

## **THE KAMIKAZE TRADE BILL DESTROYS U.S. JOBS**

The House of Representatives has passed a trade bill mandating retaliation against countries that close their markets to U.S. goods and that run what the bill calls an "excessive and unwarranted" trade surplus with the U.S. These measures were contained in an amendment proposed by Representative Richard Gephardt, the Missouri Democrat. The Senate now will consider its own trade legislation; it is likely that some version of the Gephardt amendment will be offered on the floor. This approach to trade policy is dangerous and ultimately could cost millions of Americans their jobs. At best it is a kamikaze attack on the trade problem guaranteeing only one thing: destruction of the attacker.

The House bill would require the President to take action to reduce by 10 percent annually, through quotas and tariffs, the "excessive" trade surpluses with the U.S. of those countries which maintain trade barriers to U.S. goods. An arbitrary congressional formula would define "excessive." Among the many countries affected by this bill could be Japan, West Germany, South Korea, the Republic of China on Taiwan, Italy, and debt-ridden Brazil.

**U.S. Exports Increased.** The trade surpluses with the U.S. of these countries is not primarily a matter of their barriers to U.S. goods. In fact, in the cases of all the countries targeted in the House bill, U.S. exports have increased over the past five years. The deficits on the U.S. side are due to a rapid and larger increase in imports into the U.S., purchased by American consumers. These countries have not erected new trade barriers to the U.S. On the contrary, during the last five years, the U.S. has restricted its market through quotas, cartels, and other protectionist devices more than any other major country in the world. If Congress truly seeks fair trade, it should start at home by requiring the U.S. to dismantle its self-destructive obstacles to trade.

In any case, Congress should be cautious about assigning undue significance to the monthly trade figures. For one thing, U.S. trade figures are notoriously inaccurate. In particular, U.S. exports are systematically underestimated, making trade deficits appear worse than they really are. For example, while the U.S. claims a \$23.3 billion trade deficit with Canada in 1986, Canada puts the figure at \$11.3 billion. To base bilateral trade relations on such questionable numbers is economically irresponsible.

**Gas Station Trade Deficit.** For another thing, bilateral trade balances are in many ways meaningless. In a world of over 150 trading countries, it would be economically impossible,

and undesirable, to have "balanced" trade with each country. Because each produces different goods and services and has different import needs, it is normal for a country to run a permanent trade deficit or surplus with another country. It is no more harmful for the U.S. to run a trade deficit with another country than for an American family to run a "trade deficit" with its local gas station.

Further, the House formula for calculating which countries have "excessive" surpluses is completely arbitrary and without foundation in economic fundamentals. There is no such thing as an "excessive" trade surplus or deficit with an individual country. Attempting to impose such a definition is an attempt to cloak protectionist actions with a mantle of scientific respectability.

While they concentrate on the allegedly damaging aspect of trade deficits, moreover, congressional protectionists fail to explain to the American people that the dollars earned by countries that run surpluses with the U.S. eventually must be spent in the U.S. Exporters to the U.S. cannot spend the dollars they earn in their own countries. They must use these dollars either to purchase American goods, to purchase goods from third countries which in turn use the dollars to buy American products, or to invest in America. To the same extent that the U.S. operates a trading deficit with the rest of the world, other countries must invest in the U.S. The U.S., in fact, recently has been a magnet for foreign capital, which creates U.S. jobs and prosperity. Part of these funds has been used to purchase Treasury bills and private borrowing, taking the pressure off the capital markets. But some \$200 billion has gone into direct investment, spurring business expansion, new factories, and new American jobs. Japan, for example, has invested \$135 billion in America, with \$30 billion in direct investments and \$4.4 billion in stocks. Total Japanese investment in the U.S., in fact, rose 30 percent in 1986 compared to 1985.

**Economic Suicide.** One estimate finds that 2.5 to 3.0 million Americans hold jobs in businesses owned by foreign capital. Those advocating radical protectionist actions against countries with large trade surpluses with the U.S. claim that jobs would be created by increased U.S. exports or reduced foreign imports. But they fail to mention the other side of the coin--the fall in foreign investment that automatically would accompany a reduced trade balance. If the protectionists succeed, billions of dollars would flee from the U.S., threatening the jobs of millions of American workers.

It is unrealistic, moreover, to assume that other countries would not respond to such American legislation by retaliation. The fact is that the House trade bill violates the international trade laws signed by the U.S.

Independent professional economists, liberal and conservative, Democrat and Republican, have denounced protectionism as economic suicide. And the press, from the Washington Post and New York Times to the Wall Street Journal, have editorialized on the folly of the House approach to trade. Lawmakers who expect political gains from their irresponsible actions are underestimating the intelligence and the memory of the American people. Americans know that protectionism drives up prices, destroys jobs, and stunts economic growth. It is a lesson House and Senate lawmakers would do well to learn.

Edward L. Hudgins, Ph.D.  
Walker Fellow in Economics

---

For further information:

John Urquhart, "Canada Estimates U.S. Trade Deficit Was Overstated by \$12 Billion, The Wall Street Journal, March 10, 1987.

Warren Brookes, "Protectionist Hari-Kiri," The Washington Times, April 29, 1987, p. D-1.