compete with foreigners working for 30 cents an hour.

The Party that speaks for American workers will be the Party that wins in 2008.

How Foreigners Cheat Americans on Trade

Daniel Drew, the legendary 19th century Wall Street insider, reputedly said that all he wanted in any deal was "a little unfair advantage." Most of America's trade competitors seem to want the same thing, or even a big unfair advantage.

Imagine how it would help the competitiveness of American exporters if U.S. companies could cut their prices an average of 19% in Europe and 17% in Asia. Imagine what it would also mean if foreign imports into the United States from overseas were raised by the same percentages.

U.S. financial generosity to our allies after World War II included giving them special trade advantages to help them speed up their post-war recovery. We agreed that they could rebate to their producers any "indirect" taxes they paid on goods they exported to us, and they could also impose an equal charge on any U.S. products they imported.

Those nations recovered from World War II many years ago, but they still cling to what started out as a little advantage but has steadily increased to become a massively unfair advantage. The cost to U.S. producers increased to a whopping $327 billion in 2006.

In practical terms, this means that the German manufacturer of a car exported to the United States gets a rebate from the German government equal to the indirect taxes paid in Germany, a type of tax called the Value Added Tax (VAT). Since the VAT rate in Germany is 19%, the German carmaker gets a 19% tax rebate on every vehicle exported to the United States.

That's a significant subsidy to German auto manufacturers which enables them to sell cars in America for much less than they sell for in Germany. But what about American cars exported to Germany?

A U.S. manufacturer exporting an auto to Germany must pay the German government a VAT equivalent tax of 19 percent of the price of the car plus 19 percent of all the costs of transportation, insurance, docking and duties involved in getting the car to Germany. The U.S. company gets no credit for corporate taxes it pays in the United States.

Today, 157 other countries use a VAT tax system that gives foreigners a large and unfair advantage over U.S. producers in both our markets and in foreign markets. This two-edged sword cost American producers $327 billion in 2006.

But that's not all. The VAT advantage also creates a perverse incentive for U.S. companies to move their plants and jobs to other countries so they, too, can take advantage of the VAT subsidy.

Thousands of U.S. producers have already shifted their

production overseas to get the same tax break, and more are ready to follow. Even companies that don't want to leave America have little choice when faced by competitors who move overseas and cut their prices.

U.S. producers face another inducement because most banks are now reluctant to lend money to companies that refuse to move offshore, particularly to China. The banks don't want to risk lending to a company facing such strong disadvantages.

The outsourcing of factories and jobs is devastating towns, counties and states all across America. It badly reduces the tax revenues that would otherwise be paid by successful U.S. companies and their employees.

Congress tried repeatedly to address this injustice by instructing our trade representatives, in 1974, 1988 and 2002, to negotiate away the unfair VAT advantage. Our so-called friends and "trading partners" just refused to deal with the issue, or even to talk about it.

Congress tried another tack to redress the VAT imbalance by modifying our U.S. tax system in 1971, 1984, 2000 and 2004. But the European Union filed a case against us at the World Trade Organization in the early days of the George W. Bush Administration and got the WTO to rule our legislation illegal. Our laws were completely constitutional, but Congress decided to repeal them rather than risk a trade war.

The big question is, how can the United States offset this massive economic disadvantage that cost our producers $327 billion in 2006, and resulted in the loss of three million U.S. manufacturing jobs in the last six years?

Some Members of Congress are considering legislation to allow our government to impose a fee on imports from other nations that is exactly equal to the VAT subsidy given them by their home government, and also to give U.S. producers a rebate on their exports exactly equal to the VAT charge imposed on them by a foreign country. The former would more than pay for the latter, so this plan should be cost-free to U.S. taxpayers.

The goal would be to get equal treatment for U.S. producers both in home and in foreign markets. Our hope would be that foreign countries that have been enjoying the VAT scam would realize that the United States is no longer willing to be Uncle Sucker, so they had better change their policies and agree to a level playing field.

