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A Prescription for Export Growth—and Economic Recovery

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Abstract: *President Obama has pledged to double U.S. exports over the next five years—an ambitious goal. But the President's strategy of creating Export Promotion Cabinets and subsidizing loans is not the way to make that happen. The federal budget deficit—$1.4 trillion—is the largest obstacle to increasing exports, every year diverting hundreds of billions of dollars in foreign spending to purchases of American debt instead of goods and services. It is also crucial to (finally) conclude the Doha trade negotiations and the pending free trade agreements between the U.S. and Colombia, South Korea, and Panama. Heritage Foundation trade policy expert Bryan Riley provides a road map.*

Talking Points

- President Obama has pledged to double U.S. exports over the next five years, but his strategy of creating Export Promotion Cabinets and subsidizing loans is deeply flawed.
- Proponents of increased exports should recognize that their biggest enemy is the U.S. budget deficit: Every year it diverts hundreds of billions of dollars in foreign spending from the purchase of U.S. goods and services to the purchase of U.S. government debt.
- President Clinton's successful advocacy of NAFTA and GATT provides a model for the Obama Administration.
- The best way to increase U.S. exports is to cut federal spending, make global free trade a priority, and reduce U.S. trade barriers.

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President Barack Obama recently pledged to double U.S. exports over the next five years through a program of subsidies and aggressive diplomatic intervention in favor of selected U.S. firms.[1] There is plenty of room for U.S. export growth, but creating Export Promotion Cabinets that meet "every few months" and subsidizing loans that private banks would not otherwise touch, as promised by the Obama Administration, is not the way to get there. Following are four better options for boosting U.S. exports:

Export Boost #1

Cut Federal Spending. The 2009 federal budget deficit of $1.4 trillion[2] was financed in part by foreign purchases of $468.8 billion in U.S. government debt.[3] Had other countries not used that $468.8 billion to purchase American debt, they could have spent it on

U.S. goods or invested in the private sector of the U.S. economy. In other words, one-third of every dollar the government borrowed in 2009 came from abroad, costing Americans as much as 33 cents in lost exports.

According to some estimates, every billion dollars in U.S. exports creates 7,000 domestic jobs.[4] If the jobs-per-billion-dollars-of-exports formula is accurate, this diversion cost Americans as many as 3.2 million export-related jobs last year.

Those 3.2 million jobs could have reduced the 2009 unemployment rate from 9.3 percent to 7.2 percent.[5] This conclusion is contrary to the official position of the White House Council of Economic Advisers (CEA) that the Obama Administration's stimulus plan raised employment by 2.5 million to 3.6 million jobs. The Administration's job-creation numbers are based on the mistaken idea that $1 in government spending increases U.S. gross domestic product (GDP) by $1.50.[6]

From another perspective, suppose the $468.8 billion in foreign spending had been used to purchase U.S. exports instead of debt. Instead of a trade deficit of $374.9 billion,[7] the United States would have registered a trade surplus of $93.9 billion. Then, perhaps, there would have been less hand-wringing about "unfair" foreign trade practices.

Many researchers have commented on the link between U.S. budget policy and trade deficits. In 2006, former Clinton Administration economic advisor Jeffrey Frankel observed: "The recent trend in the U.S. current [trade] deficit—now over 6 percent of GDP—is not sustainable. *But the origins are in macroeconomics, not in trade policy.*"[8] (Emphasis added.)

A Council on Foreign Relations study reached a similar conclusion: "Since 2000, the value of the net foreign debt accumulated has been unparalleled. The main culprits in this recent surge are the enormous increases in the current [trade] deficit that largely *resulted from the return of the government's budget deficit*."[9] (Emphasis added.)

