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Testimony of
CONGRESSMAN JAMES P. MORAN
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TRADE DEFICIT REVIEW COMMISSION
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MR. CHAIRMAN, Members of the Commission, I am honored by this opportunity to testify about our nation's trade and current account deficits, and their impact on our economic well-being.

The subject matter before you is one of the most complex and misunderstood in our economy. Economists are divided over the precise causes of the trade deficit, as well as the degree to which it is sustainable over the long term. Many members of the public at large see the trade deficit as a sign of American economic weakness, and as an indication that we are no longer competitive. The report by the Commerce Department on February 18 that the nation's trade deficit in goods and services increased to \$27.1 billion in 1999 will only deepen these concerns. The 1999 deficit represents a 65 percent increase from 1998 and is the highest on record. To many Americans, the trade deficit has become a metaphor for other economic problems in our society, including lingering unemployment, economic dislocation, and wage stagnation. I believe this view is wrong.

As one who attended the ill-fated WTO Ministerial in Seattle, I heard this view expressed many times in the streets and among the commentators. It is, therefore, vitally important that we gain a greater understanding of the trade deficit if we are to grow closer to a national consensus on an effective, open and fair trade policy. More importantly, this Commission can help Congress avert what I view as potentially damaging protectionist trade policies based on a misunderstanding of the trade and current account deficits. So I am very supportive of your work.

Mr. Chairman, I want to focus on some of the policies we should pursue to address the trade deficit over the long term. Your August 19, 1999, hearing here in Washington featured some of the nation's best economists to address the theoretical bases of this issue. Suffice it to say that I agree with those who believe that the trade deficit is not a cause for serious concern in the short run. It is an indication that we are consuming more than we are producing and that economic growth in the rest of the world has been

insufficient to purchase enough of this greater productive capacity. There is evidence that this will begin to change in 2000 as the developing nations of Asia recover from their economic collapse of two years ago.

An additional factor to be considered is that foreign capital inflows are being invested in new capital equipment and technologies. Such investments will make us better able to pay off foreign loans and will increase the productivity and wealth of our people. This is one of the reasons why the fiscal policies of the past seven years have been so important; government deficits are no longer absorbing so many investment dollars. It also bears repeating that for the American public, the ready availability of imports to the United States broadens consumer choice and is a powerful check on inflation. The availability of inexpensive imports means that Americans can use more of their paychecks for savings or investment. This increases their standard of living.

With that said, it is also true that over the long term, the specter of sustained trade deficits is not in our national interest. They are a drag on growth in GDP, and they cannot go on forever. At some point in the future – and it could be soon, the economies of Japan, Southeast Asia, and other regions of the world will improve, and will become attractive sources of foreign investment in their own right. This would result in the reduced demand for dollar assets, which could in turn cause a rapid and overly large drop in the value of the dollar.

One of the most important challenges for our economy right now is to assure that the trade deficit is brought down in a gradual manner that increases productivity and competitiveness over the long run. Some have termed this a “soft landing.” What is critical is that we not over-react and embrace protectionist measures that retard growth, fuel inflation, limit consumer choice and fail to make us more competitive

An orderly long term reduction of the trade deficit will require the following legislative and policy priorities:

First, it is imperative that the Congress extend Permanent Normal Trade Relations (PNTR) to the People’s Republic of China (PRC). The data released last week by the Commerce Department indicate that the goods deficit with China in 1999 was \$68.7 billion, making China one of the largest single contributors to the current imbalance. We are a cash cow for China right now. Extending PNTR status to China as part of the recently negotiated China-U.S. agreement on China’s accession to the WTO will enable the United States to narrow this trade gap significantly. It will open a market of 1.25 billion people to U.S. agricultural products, telecommunications services, manufactured goods, financial services, and a wide range of professional services.

The agreement is in the U.S. interest. It does not imply approval of Chinese behavior, particularly in the area of human rights. It recognizes that the best way to effect basic change in China’s behavior is through economic engagement.

It is important to note that our markets are already largely open to the Chinese. The November agreement negotiated by Ambassador Barshefsky is largely a one way street for U.S. manufacturers and consumers. In exchange for major trade concessions from the Chinese, we agreed to keep our markets open to the Chinese and to support China's accession to the WTO, a step which will bring China into a rules-based international trade system and accelerate economic and political reforms in China.

Second, it is imperative that the United States give priority to removing barriers to open trade in those areas where we can and should enjoy the greatest success.. The service sector is the best case in point. In 1998, this nation had an \$8.1 billion surplus in services trade. This surplus was derived from travel services, licensing and copyright fees, construction, architecture and engineering, computer and data processing and telecommunications among others. Service trade policy is an emerging area. A major achievement of the Uruguay Round was the General Agreement on Trade in the Services (GATS), which represented the first comprehensive trading agreement governing services. This accord was followed by the Financial Services Agreement and the Basic Telecommunications Agreement of the WTO. The services have not always been thought of as an area with great export potential. But with the integration of information technologies in a global economy, service providers can now interact with clients and support their needs more easily than ever before.