Why U.S. Jobs Move Overseas

Why do U.S. companies relocate their plants overseas, thereby abolishing U.S. jobs? (a) they can hire workers at very low wages (such as 30 cents an hour in China), (b) the companies don't have to pay any employee benefits, (c) they don't have to comply with safety and environmental regulations, (d) they don't have to pay foreign taxes when they export their products back to us.

The correct answer is all of the above. The U.S. cannot require foreign governments to impose a minimum wage or safety regulations, or pay employee benefits. But the U.S. can and should do something about (d), the huge tax-rebate racket that lures U.S. companies to lay off American workers and set up shop in foreign countries.

Corporations located in the United States pay big U.S. corporate income and property taxes. It does a lot for their bottom line when they move to a foreign tax-free utopia.

Foreign governments do tax corporations, but if the company exports its products to the U.S. (or other countries), the foreign government rebates (forgives) the tax. That creates an irresistible magnet to attract U.S. companies to transfer their plants to a land where they can avoid most of both countries' taxes.

It's no wonder that DaimlerChrysler will soon start building cars in China to ship back and sell in the U.S. under Chrysler names such as Dodge and Jeep. This decision means that 11,000 manufacturing jobs and 2,000 white-collar jobs will be eliminated over the next 24 months. The SUV assembly plant in Newark, Delaware will be closed. The Warren, Michigan truck plant and the St. Louis County, Missouri assembly plants will each lose one of two shifts.

The combination of avoiding U.S. corporate taxes and having Chinese taxes rebated (forgiven) will help DaimlerChrysler to sell new cars in the United States much cheaper than any it can manufacture in Detroit.

This racket should be prohibited because it is a huge subsidy, but world trade agreements have peculiarly defined subsidy to exclude tax rebates to exporters by calling it a rebate of the Value Added Tax (VAT). They get by with this subterfuge because that term is not understood by most Americans.

One of the many ways the United States is different from nearly all other countries is the system of taxation. The U.S. imposes taxes on our income (we pay taxes on what we earn), whereas 157 other countries impose taxes on consumption (they pay taxes on what they buy) and call that tax a VAT.

The VAT system not only operates as a bribe to induce U.S. plants to move overseas, but it is also a scheme to prevent U.S. products from being competitively sold in foreign countries. Here is how the racket works.

When a U.S. product, such as an automobile, arrives at another country's port, the foreign government slaps on a VAT import tax that is a percentage of the price of the U.S. product, the transportation cost to get it to the foreign country, and the tariff that the foreign country charges.

For 40 years, the U.S. has been signing trade agreements that were supposed to reduce or eliminate tariffs and thereby promote free trade. European countries sanctimoniously proclaim that they are reducing their tariffs, but in fact they replaced their tariffs with a steadily increasing VAT.

In 1968, the average tariff rate collected by European

Union countries was 10.4%, and the average VAT rate was 13.44%, making a trade barrier against U.S. goods of 23.84%. By 2006, the average tariff rate declined to 4.4%, but the average VAT rate climbed to 19.36%, making the trade barrier against U.S. products 23.76%.

Foreign countries simply substituted high VAT rates for high tariff rates, thereby maintaining their border barriers against competition from U.S. goods. The result is that most foreign countries still have *de facto* tariffs against us that are as high or higher than their tariffs of 40 years ago.

Of course, this racket is flagrantly contrary to the announced goal of free-trade agreements. But don't look for any relief from the World Trade Organization because the WTO consistently rules against us.

Foreign governments' use of the VAT has inflicted U.S. industry with monumental costs, increasing every year, and reaching $327 billion in 2006. That's the sum of the VAT rebates paid to companies that ship foreign-made products to the U.S., plus the VAT taxes paid by U.S. companies for the privilege of selling their products in foreign countries.

The current system is not the result of the free market or free trade, but the failure of our government to expose and counter the dishonest practices of our trading competitors. After 40 years of tolerating this ripoff, we want to hear from national leaders who will demand a new strategy and a level playing field.

Bush Opens Border to Mexican Trucks

Our federal and state highways and bridges are among America's great assets; they enable us to drive freely and safely all over our country, and they belong to all of us, paid for by our taxes. But they are expensive assets; they require maintenance, repair, and expansion due to rising traffic.

