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Congress of the United States  
House of Representatives

Testimony of Representative Peter DeFazio (D-OR)  
Before the U.S. Trade Deficit Review Commission  
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Introduction

When I introduced legislation creating the U.S. Trade Deficit Review Commission on October 9, 1997, I said on the floor of the House of Representatives that "...large, persistent trade deficits with low wage nations inevitably depress wages in the United States and contribute to one of America's most vexing problems: the growing disparities in the wealth and income of our citizens."

When I made that statement, the trade deficit was around \$111 billion. As I began preparing this current testimony, I was greeted with blaring headlines regarding the final trade deficit numbers for 1999. The New York Times (February 18, 2000) headline declared "Trade Deficit Surges to All-Time High in 1999." Actually, however, this was really not a surprise since we've become accustomed over the last several months and years to almost monthly declarations from the Commerce Department about new record deficits.

Unfortunately, this lack of a positive trade balance since 1975 has contributed to stagnant or falling wages for the vast majority of Americans. Recent upticks notwithstanding, wages for most Americans are at levels comparable to where they were during the early 1970s. And, recently, the Economic Policy Institute (EPI) and the Center on Budget and Policy Priorities released a joint report detailing the nagging and growing inequality in America.

In addition to the wage and inequality problems, there is also strong and growing evidence that large and persistent trade deficits:

- ▶ Eliminate jobs and restructure the composition of employment from high-wage manufacturing to the often low-wage service sector;
- ▶ Reduce U.S. spending on research and development (one study by Dr. Peter Morici of the Economic Strategy Institute found the deficit decreased U.S. R&D spending by 3 percent. While this sounds small, the additional R&D spending could increase productivity growth by 0.5 to 0.6 percent, which would make a significant difference in living standards for workers, assuming employers raised wages to correspond with the increase);

- ▶ Corrode our long-term trade competitiveness;
- ▶ Increase our reliance on foreign capital inflows, leading to our status as the world's largest debtor nation; and
- ▶ Reduce national savings

Let me briefly go over the 1999 deficit numbers in a bit more detail before I address the upcoming Congressional debate on extending **permanent** normal trading relations (**PNTR**) to **China** and review the results of the first five years of the North American Free Trade Agreement (NAFTA) for their impact on the U.S. trade deficit.

### **The 1999 Deficit in Review**

The merchandise trade deficit rose 41 percent in 1999 to a record \$347 billion, an increase of \$100 billion over 1998. The broader goods and services deficit also increased to a record high of \$271 billion, a 65 percent increase. U.S. goods and services **imports** jumped 12 percent while exports increased less than 3 percent.

U.S. trade deficits with the NAFTA countries rose by 69 percent. Imports **from** Canada increased by \$25 billion and imports from Mexico increased by \$15 billion.

U.S. deficits also rose yet again with Japan, this year by 10 percent. Our record deficits with China continued, increasing 12 percent. In fact, the U.S. trade deficit with China currently reflects a six-to-one ratio of imports to exports. This is the most **imbalanced** relationship in the history of U.S. trade. Together, inequitable trade with Japan **and** China is responsible for 43 percent of total U.S. trade deficits in 1999.

Unfortunately, the U.S. didn't do much better in bringing our trade into balance with other parts of the world either. The trade deficit with Europe increased by 61 percent in 1999. Imports from Latin America increased by 16 percent while exports declined by 13 percent.

The bottom line of all this red ink is the loss of good U.S. jobs. While it's true that exports create jobs, when imports exceed exports by hundreds of billions of dollars - especially when the imports are goods once produced in American factories with the sweat of our own workers - the result is a net loss of some of the best jobs our economy has to offer. In 1999 alone, it is estimated the U.S. lost 341,000 manufacturing jobs. These jobs are often being replaced by temporary, part-time, service sector jobs that offer lower wages and few if any benefits such as health **care** or pensions.

In addition to the micro level impact on families, factories leaving small, often single company towns, is devastating for the community **as** a whole. The domino effect of plant closures has been linked to increased domestic violence; reduced purchasing power that hurts

other business in the area **that** used to depend on higher wage factory workers as their customer base; reduced tax base that decreases the ability of the local government to provide necessary services; and eventually population flight.

With the long list of negatives attributable to trade deficits, it is important for this Commission, Congress, the Administration and the American people to understand what the likely impact of China's entry into the WTO means for future deficits and what we **can** learn from the first five years of NAFTA that should be considered in future trade agreements.

### **What will entry of China into the WTO mean for the U.S. trade deficit?**

One could be forgiven for believing the U.S. trade deficit with China will shrink upon China's entry into the WTO. The rhetoric coming from the Administration and the business community, while not directly discussing the deficit, seems to indicate China's membership in the WTO will be nothing but a boon for exporters, workers, taxpayers, **farmers**, shareholders and CEOs alike.

Unfortunately, the quasi-governmental, non-partisan U.S. International Trade Commission (**USITC**) says otherwise. Even leaving aside the critical debate about human rights, labor rights, and environmental degradation, in the most comprehensive economic analysis of this deal done by the U.S. government, even the economic case has not been made for how China's entry into the WTO benefits the U.S.

