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International Trade: America's Winning Formula

By Dexter F. Baker

The Heritage Foundation

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In 1994, two-way trade across America's borders with the rest of the world represented a $1.6 trillion economic activity. This equals 28 percent of the total United States gross domestic economic activity. International commercial transactions by the United States with the rest of the world are growing at a compound rate of 7 percent per year. This growth rate is two-and-one-half times faster than the growth of our domestic economy.

In the United States today, one job out of every five is directly related to either export or import of goods and services with the rest of the world. (When I use the term "goods," I mean manufactured, agricultural, and mineral products.) Future economic projections indicate that the United States' international trade in goods and services will double between now and the year 2005. That means that ten years from today, the international trade activities of the United States economy will approximate $3.2 trillion, or about 80 percent of the size of the entire U.S. domestic economy in 1995.

United States producers of goods and services have made tremendous progress since the mid-1980s. Today, U.S. manufacturers, service sector companies, and agricultural producers are the world's most competitive producers for most goods and services when compared to those of our international trading partners. The one major exception is the cost of piece-made garments produced throughout Asia. U.S.A. manufacturers are now also acknowledged to be the world's highest quality producers. Only high-value Japanese cars have a slight edge in terms of total quality when compared to their U.S. counterparts, and that quality differential is rapidly being eliminated.

In 1994, the U.S. market share of the world's total trade activity was the largest of all the industrialized nations in the world. Approximately 22 percent of the worldwide trade in goods and services is provided by the United States. In the mid-1980s, we were number 3. Today, we are number 1, having passed Japan and Germany as the premier producer of goods and services for the world markets.

U.S. industry, our agricultural producers, and service sector providers have the highest output per worker of all the major industrialized countries. U.S. manufacturers' worker productivity is 30 percent greater than that of Japan and Germany, and our rate of improvement is growing faster than either of those countries'. In 1994, manufacturing productivity in this country grew by 4 percent, or twice as fast of that of Germany and Japan.

Our agricultural productivity is at least twice as efficient as that of Germany or France. In the service sector, our output per worker is nearly 50 percent greater than that of Germany. You may have seen the article in *The Wall Street Journal* last week comparing the productivity of our very competitive telephone and banking industries with those of Germany.

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The only economic activity in the United States that does not compare favorably on world scales is the productivity of our "K through 12" education system and our federal and state governments' productivity.

Today, our agricultural industry has the lowest level of employment in its history and yet feeds our entire country and produces and sells an additional $20 billion worth of agricultural products abroad. Incidentally, I am advised that there is one government employee in the Agriculture Department for every farm in America. Indications are that U.S. agricultural exports in 1995 will be 25 percent greater than in 1994.

If the United States is to continue to be a world leader in international trade in the 21st century, if we are to double our international trade activity in the next ten years, then there are three policy initiatives that must be undertaken to preserve our growing successes in serving world markets.

First, we must be relentless in our pursuit to create open markets for our manufactured goods, agricultural products, and technical and entertainment services in every corner of the globe. This drive to keep and/or open markets for our products and services must be the foundation of our international foreign policy. United States goods and service producers cannot be compromised by foreign governments adopting protectionist policies which preserve their markets for their products while denying U.S. producers the right to sell into their markets.

With few exceptions, the U.S. market is an open market, and U.S. consumers have benefited from that policy; so, too, will the consumers of U.S.A. goods and services around the world benefit from an open market policy in their countries. Today, American industry can compete any place in the world on the basis of quality and price with the brightest and best of our international competitors *if* we are permitted to do so. But if artificial barriers are erected to keep U.S.A. producers out of selected markets, no amount of competitiveness will enable us to create jobs and enhance our nation's economic well-being by serving world markets.

Keep this point in mind: Export-related jobs, because they are incorporated into successful enterprises, are the highest paid jobs that the United States possesses (maybe baseball players are higher). Furthermore, two-thirds of all the world's markets for manufactured products and technical or entertainment services lie beyond the borders of our nation. Those of you in Washington who are responsible for public policy initiatives must press to keep world markets open if U.S. industry is to have the opportunity to create wealth for our nation.

Secondly, our national taxation system must be modified from one that penalizes capital formation, discourages investment, and places excessive burdens on the hiring of incremental employees. Our federal government today collects 92 percent of its revenues by taxing personal wages and earned income. And in the case of earned corporate profits that are distributed to individuals, that combined rate is the highest in the industrialized world. The 92 percent ratio is also the highest in the industrialized world. Most of our international competitors in Europe and in Asia tax consumption while at the same time offering incentives for saving, investment, and employment.

The United States cannot long compete in world markets where its most efficient producers, who generate the highest wages and who pay for excellent results, are taxed at the highest rates by a government which has demonstrated no significant productivity improvement in over ten years. Our taxation system must be modified to stimulate extra investment. As a nation, we need to increase the amount of capital stock that is behind each of our workers. We need to encourage a high productivity workforce. We must encourage personal savings, while at the same time improving the productivity of our government and eliminating its annual deficit.

In this regard, we must become more like Germany and Japan, where national savings rates are three to five times greater than those in the United States. Yes, they save between 15 and 20 percent of their gross income versus 4 to 5 percent here in the United States. As a result, the cost of capital for equity investment in Japan is nearly one-third less than that in the United States. No wonder it is so easy for Japan to invest in our country—and in Europe and throughout Southeast Asia—when their cost of equity capital is so low.

Thirdly, and most important, our federal government must become a partner on our international competitive teams. Since nearly half of the net benefit of our international trade activities flows to our government, and since nearly 50 percent of the wage dollars flow to government, it is absolutely essential that our federal, state, and local governments improve the quality of their services and improve their productivity in the same manner as have our agricultural, manufacturing, and service sectors.

We cannot win the battle for supremacy in world markets in the 21st century against Japan, Germany, China, or the Little Tigers of Asia if only half the U.S.A. team is pulling on its productivity oars. All members of *Team USA* must be competitive and must constantly be improving their efficiency. If *Team USA* is to win in world markets, all members of our team must be contributors so that our entire nation can be a winner.

We will never solve our social problems— better housing, quality education, medical care for the needy, jobs for the unemployed—if we continue to burden the productive side of the economy in order to redistribute our job-creating cash flows on the nonproductive, low productivity side of our economy. Industry, banking, medical care, and even private education are improving their output per dollar of intake. Shouldn't our federal government be held to the same standard? We heard on ABC News last night that our Air Force maintains a fleet of 589 planes—ten times the wartime regulated limit—in order to transport its high-ranking officers around the globe. What is wrong with flying United, TWA, or American Airlines?

We will only solve our special social needs at home by expanding the size of the economic pie. This can best be achieved by *encouraging* the wealth-creating enterprises that effectively serve global markets. Then, and only then, can incremental revenues be generated and prudently allocated to our special social needs at home.

But we must earn those extra revenues before we can spend them. We cannot spend our resources on solving social issues at home that we haven't yet earned abroad. Our practice of continuously borrowing from our future to solve social ills today will only debase our currency and lower the standard of living for all of our people.

The time for policy shifts is now—the summer of 1995. You have been elected to lead that change and oversee its implementation. Let's make 1995 the most productive year in the history of our Congress. Let's together chart a course that will serve our nation well into the 21st century.

As our friends at Nike would say—let's just do it!

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