

Summary of Democratic Commissioners' Views and Recommendations

The six Democratic Commissioners, representing half of the Commission, greatly appreciate the painstaking efforts of the Chairman to find common ground on a number of issues, and those common positions are summarized in the preceding section. The areas of common agreement are found in the body of the report in Chapters 1, 5, and 7. However, for a number of important issues that are central to the debate over trade, globalization, and the trade deficit, the Democratic Commissioners hold views that are distinctly different from their fellow Commissioners. These differences are summarized below in a way that is intended to better inform the public policy debate and improve the formulation of trade policy.

The differing views of the Democratic and Republican Commissioners on key issues are presented in Chapters 2, 3, 4, and 6. The first three of these chapters present, respectively, the differing views on the causes, consequences, and sustainability of America's growing trade deficits.¹ The last chapter presents policy recommendations for responding to the trade deficits.

All of the commissioners share a common goal for economic policy, in general, and trade policy, in particular, which is improving the standard of living for all of the American people. However, the Commissioners have different views on how best to realize this goal. In particular, there are substantial differences about the long-term benefits of the process that is known as "globalization." These differences include a fundamental debate about whether globalization, as it is now occurring, enhances or threatens the basic American values that underpin our political system and way of life, as well as the standard of living of large segments of the United States and other societies. The Democratic Commissioners do not believe that unfettered competition in a laissez-faire environment alone contributes to a rising standard of living for all Americans.

As a consequence, the Democratic Commissioners believe that trade policy should require that competition is fair and human rights and values are protected and advanced. The marketplace, left alone, is insufficient to adequately protect worker or human rights; it will not protect the environment nor will it ensure that if you work hard and play by the rules, you will have a fair chance at achieving a middle-class standard of living.

Regarding the specific chapters in which the differing views are presented, all Commissioners recognize that macroeconomic performance in the United States and abroad is a factor in determining the trade deficit; however, the Commissioners differ as to its importance. The Democratic Commissioners believe that unfair foreign trade barriers, exclusionary practices, foreign industrial policies, and exchange rate manipulation play an important role in both bilateral trade deficits with certain countries, such as Japan and China, and in the level of the overall trade deficit. Furthermore, the Democratic Commissioners also believe that the suppression of

¹ The Trade Deficit Review Commission Act (P.L. 105-277) stated that the purpose of the Commission was to "study the nature, causes, and consequences of the United States merchandise trade and current account deficits." (Section c(2)). The term "trade deficits" is used in this summary to refer to both trade and current account deficits. The definitions of the various measures of the U.S. trade balance are presented in Chapter 1.

labor in developing countries plays an important role in the size of the trade deficit. Workers in many developing countries are paid very low wages and work under unacceptable conditions because they are unable to be fairly compensated in relation to their hard work, productivity, and ingenuity. As a result, this low wage competition undercuts the economics of production in the United States, and the low wages are an impediment to developing a middle class in such countries that would provide a good market for U.S. exports. Both factors contribute to the U.S. trade deficit.

The consequences of trade and globalization have adversely affected the economic well-being of many American workers. The ability to shift production offshore to developing countries has put great pressure on all manufacturing in the United States. The ability to site first-world manufacturing plants in very low-wage countries means that it has become increasingly difficult for American employers to stay competitive and at the same time pay good wages and provide good fringe benefits. While American workers have benefited from the lower prices of imported products, too many have been made worse off, on balance, as a result of the deterioration in wages and benefits.

We believe such a circumstance requires that our trade policy must be changed to assure that we do not continue this race to the bottom. Trade policy must be an agent for change, not simply an effort to preserve the status quo.

