COALITION for a PROSPEROUS AMERICA

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Prepared Opening Remarks of Jeff Ferry, CPA Chief Economist
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"International Trade: Where Do We Go From Here?"
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1. The Record

Since 2000, the U.S. trade deficit has doubled, from $370 billion to $677 trillion last year. We've had trade deficits for 45 consecutive years, a world record, and a record that most economists would have told you would be impossible to see in a free market world.

Over these 20 years, our growth rate in national income per person has been a paltry 1.18%, compared to the 3%-4% levels we saw before 1970. The rich have gotten richer, and the upper income group now takes a majority of America's national income.

This transition to a society run by and for the upper income group has been very bad for people of color. According to economist Richard Vedder, the real median income of the black population more than doubled between 1948 and 1973, increasing an astonishing 3 percent per year." Since then, they have struggled.

The fundamental reason for this decline in growth and rise in inequality is the decline of the manufacturing sector.

The international data is clear. The most successful advanced economies in the world today are those with large manufacturing sectors. Manufacturing is the driver of economic growth. Countries like Singapore, Germany, and Switzerland have manufacturing sectors double the size of that in the U.S. Those countries have preserved high wages, high growth and social harmony in this age of globalization while we have struggled.

Since 2000, we have lost some 4 and a half million manufacturing jobs.

These jobs are replaced by service sector jobs, and study after study shows that the replacement jobs pay between 20% and 50% less than the lost jobs. And that is for the people who find work. Some of those people never work again.

2. So what can be done?

Globalization is regression to the mean. For rich countries, it puts downward pressure on incomes in all tradable goods, and for poor countries it provides upward pressure on wages.

You don't go into this without a strategy. The rich nations that have succeeded in are the ones that had a strategy. The first part of that strategy is <u>never ever</u> run a trade deficit.

The second part is to identify industries that can grow and be successful and pay for your imports and replace the jobs that you will lose to imports.

3. **The first part of our strategy should be to target those industries that are growth industries and can provide jobs and prosperity here.**

   For these industries, the entire supply chain must be produced here. Google, one of the inventors of the modern internet, has a capital budget of $22 billion, larger than our largest auto company and steel company combined. Google spends about three quarters of that budget on data center equipment, all of it made in Asia. If it and other large tech companies spent all those funds here, the U.S. economy would be transformed.

   It's the same for electric vehicles, and for a dozen other critical industries.

4. **What does this mean for trade policy?**

   "Worker-centric trade policy" is a good phrase but we have to give it meaning. I believe that every trade policy proposal should be evaluated for its impact on median wages and on creating middle class jobs. The ITC could do this.

   So for example, when people propose a so-called digital trade deal, what they are proposing is for Google and Microsoft to open data centers in foreign countries and sell their software to foreign customers. This would benefit their profitability, but actually increase U.S. inequality. The median pay of a Google employee last year was $259,000. Do we really want a trade policy that increases the income of shareholders in Google and employees earning a quarter million a year?

   All of our trade agreements with industrial nations have resulted in increased trade deficits with those nations and substantial job loss and market share loss. Trade agreements are largely done by special interests and the economically illiterate to fulfill foreign policy goals and boost narrow sectors of corporate profitability. Enough. Let's just stop.

5. **International Policy**

   You can't talk about trade without talking about international financial policy. The Bretton Woods agreement of 1944 made two major mistakes: the first was not to put an obligation on surplus countries to reduce their surpluses.

   And the second was not foreseeing that the problem for a deficit country would turn out not to be deflation, but instead, a slow grinding process of deindustrialization and a shift into low-productivity, part-time jobs like working in restaurants.

   The immediate solution for the U.S. to this problem is to do what the financial markets refuse to do, and get the dollar down to a trade-balancing, economy-saving level.

The second, longer-term solution is for the U.S. to fix the surplus problem by telling the surplus nations that we won't trade with them if they continue to insist on exporting unemployment to us. The moment we say that, they will all rush to the negotiating table to talk to us. Our power is far greater than we think, or than most economists tell us.

6. **National security**

   Finally, you cannot talk about trade without talking about national security. It is insanity for us to be dependent upon China for the ingredients that go into dozens of life-saving medicines and the components of the ships, planes, and vehicles used by our military. History teaches that wars are won and lost by access to essential supplies.

Thank you.