A Trade Policy for the United States

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The Trade Deficit Review Commission was established to study the nature, causes, and consequences of the U.S. trade deficits. This report discusses recommendations on how the nation can become more competitive in the global marketplace.

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by Murray Weidenbaum

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As chairman of the Trade Deficit Review Commission, I am pleased to open this final session of the Commission. Since June 1999, we have been wrestling with the difficult and controversial questions that surround the large trade (and current account) deficits that our economy has been experiencing. We have not developed consensus answers to all the questions, but the Commission has reached general agreement on many issues.

Readers of the report will find sections written by a unanimous Commission (chapters 1, 5, and 7) and other sections where alternate Democratic and Republican viewpoints are presented (chapters 2, 3, 4, and 6). The fundamental difference between the Republican and Democratic sections, at least as I see it, is the extent of reliance on markets to deal with economic issues in contrast to the power of government. No either/or choice is presented, but rather differences in emphasis.

I now will try to synthesize in my own words what I believe are the major areas where we achieved basic agreement:

1. The United States has benefited greatly from international trade and capital flows. Our relatively open economy has enhanced living standards and helped to contain inflation. But increased links to the rest of the world do generate disruptions to individuals and communities. It is essential that we address these consequences in order to develop and maintain a national consensus that focuses on opening markets instead of imposing trade restrictions.

2. Trying to stop the global economy is futile. International commerce is more important to our economy today than at any time in the past. The challenge is to take advantage of the opportu-

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nities created by the flow of trade and investment, while assisting those who bear the cost of adjusting to the changes it brings. In dealing with these matters, our moral values as well as our economic interests must govern the policies we set and the actions we take.

3. Large and growing trade deficits are neither desirable nor likely sustainable for the extended future. However, there is no way to determine how long the deficit trend will continue or whether it will end in a soft or hard landing. Nevertheless, the combination of low household saving, large trade deficits, and substantial foreign debt are reasons to favor a fiscal policy that substantially increases national saving. These deficits reflect fundamental imbalances in the American economy: as a nation we consume more than we produce and we invest more than we save.

4. Foreign trade barriers offend the sense of fairness of Americans who see the greater openness of our economy. A vigorous policy to break down trade barriers is essential. We need to fully enforce the trade agreements we have entered into and ensure that the nations we trade with fully enforce the agreements they have entered into.

5. The United States should strengthen its efforts to monitor and enforce trade agreements. Responsibility for enforcement should be elevated within the current trade policy agencies. Sufficient numbers of highly qualified staff should be assigned for this task.

6. Planning should start for a new round of multilateral trade negotiations. We support efforts to make the WTO more open and transparent. Public support for a new round will be strengthened by securing greater compliance with existing trade agreements as well as reforming the WTO.

7. The United States should update export control policies for civilian technologies with both military and commercial uses. The Cold War is over. The purpose of this review should be to relax these policies whenever we can in light of current national security and economic considerations. Unilateral imposition of export sanctions should be limited to those cases in which a high-level national interest is clearly at stake and where the likely effectiveness is high.

8. Gathering and disseminating the basic data on international trade must be improved. More detailed and up-to-date information is essential to an informed citizenry and to achieve more enlightened decisionmaking. A reasonable increase in the current depressed funding level for inter-
national statistics is surely justified.

9. We recommend increasing private and public efforts to provide more effective worker adjustment assistance. Aid should be extended to all workers who bear the cost of adjustment to economic change, not just those adversely affected by trade. The focus of U.S. adjustment policy should be on positive approaches that help more of our people participate in economic prosperity, rather than providing relief from or seeking to halt economic change.

10. The most fundamental aspect of an effective long-run adjustment policy is to do a much better job of educating and training Americans to become more productive and higher wage members of the nation's workforce. A more productive work force is the key to our long-term international competitiveness.

It is our hope that this report will spark a reassessment of trade policy and thus help to reshape this country's future economic relationships. I hope that this larger debate will mirror the spirited discussions of our Commission, which were uniformly characterized by goodwill, civility, and respect for (albeit not always agreement with) the views of the other members.