According to the Congressional Research Service, "Policy action to reduce the overall trade deficit is problematic. Standard trade policy tools (e.g.,

1. Press release, "Remarks by the President Announcing the President's Export Council," The White House, July 7, 2010, at *http://www.whitehouse.gov/the-press-office/remarks-president-announcing-presidents-export-council* (July 29, 2010).
2. U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2011* (Washington, D.C.: U.S. Government Printing Office, 2010), Table S–1, "Budget Totals," p. 146, at *http://www.whitehouse.gov/omb/budget/fy2011/assets/tables.pdf* (July 29, 2010).
3. U.S. Bureau of Economic Analysis, "U.S. International Economic Transactions: Annual Data from 1960 to 2009," at *http://www.bea.gov/international/xls/table1.xls* (July 29, 2010).
4. Patrick Love, "A Billion Dollars and 7000 Jobs," *OECD Insights*, February 10, 2010, at *http://oecdinsights.org/2010/02/10/a-billion-dollars-and-7000-jobs/* (July 29, 2010).
5. Calculated by subtracting 3.2 million from 14.265 million unemployed. U.S. Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey: Unemployment Level," July 12, 2010, at *http://data.bls.gov/PDQ/servlet/SurveyOutputServlet?data_tool=latest_numbers&series_id=LNU03000000&years_option=all_years&periods_option=specific_periods&periods=Annual+Data* (July 12, 2010), and U.S. Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey: Unemployment Rate," July 12, 2010, at *http://data.bls.gov/PDQ/servlet/SurveyOutputServlet?data_tool=latest_numbers&series_id=LNU04000000&years_option=all_years&periods_option=specific_periods&periods=Annual+Data* (July 12, 2010).
6. Council of Economic Advisers, "The Economic Impact of the American Recovery and Reinvestment Act of 2009: Fourth Quarterly Report," July 14, 2010, p. 9, at *http://www.whitehouse.gov/files/documents/cea_4th_arra_report.pdf* (July 29, 2010). See also Brian Riedl, "Obama's Faith-Based Economics," The Foundry (Heritage Foundation blog), February 18, 2010, at *http://blog.heritage.org/2010/02/18/obama%e2%80%99s-faith-based-economics/*.
7. U.S. Bureau of Economic Analysis, "U.S. International Economic Transactions: Annual Data from 1960 to 2009."
8. Jeffrey Frankel, "Could the Twin Deficits Jeopardize US Hegemony?" *Journal of Policy Modeling*, July 4, 2006, at *http://www.hks.harvard.edu/fs/jfrankel/SalvatoreDeficitsHegemonJan26Jul+.pdf* (July 29, 2010).
9. Menzie D. Chinn, "Getting Serious about the Twin Deficits," Council on Foreign Relations *Special Report* No. 10, September 2005, p. 1, at *http://www.cfr.org/content/publications/attachments/Twin_DeficitsTF.pdf* (July 29, 2010).

tariffs, quotas, and subsidies) do not work. Macroeconomic policy tools can work, but recent and prospective government budget deficits will reduce domestic saving and most likely tend to increase the trade deficit."[10]

Given the strong link between federal budget policies and trade deficits, the best way to boost exports has little to do with the types of export-promotion programs touted by Administration officials. A more effective approach is for the federal government to stop spending—and borrowing—so much money. Americans will know the Obama Administration is serious about export promotion when it stops competing with U.S. exporters for foreign dollars.

Export Boost #2

Conclude the Doha Round Trade Negotiations by December 2011. With respect to free trade agreements, the Obama Administration should aim to top the successes of President Bill Clinton. The Clinton Administration's biggest accomplishments include working with Members of Congress from both major political parties to secure passage of the North American Free Trade Agreement (NAFTA) and the Uruguay Round of the General Agreement on Tariffs and Trade (GATT).

A good start would be to make completion of the Doha round of trade negotiations a priority. These negotiations were started in Doha, Qatar, in November of 2001. At that time, negotiators issued the following Ministerial Declaration:

> The multilateral trading system embodied in the World Trade Organization has contributed significantly to economic growth, development and employment throughout the past fifty years. We are determined, particularly in the light of the global economic slowdown, to maintain the process of reform and liberalization of trade policies, thus ensuring that the system plays its full part in promoting recovery, growth and development. We therefore…pledge to reject the use of protectionism….
>
> International trade can play a major role in the promotion of economic development and the alleviation of poverty. We recognize the need for all our peoples to benefit from the increased opportunities and welfare gains that the multilateral trading system generates.[11]

According to the Peterson Institute for International Economics, a conclusion to the Doha round that reduces barriers to trade in agriculture, services, and other industries could increase U.S. gross domestic product (GDP) by $94 billion.[12]