We believe that the differences highlighted in this report are of real value in establishing in cogent terms the parameters of what is emerging as a national debate on trade, on America's economic relationship with the world, and on America's social compact with its citizens. In particular, it highlights many controversial problems that are central to our current situation, such as

- the need for policymakers to develop contingency plans on how to respond in the event of a financial crisis in order to ensure the continuing prosperity;
- the need to deal with our major trading partners who engage in mercantilist trading practices and do not yet appear to share with us the commitment to open markets espoused by this entire Commission;
- the failure of the U.S. government to effectively challenge or counter predatory trading practices and government subsidies of foreign companies for research, development, and production that sometimes amount to outright government-led attempts to raid or weaken specific American industries;
- a lack of appreciation that the most effective ways to change foreign mercantilist practices are the use of credible American sticks and carrots in trade enforcement and by effectively challenging foreign subsidies for research, development, and exports;
- the growing power of multinational firms, especially those based in the United States, which has clearly come at the expense of the traditional power of government, and the practices of some of those firms that increasingly threaten the desire for growth with equity in their inexorable quest for profits. This process has encouraged a global

- race to the bottom in labor rights and environmental standards;
- the need to incorporate provisions requiring the enforcement of labor and environmental standards in all trade agreements; and
- the need for the American government to develop far more robust and coherent institutions, and focused policies, to evaluate trading patterns for the understanding and action of policymakers in Congress and the executive branch.

The Democratic Commissioners have included a number of specific recommendations for executive and legislative actions by the new administration and Congress, and believe that such specific proposals will help stimulate the much-needed debate and actions during the year 2001 and beyond. We outline our principal findings on the causes, consequences, and policy recommendations to address trade deficits and globalization below.

Chapter 2 – Causes of the U.S. trade deficit

U.S. trade and current account deficits are caused by a number of long- and short-term factors.

Key long-term factors include:

- Unequal relationships with America's major trading partners. The U.S. market is more open to imports than any other country in the world. High nontariff barriers to trade in foreign markets are an important cause of this problem. These include quotas, private trading arrangements (such as the Japanese keiretsu groups) and other restrictions that reduce U.S. exports (i.e., restricted access to foreign exchange) to China and many other countries.
- Predatory practices, such as dumping, that have increased U.S. imports.
- Foreign government subsidies to foreign companies for research, development, and production that have not been effectively challenged or countered by the U.S. government.
- Multinational corporations driving globalization. U.S. firms have been world leaders in eliminating jobs at home and moving production technology and production offshore.
- The loss of competitiveness of U.S. firms on the one hand, with developing countries that depress workers' rights, environmental standards, and their workers' wages so as to lower costs and unfairly compete for larger shares of the U.S. market and, on the other hand, with those from Europe and Japan because they often have higher levels of productivity growth than the United States.
- The failure of other nations, especially in developing countries, to enforce their labor and environmental laws and observe internationally recognized labor standards.
- Low rates of saving in the United States, which have also contributed to trade and current account problems.

Short-term factors have also contributed to the recent growth of the trade deficit. These include (1) higher oil prices, (2) the 23 percent increase in the value of the dollar since 1995 that has made imports cheaper and the price of our exports more expensive to foreign buyers, and (3) slow economic growth in other countries.

We also found that the U.S. manufacturing sector accounts for most of our trade deficit. Manufacturing industries will have to expand significantly if the United States is going to respond effectively to trade deficits and globalization. To do this, the United States will need new trade and development policies that will help rebuild manufacturing and reduce unfair barriers to trade around the world. We also need new tools to encourage U.S. multinationals to maintain jobs, technology, and production here in the United States.

Chapter 3 – The Consequences of U.S. Trade Deficits

Globalization and growing U.S. trade deficits 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. Manufacturing output would have to increase by at least 30 percent to eliminate the trade deficit.

Large and growing trade deficits also pose a threat to the health of the economy. This led us to question the sustainability of the trade deficit (see Chapter 4).

Chapter 4 —Are large trade and current account deficits sustainable?

In the view of the Democratic Commissioners (page 179), the United States cannot escape the economic reality that our economy has become critically dependent on the influx of foreign borrowing. If present trends continue, this is likely to lead to lower growth rates and possibly to a significant depreciation of the dollar. In addition, the repayment of the various obligations repre-

senting this influx will steadily consume ever-greater portions of our national economic output. It is no more fiscally prudent now to run ever-increasing trade deficits than it was in the past to run ever-increasing budget deficits.