As the representative of one of the most vibrant and service-intensive economies in the United States, I was **hopeful** that the next round of the WTO could make **further** progress in service-sector trade liberalization. In preparing for Seattle, the administration had identified services as a priority. A new round could have expanded the Financial Services Agreement and the Basic Telecommunications Agreement, immunized the Internet from taxation, and assured that future agreements would anticipate new technologies.

We will, of course, never know whether these agreements would have been reached. Unfortunately, they fell victim to a process where concern about the trade deficit ironically helped derail measures to narrow it. The United States must nevertheless renew efforts to achieve agreements to expand trade in the services.

Third, we need to make certain that the government's economic data about the trade deficit is accurate. The Commission could play a very **useful** role by identifying how serious a problem this is, and some of the measures that could correct it. As you may know, this has been the subject of hearings before Congress, including last March before the Government Reform and Oversight Committee. The evidence presented to the Committee indicated, for example, that exports of U.S. goods are underreported by anywhere from three to ten percent, due largely to the fact that low value sales abroad (those valued at less than \$2500) do not have to be reported to the government. Government methodology for estimating such shipments was developed in 1989 and fails to account for the dramatic changes in the global marketplace, especially the use of e-commerce.

Fourth, the Executive Branch must vigilantly monitor and enforce existing trade agreements, and we must do more to promote U.S. exports abroad. In order to have trade policies and agreements that enjoy the support of the American public, there must be a public perception – grounded in fact -that our domestic trade laws are effective in eliminating, sanctioning, or obtaining compensation for unfair trade practices by our competitors. Congress must provide Executive Branch agencies with the resources and the political support they need to enforce our laws properly. Here again, the Commission can provide useful guidance to the Congress on the right organizational structure to negotiate, monitor, and enforce U.S. trade agreements.

Similarly, it is important that the federal government maintain and, where appropriate, expand proven programs that create new opportunities for U.S. businesses to sell overseas. One of the most persistent complaints I hear overseas is that our government, relative to our competitors in Europe and Japan, provides too little help in promoting exports or facilitating overseas transactions. And when one hears some of our debates in Congress, it's surprising that we still provide any help at all. Too often, U.S. trade development institutions such as Eximbank, OPIC, and Export Promotion programs within the Department of Commerce are labeled as "corporate welfare." There needs to be a renewed commitment to such initiatives.

Fifth, we need to invest in workforce training initiatives to increase our productivity and competitiveness. Improved workforce training is crucial to increasing public confidence in our domestic trade policy. With lifelong learning and job re-training linked together as part of an overall trade policy to increase jobs and wages, we can ease the fear that foreign trade means lower wages and lost jobs for low skilled or unionized workers.

Again, to refer to my own district, there are an estimated 20,000 unfilled high technology jobs in Northern Virginia. The inability of our local economy to produce enough skilled workers for these jobs costs our economy as much as \$1 billion per year. Although firm data are unavailable, there is no doubt our problem is shared by other regions of the United States and that our trade deficit is higher as a result. I have offered legislation with Senator Lieberman to begin to address this problem. Our bill authorizes the creation of Regional Skills Alliances (RSAs) to respond to the acute workforce shortage needs of a given region or sector. Unlike traditional "top down" job training programs administered by the Department of Labor, RSAs are driven entirely by industry in cooperation with community colleges or state universities. The federal government's role is to leverage these programs with one-third matching grant funds. RSAs are but one example of the many good ideas which exist to better train American workers. Congress and the President must forge a consensus on an effective and comprehensive approach to job training. Right now there is a proliferation of ineffective job training programs throughout the federal government. They must be improved.

Finally, to ensure a "soft landing" for the trade deficit, the United States must adhere to the prudent fiscal policies that have been followed by Congress and the Clinton Administration during the past seven years. A large, across the board cut

in tax rates under the present circumstances could have a negative effect on the trade deficit as well as other economic indicators because it would stimulate spending, increase interest rates and spur inflation.

In his testimony before the House Banking Committee last week Chairman Greenspan emphasized that the growing surpluses in the federal budget have augmented the pool of domestic savings, thereby keeping interest rates low and encouraging investment in technologies and other products that have fueled growth and productivity. As the Chairman stated: "Maintaining the surpluses and using them to repay debt over coming years will continue to be an important way the federal government can encourage productivity-enhancing investments and rising standards of living." As I stated earlier, by reducing debt and by assuring that foreign investment flows toward projects that will enhance productivity – and not towards new consumption or government deficit financing – we can mitigate some of the legitimate concerns over the impact of the trade and current account deficits.

Again, I appreciate this opportunity to testify and the important service this Commission is accomplishing. Thank you.

Mr. Chairman, I would welcome any questions which you or the Commissioners may wish to pose.