Export Boost #3

Enact Pending Free Trade Agreements with Colombia, South Korea, and Panama. Although the Doha negotiations have yet to be concluded, free trade agreements with Colombia, South Korea, and Panama are wrapped up and waiting for congressional approval. As Heritage Fellow James Roberts observed in 2008, "Rapid passage of these pending agreements would be a win-win strategy: It would send a strong signal of our continuing commitment to global economic expansion and increase business and employment opportunities for Americans for years to come."[13]

President Obama has promised to bring all three agreements to Congress, but only after "outstand-

10. Craig K. Elwell, "The U.S. Trade Deficit: Causes, Consequences, and Policy Actions," Congressional Research Service *Report for Congress*, July 12, 2010, at *http://international-trade-reports.blogspot.com/2010/07/us-trade-deficit-causes-consequences.html* (July 29, 2010).
11. World Trade Organization, "The Doha Round Texts and Related Documents," p. 23, at *http://www.wto.org/english/res_e/booksp_e/doha_round_texts_e.pdf* (July 29, 2010).
12. Matthew Adler, Claire Brunel, Gary Clyde Hufbauer, and Jeffrey J. Schott, "What's on the Table? The Doha Round as of August 2009," Peterson Institute for International Economics *Working Paper* No. 09-6, August 2009, p. 35, at *http://www.piie.com/publications/wp/wp09-6.pdf* (July 29, 2010).
13. James M. Roberts, "Want More Economic Stimulus? Pass the Pending Free Trade Agreements!" Heritage Foundation *WebMemo* No. 1830, February 27, 2008, at *http://www.heritage.org/Research/Reports/2008/02/Want-More-Economic-Stimulus-Pass-the-Pending-Free-Trade-Agreements*.

ing issues" have been resolved.[14] This approach plays into the hands of opponents of increased trade with Colombia, South Korea, and Panama: Virtually every completed negotiation leaves each side wishing it had a better end result in certain areas. It usually is impossible to address those outstanding areas once negotiations have been completed: When one side brings a new issue to the table, the other side will want a concession in return, and the original agreement can soon collapse. It is time to stop stalling and bring these agreements to Congress for a vote.

Export Boost #4

Reduce U.S. Trade Barriers. The suggestion that lowering U.S. trade barriers would boost exports may seem counterintuitive. Lowering U.S. import taxes might seem most likely to increase the number of imports, not exports.

However, when Americans import a product made in another country, the money they send abroad is then used to buy U.S.-made goods and services or to invest in the American economy. This is why increasing imports also increases exports.

International trade makes people richer because it allows them to specialize in areas where they have a comparative advantage. There is no doubt, for instance, that Americans could manufacture their own shoes, but it may be a better use of their resources to produce bulldozers and wheat while someone else produces shoes. Importing shoes and other goods from abroad does not reduce the number of U.S. jobs. When imports go down, the unemployment rate goes up. In 2009, imports fell by 23 percent while the unemployment rate grew by 60 percent.[15]

In addition to boosting exports, lowering U.S. trade barriers would strengthen the economy. As The Heritage Foundation's *Index of Economic Freedom* shows, countries with the lowest trade barriers also have the world's fastest-growing economies.[16]

Cure for an Ailing Economy

The best prescription for increasing U.S. exports consists of four parts: (1) cutting federal spending; a smaller budget deficit would free up foreign dollars to buy U.S.-made goods and services; (2) taking a page from the Clinton Administration playbook and making global and bilateral free trade agreements a top priority; (3) enacting the already-negotiated free trade agreements with Colombia, South Korea, and Panama; and (4) reducing U.S. trade barriers whenever possible. Taken together, this medicine would cure much of what ails the U.S. economy.

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14. Press release, "Remarks by the President Announcing the President's Export Council."
15. U.S. Bureau of Economic Analysis, "U.S. International Economic Transactions: Annual Data from 1960 to 2009," and U.S. Bureau of Labor Statistics, "Annual average unemployment rate, civilian labor force 16 years and over," at *http://www.bls.gov/cps/prev_yrs.htm* (August 10, 2010).
16. Daniella Markheim and Ambassador Terry Miller, "Global Trade Liberalization Continues, But Risks Abound," Heritage Foundation *Backgrounder* No. 2320, September 28, 2009, at *http://www.heritage.org/Research/Reports/2009/09/Global-Trade-Liberalization-Continues-But-Risks-Abound* (July 21, 2010).