The trade and current account deficits have turned the United States from the world's largest creditor into the world's largest debtor nation with a foreign debt of about \$1.5 trillion, about 16 percent of gross domestic product (GDP). The trade deficit reached 3.6 percent of GDP in the second quarter of 2000. The deficit in manufacturing was an even larger 3.9 percent of GDP (since the United States has a services surplus). The overall current account deficit was 4.3 percent in the most recent period, the highest level in the post-war era. Most projections of United States and international activity foresee that United States current account deficits and the net international indebtedness will grow rapidly over the next 5 to 10 years.

If the current account deficit continues to grow, at some point in the near future we are likely to reach the limit of our ability to borrow abroad in order to finance trade deficits. This could force the United States to reduce the deficit quickly and risk a "hard landing," or abrupt correction, with the clear possibility of triggering a recession. This would have enormous repercussions not only for the United States, but also for the world economy.

Some of the key findings in this chapter include the following:

- Projections indicate that the current account deficit could reach 7.5 percent of GDP by 2010, up from 4.3 percent today, even if the trade deficit does not deteriorate further. Net U.S. foreign debt (now 16 percent of GDP) could grow to nearly 60 percent of GDP by 2010.
- This large and growing U.S. foreign debt has an influence on the status and authority of the United States around the world, with uncertain consequences. Investors may develop doubts about the continued strength of the dollar and quickly shift investments to other markets.

Impacts on the U.S. stock market, the strength of the dollar, interest rates, and inflation, if not controlled, could be adverse to our continued high level of prosperity.

There are no guarantees that this process will unfold in an orderly way, without careful contingency planning, and the history of market psychology gives little comfort that a "soft landing" is the probable outcome.

- There is an additional danger that should be addressed in the increase in the net flow of interest and other property income paid to foreigners on U.S. investments. In 1999, the United States paid foreigners a net -0.2 percent of its GDP for interest

and other property income foreigners held in the United States. Even if the trade deficit begins to improve, our net foreign debt will likely continue to grow and, therefore, the net flow of interest and property payments abroad will continue and probably expand.

For these reasons, we strongly advise policymakers to develop contingency plans that can be implemented, if a crisis develops, to ensure stable financial markets and continued economic prosperity.

Chapter 6 – Trade Policy Recommendations

We identified three major goals for U.S. trade policy:

- *Ensure a high and rising standard of living for all Americans.*
- *Create new rules for the global economy that help workers and protect the environment.*
- *Promote new approaches to trade deficit reduction.*

We call for thirty specific policy initiatives, in six major groups. Highlights include the following:

- *Measures to increase manufacturing competitiveness.* Key proposals include boosting federal research and development spending and new, pooled capital funds for smaller firms.
- *Macroeconomic and monetary policy initiatives.* The United States must develop crisis contingency plans in case the trade deficit causes a currency or financial crisis.
- *Enhanced trade enforcement.* The United States must adopt and enforce policies to attack hidden and nontariff barriers in countries such as China and Japan; to improve enforcement of our fair trade laws; and to effectively counter or challenge foreign subsidies for research, development, and exports.
- *New rules for the global trading system.* The administration must ensure that enforceable labor and environmental standards are incorporated into all trade agreements, including the World Trade Organization, that build upon those that have just been incorporated in the U.S.-Jordan Free Trade Agreement.
- *Improved oversight, monitoring, compliance, and enforcement of our trading rights and agreements.* It is too soon to launch a new WTO round of negotiations-- too many issues are unresolved, including labor rights and environmental standards, agriculture, and services. Progress is needed on all these issues before starting a new round. We differ from the Republican Commissioners on this point: we do not call for a new round of WTO trade negotiations at this time, unless enforceable labor rights and environmental standards are included in any final agreement that is negotiated.

- *Wage insurance, training and adjustment assistance.* We support a large expansion of retraining and adjustment assistance for all displaced workers.
- *Creation of a nonpartisan Congressional Trade Office (CTO),* modeled after the Congressional Budget Office (CBO), which would provide Congress with trade data and analysis to support Congress in fulfilling its constitutional responsibility to regulate foreign commerce and oversee the conduct of trade policy.

Chapters 1, 5, and 7

We have identified our differences here with regard to the material presented in Chapters 2, 3, 4, and 6 of the Commission's report. All the Commissioners are in basic agreement on Chapters 1, 5, and 7 and give those chapters our shared endorsement.

Respectfully submitted,

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