Anyone who does much driving on our highways in ordinary sedans knows how crowded with big trucks our highways already are. But President Bush's latest concession to Mexico is to allow Mexican trucks for the first time to have open access to all our highways, roads and bridges. Bill Clinton kept Mexican trucks off our highways except for a 25-mile commercial zone immediately north of the border, but the Bush Administration is less protective of U.S. interests.

U.S. Transportation Secretary Mary E. Peters went to El Paso to make the announcement that for the first time, starting in April 2007, 100 Mexican trucking companies will be allowed to make deliveries anywhere in the United States, and she put no limit on the number of trucks the 100 companies can operate. This is a major step toward Bush's vision of a North American community.

Big corporations are eager to have their made-in-Mexico-by-cheap-labor products delivered in the United States by Mexican drivers, who are paid 33% to 40% less than U.S. truckers.

George W. Bush will never face the voters again, but other Republicans will pay the price for his coziness toward Mexico and his elitist disregard for American workers. Even the *Wall Street Journal*, an enthusiastic supporter of the movement of goods, services and people, legal or illegal, across our southern border, admits that rising public opinion against the importation of cheap labor "helped propel Democrats to take back Congress in November." The jobs issue will be even bigger in 2008, and the cost to Republicans even more damaging.

The problem is not only the increased wear and tear on our highways that U.S. taxpayers will subsidize, and not even the crowding of the roads that will make driving less pleasant for us all, but it's our worry about safety. That concern is real, even if you don't buy Teamsters President Jim Hoffa's statement that "They are playing a game of Russian roulette on American's highways."

Homeland Security Secretary Michael Chertoff assures us he is "committed to retaining a high level of security and safety standards under this program." But we are entitled to disbelieve his promise; Michael Chertoff is impudently reneging on Congress's Secure Fence Act and President Bush's much-photographed pre-election signing of the Act.

Maybe Secretary Chertoff will give us "virtual" safety standards like the "virtual fence" he sometimes talks about. At the present time, only about two percent of trucks coming across the border are inspected, so the drug dealers just consider it a cost of doing business that a few of their illegal loads will be caught.

U.S. truck drivers must meet strict requirements that include enforcement of hours, regular physicals, age limits, and drug and alcohol tests. We have no way of telling how many hours Mexican truck drivers have been on the road before they reach our border inspectors.

Mexico has no limits on how many hours a driver can drive a truck, and no credible drug testing of drivers. The Mexican trucking industry, with few exceptions, has never successfully been monitored, much less supervised.

National Transportation Safety Board member Debbie Hersman doubts that we have the personnel to take on the additional work of sending inspectors to Mexico. She says we already lack enough inspectors to conduct safety reviews of at-risk domestic carriers.

Over the last several years, there have been many fatal accidents caused by cars and trucks driven by Mexicans, legal and illegal. The most tragic truck accident in Midwest history, resulting in the incineration of Rev. Scott Willis's six children in 1994, was caused by a Mexican truck driver's inability to comprehend warnings in the English language.

Secretary Peters claims that the Mexican drivers will be able to understand English, but we are entitled to doubt Bush's enforcement of the English-language regulation. Mexican driv-

ers unfamiliar with our roads and signage, plus language incompatibility, are a danger to all driving Americans.

New Awakening about 'Free Trade'

On the first day that H-1B visas became available, the corporations snapped up all that are allowed. Our government received 150,000 applications for the 85,000 slots set aside to bring in foreign skilled workers.

The corporations whine that H-1Bs are needed because of a shortage of Americans with skills, but major studies at UC-Davis and Duke universities conclusively prove we have thousands of unemployed or underemployed Americans with all needed technical skills. Nobel economist Milton Friedman accurately labeled H-1Bs a government "subsidy" to enable employers to get workers at a lower wage.

