

Statement by Democratic Commissioners

U.S. TRADE DEFICIT REVIEW COMMISSION

Democratic Commissioners on U.S. Trade Deficit Review Commission Say Trade Deficit Not Sustainable, Threatens Economy With Hard Landing

The U.S. Capitol
Washington, DC
November 14, 2000

Today the U.S. Trade Deficit Review Commission (TDRC) issued its final report "***The U.S. Trade Deficit: Causes, Consequences and Recommendations for Actions***" with all members agreeing that large and growing trade deficits are not sustainable. A majority of the Commission indicated that there was a risk of a hard landing with Democrats arguing that concrete actions should be taken to avoid such a possibility.

At the same time, Democratic and Republican Commissioners issued a report that is split on the key issues of the causes, consequences and appropriate policy responses to those trade deficits.

Estimates indicate that the trade deficit will reach \$450 billion this year. Next year, the trade deficit, following current trends, may surpass the \$500 billion mark. Similarly, our trade deficit and the net international indebtedness measured as percentages of GDP have been increasing and are at record levels.

All the Commissioners believe that there is some risk that growing trade deficits could lead to a "hard landing," with potentially dangerous repercussions for our economy. The Democrats call for the development of contingency plans to address this possibility.

According to Commission Vice Chairman Dimitri Papadimitriou,

"It is simply irresponsible to ignore the huge threats that the growing trade deficit could pose to our economy. The U.S. Treasury and the Fed should work with Congress and the Administration to ensure that they have all the tools and authority that they would need to respond quickly and responsibly to such a crisis, should it begin to develop."

The TDRC was officially constituted and organized in August 1999. It held hearings and briefing sessions in Washington and in cities across the country. It took testimony from business, government, labor, NGOs and academics and commissioned a number of studies to respond to its Congressional mandate: a report on the causes and consequences of the large and growing trade deficit – and possible recommendations on what to do about the deficit. There are twelve Commissioners – equally balanced between Democrats (George Becker, Richard D'Amato, Kenneth Lewis, Dimitri Papadimitriou, Lester Thurow and Michael Wessel) and Republicans (Wayne Angell, Carla Hills, Anne Krueger, Don Rumsfeld, Murray Weidenbaum and Robert Zoelick).

All Commissioners worked together diligently for more than a year in an attempt to reach a consensus among themselves. It finally became clear that this would be impossible. As a result, the document that was submitted to Congress today represents differing viewpoints on the clear choices that exist. It will serve as a debate resource for the Members – and the public – as Congress seeks to address trade policy choices in the future. In the words of Commissioner Michael Wessel,

"It was our view that minimizing the Commissioners' differences in an attempt to reach a weak and diluted consensus would have produced a report with little or no useful guidance to Congress."

Despite its inability to reach broad agreement in many areas, it is important to note several conclusions from the report did receive the support of a majority of the Commission:

- The current transition assistance framework must be strengthened. A majority of the Commission called for an aggressive program of transition assistance for all workers who bear the cost of adjustment to economic change, no matter why they have lost their jobs. This program should be available to all displaced workers, and not just those who are eligible for specific trade adjustment aid. As part of this effort, the Commission called for Congress to consider a program of wage insurance to address the problem of workers who return to the workforce and receive compensation less than they got in their previous job. And, the Commission indicated that this could include age-based differentials to account for the problems facing older workers. Furthermore, the Commission recognized how important health insurance is to the families of displaced workers and called for filling the gap in the period when a worker is out of work.

In a separate dissenting comment on this chapter, all the Democratic Commissioners note that a broader program of adjustment assistance should not become an excuse for weakening efforts to minimize job dislocation. Commissioner George Becker pointed out that:

"Our first priority should be to support fair trade and U.S. jobs. We must not allow predatory trade practices, foreign trade barriers and other discriminatory actions by our trade competitors to destroy even more jobs here in the U.S. The recent Commerce Department report on the steel crisis noted that 'the thirty-year history of repeated unfair trade actions is symptomatic of underlying market-distorting trade policies in the global steel market.' These practices have wiped out vast numbers of jobs, communities and the steel companies that support them across the United States."

- Foreign trade barriers must be addressed. All Commissioners believe that a vigorous program to address foreign trade barriers is essential and that responsibility for dramatically enhanced trade enforcement and monitoring efforts should be elevated. In addition, the Democrats called for the use of performance-based trade agreements, the renewal of Super 301 and other efforts to break down barriers to our competitive products. As Commissioner D'Amato noted:

"We need to be treating trade agreements as seriously today as we did arms control agreements a decade ago."

- Democrats rejected the Republican call for a new round of multilateral trade negotiations unless labor, environment and human rights issues are on the table. The Republicans rejected the notion that enforcement of other nation's current laws be part of new negotiations. It is important to note that this "rule-of-law" approach is the basis of the recently signed US-Jordan Free Trade Agreement. Commissioner Kenneth Lewis said, *"There is a need to establish new rules for the global economy that promote and protect the human values and economic policies that Americans support -- including labor rights and environmental concerns, which free trade will not address on its own."*
- Democrats called attention to the need for addressing the trade deficits with China and Japan in light of the fact that together they account for the majority of the trade deficit. Republican Commissioners indicated that efforts to address bilateral deficits with any countries would not result in an overall reduction in the trade deficit.
- Democrats called for the creation of a Congressional Trade Office (CTO) analogous to the Congressional Budget Office. This CTO would assist Congress in its constitutional control over trade

policy. Because of the increasing importance of trade to the U.S. economy, it is vital that Congress reasserts its control over the issue and expands its analytical resources to assist them in that regard.

The Democratic Commissioners are available for comment by contacting the TDRC office in Washington, D.C. at: 202/624-1409.

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