

Chapter 3

The consequences of U.S. trade and current account deficits

Two Differing Views on the Consequences of the Trade Deficit

Democratic and Republican Commissioner views on the consequences of the trade and current account deficits differ on several issues, particularly the impact that international trade has on the increase in wages and changes in the distribution of incomes.

In the view of the Democratic Commissioners, (p. 87) globalization and the growing U.S. trade deficit have been very costly for U.S. manufacturing and for communities and workers in the United States and around the world. They have contributed to

- *a sharp rise in U.S. income inequality since 1979 and the stagnation of incomes for most American working families;*
- *elimination of millions of good manufacturing jobs and job opportunities in the United States since 1979 and increased economic insecurity;*
- *depressed wages for most U.S. production workers (who make up 80 percent of the labor force), sharp declines in job quality, and growing wage inequality in the United States Globalization has also increased wage inequality in many developing countries; and*
- *declining U.S. competitiveness on world markets.*

The U.S. manufacturing sector will have to bear almost the entire burden of eliminating these deficits, unless we decide to cut imports by sharply reducing national output, incomes and employment in the United States. This will require manufacturing output to increase by at least 30 percent to eliminate the trade deficit.

Large and growing U.S. trade and current account deficits also pose a threat to the health of the domestic economy. This led us to question the sustainability of the trade deficit.

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In the view of the Republican Commissioners, (p. 121) trade has played a very important role in the rising U.S. prosperity: it has contributed significantly to rapid economic growth, a higher U.S. standard of living, and job creation; it has helped keep inflation low, thus making lower unemployment levels sustainable; and foreign capital has funded higher levels of investment in U.S. plant and equipment, helping to raise productivity.

In their view, concerns that increased levels of international trade have led to stagnating wages and increased income inequality are misplaced. First, the data do not support the conclusion that wages have stagnated over the past two decades. Current measures of inflation overstate true increases in prices and, as a result, distort estimates of real wage growth over time. Also, the data do not track how individuals fare over time nor do they reflect the major improvements in the standard of living that are widely enjoyed. Furthermore, a large body of economic research concludes that trade has had a very minor impact on the distribution of income. Technological change is the most important factor in changes in the distribution of income, providing over time relatively higher wages for advanced training and skills.