The best way to deal with the demand for a limited number of H-1Bs would be to auction them off, so then we would find out if they are really needed and how much they are worth. An auction would enable the taxpayers to get some return on the H-1B subsidy instead of the current system which allows corporations to influence Congressmen with campaign contributions and high-priced lobbyists. Instead, the Bush Administration dealt with the thousands of H-1B applications by lottery, with the result that half of them were granted to low-skilled workers.

Contrary to corporate propaganda, H-1Bs are not an alternative to outsourcing skilled jobs but a vehicle to promote outsourcing. H-1Bs enable corporations to bring in foreigners, train them in American ways, and then send them back to guide outsourced plants in Asia.

For years we've been told that it's OK for our manufacturing jobs to be outsourced overseas because the United States will always keep the technology, engineering, innovative, service-industry and white-collar jobs. Even when service-industry jobs began to be outsourced, we were told, those are just low-skill tasks like answering customer inquiries.

It turns out that was all a lie. The high-skill and technical jobs are also rapidly moving overseas, especially to India.

Boeing now employs hundreds of Indians for aircraft engineering, writing software for next-generation cockpits and systems to prevent aircraft collisions. Investment banks like Morgan Stanley are hiring Indians to analyze American stocks and to write reports for institutional investors, jobs formerly done by Americans earning six-figure salaries on Wall Street.

Eli Lilly is doing major pharmaceutical research in India. Cisco Systems, the leading maker of communications equipment, will have 20 percent of its top talent in India within five years, and global-consulting giant Accenture will have more employees in India than in the United States by the end of this year. I.B.M. reduced its American work force by 31,000 while increasing its Indian staff to 52,000. Citigroup, which already has 22,000 employees in India, plans to eliminate 26,000 jobs in the U.S. and increase its Asian work force by another 10,000 where the pay is lower.

"Follow the money," of course, explains this massive shift in jobs. It's cheaper to hire and produce in India than in the United States. The unhappy results of these policies are now apparent; they richly benefit the corporations but are devastating to the American middle class. Outsourcing reduces good American jobs, our standard of living, our national security, and our world leadership.

This massive change in our economy should be front-page news, but you have to look on the lower half of the inside pages of pro-globalism newspapers like the *New York Times* to find the facts. It was a real surprise when the *Wall Street Journal* (always a big supporter of free trade, globalism, and open borders) published a front-page article called "Pain from Free Trade Spurs Second Thoughts."

This article reported that one of the most prominent advocates of free trade, Professor Alan Blinder, now says that free trade can put 30 to 40 million American jobs at risk, mostly from outsourcing. Blinder is one of America's most influential economists. A professor at Princeton University with a Ph.D from MIT, he is a former Federal Reserve vice chairman and adviser to several presidents. For years, he has been peddling the notion that free trade enriches the United States.

Professor Blinder just got around to looking at the facts, and the facts changed his views. He ranked 817 occupations to identify how likely each one is to go overseas. The most vulnerable jobs are bookkeepers, accountants, computer programmers, data entry keyers, medical transcriptionists, graphic designers, and financial analysts. Blinder now says that the millions of American jobs that have already gone to Asia are "only the tip of a very big iceberg."

Dr. Blinder is not the only prestigious economist who is having second thoughts. Nobel Laureate Paul Samuelson, who wrote the principal textbook used in university economics classes, is also now criticizing globalization and admitting that rich countries aren't always winners from free trade.

Most of the Democrats who won in November 2006 talked a lot about the issue of jobs, while the Republicans who lost kept mouthing the tired old mantra that globalism is both good and inevitable. Republicans can't win the White House in 2008 without Pennsylvania, Ohio or Wisconsin, all of which have lost thousands of jobs to outsourcing.

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PO Box 618, Alton, Illinois 62002

ISSN0556-0152

Published monthly by the Eagle Trust Fund, PO Box 618, Alton, Illinois 62002. Periodicals Postage Paid at Alton, Illinois. Postmaster: Address Corrections should be sent to the Phyllis Schlafly Report, PO Box 618, Alton, Illinois 62002. Phone: (618) 462-5415.

Subscription Price: $20 per year. Extra copies available: 3 copies $2; 10 copies $4; 30 copies $8; 100 copies $15; 1,000 copies $100.

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