According to the USITC, China's accession would increase U.S. exports there by 10.1 percent while imports would **increase** by only 6.9 percent. However, as a recent report by the EPI notes, "the absolute level of the trade deficit continues to grow, despite the higher growth rate for U.S. exports, because the volume of imports (\$81 billion in 1999) was so much larger **than** the volume of exports (\$13 billion)."

The EPI report goes on **to** note that, using the **USITC's** own model, U.S. **trade deficits** with China will continue to grow for the next half a century, reaching a peak of \$649 billion in **2048**. **Our trade deficit with** China would not fall below its current level until 2060, more than 60 years after the completion of the China-WTO agreement. The USITC acknowledges this point. In an August 1999 report, the USITC noted "the model estimates an increase in the U.S. trade deficit with China."

While the dollar numbers are disturbing, even worse is **the** real world impact the deficits will have on main street America. Even if the trends predicted by the USITC model only persisted for a decade, the U.S. deficit with China would reach \$131 billion in 2010. The growth in exports would generate 325,000 jobs, but this would be a pittance compared with the 1.14 million jobs lost in the U.S. due to rising imports **from** low-wage China. This is a net loss of an additional 817,000 jobs on top of the 880,000 **jobs** already lost due to our current trade deficit with china.

Running such an enormous trade deficit with China will have a devastating impact on U.S. workers and the businesses that depend on their purchasing power. I hate to be a pessimist, but an argument can also be made that the numbers I just went through may understate **the** problem. The reason is the USITC model makes a number of questionable assumptions. For example, **the** USITC model assumes China will comply with all terms of the accession agreement. China's record in this area to date is **awful**. They continue to violate the agreement against prison labor and have signed a **number** of agreements to protect intellectual property, each time promising to better enforce it than the one before. The USITC also assumes. China will not devalue its currency. As happened in Mexico after NAFTA, it is likely China will face a currency crisis and subsequent devaluation. This would cause a huge increase in exports to the U.S. and a reduction in US. exports to China. If the USITC assumptions turn out to be off, therefore, deficits could become even larger.

### **What lessons from NAFTA have parallel implications for China-WTO?**

The arguments made by the Clinton Administration in support of China's entry into the WTO are eerily similar to those made five years ago by the same Administration in support of NAFTA. Therefore, even if one wants to *remain* skeptical about the case I just laid out for how China's entry into the **WTO** will increase U.S. trade deficits, you need only look at the NAFTA experience to see how previous Administration promises have not come to fruition. In fact, in many cases, just the opposite of what they promised has come to pass.

According to a report by EPI issued late last year, the trade deficit with Mexico and Canada has destroyed 440,172 jobs in the United States in just four years (1994-1998). **The** increased deficits in 1999 has led to additional jobs losses in all 50 states and the District of Columbia.

The **EPI** report states, "**Although gross** U.S. exports have increased dramatically - with real growth of 92.1 percent to Mexico and 56.9 percent to Canada - **these** increases have been overshadowed by the growth in imports, which have gone up by 139.9 percent **from** Mexico and **58.8** percent from Canada." As recently as 1993, the U.S. had a trade surplus with Mexico of \$1.7 billion, though total trade with both Mexico and Canada was in deficit by \$13.2 billion. Since then, this deficit has increased by 160 percent to **\$47.3** billion in 1998. This increase has occurred while other developed countries, such as the European Union, have maintained trade surpluses **with** Mexico.

Over three-quarters of the jobs lost due to NAFTA were in the manufacturing sector. This reduces the number of high-wage, high-skill jobs available for non-college educated workers. This further exacerbates the chronic wage gap and inequality problems in our country.

**In** my home State of Oregon, as of February **7, 2000**, the number of jobs lost (based on a search of the Trade Adjustment Assistance database) is 4,802. **This** includes over 400 jobs with **Tyco from** two Oregon cities. These jobs were moved to Mexico. 270 jobs with Fender, **the**

musical instrument company, also moved to Mexico. 200 jobs in Eugene with Lane Plywood were lost to imports **from** Canada. 232 jobs were lost at the **Stroh's** brewery due to Mexican imports.

**These types** of losses are occurring across **the** country. Net job loss figures range **from** a low of 395 in Alaska to a high of 44,132 in California. As EPI notes, "While the job loss in most states are modest relative to the size of the economy, it is important to remember that the promise of new jobs was the principle **justification** for **NAFTA**...**If** NAFTA is not delivering net new jobs, it is not providing enough benefits to offset the costs it imposes on the American public."

In addition to outright jobs losses, U.S. companies are using the threat of relocating to Mexico in order to win wage and benefit concessions **from** workers. NAFTA's own labor secretariat **confirmed** this trend. **Workers** know such threats are not idle ones. The percentage of firms **that** move rather **than** continue to bargain with workers has tripled since NAFTA's inception in 1994.

The NAFTA experience **should** raise a red flag when considering China's accession to the WTO.

## **Conclusion**

I will end my testimony today the same way I ended my statement on the House floor nearly two and a half years ago. "It is time to slow down and carefully develop a trade policy whose principle objective is the generation of decent jobs and rising wages for **the** majority of our people." I regret that in the time lapsed since **I** initially made **this** statement **that** so little has changed. I am hopeful that the recommendations ultimately coming out of this commission will provide a blueprint for a more just, sustainable, and equitable trade policy.