

# The Huffington Post



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### Jobs, Trade, and Mercantilism - Part I - Facing Reality

Our nation's continuing massive trade deficits are destroying important sectors of American industry and eliminating desperately needed jobs; yet balancing trade is not even on our government's agenda. This is happening because we are not facing reality, the reality that we are not living in a free trade world but that we are dealing with countries that practice mercantilism.

If we continue to turn a blind eye to this reality, we will become a poor nation.

#### **Balanced Trade is about Jobs and Productivity**

Balancing trade matters. Our massive trade deficits mean simply that we are consuming more than we produce. We are importing the difference between what we consume and what we produce and paying for that, not with American goods made by American jobs, but by giving our trading partners, in various forms, promises to pay later.

Today the Chinese government, which retains the dollars earned by the excess of Chinese exports over imports, has roughly \$2 trillion in U.S. Treasury Bills and various other financial obligations. These holdings are all promises to pay later. And this amount is rapidly and steadily growing.

The jobs whose output could fill the widening gap between our production and our consumption are disappearing overseas, and as they vanish our productive capacity disappears with them. This is especially true in the vital area of manufacturing.

As Warren Buffett put it in an insightful [article](#) in *Fortune* in 2003, "America's growing trade deficit is selling the nation out from under us."

This cannot continue.

But it does. Trade figures show the trade deficit to be rapidly growing. Despite that, balancing trade is not a goal of our government; instead we have taken as our goal the doubling of exports. But for many years imports have grown faster than exports, so if anything even remotely like the present situation continues, by the time exports have doubled imports will have grown even more and the trade deficit will be more than twice as large.

If we achieve our present goal, far from balancing trade, we will have a sharply increased trade deficit with a corresponding increase in all its painful effects on jobs and productivity.

But there are policies that could balance trade and end this country's painful downhill slide. To see what can be done we must first be willing to look at the situation we are actually in.

### **Mercantilism**

What does a country do when a key trading partner chooses mercantilism and uses the full powers of its government to advance its industries? What does a country do when that trading partner continues to misprice its currency and subsidize its industries without regard for the impact on its trading partner and disregards repeated requests to stop? This situation is not discussed in basic economics textbooks but, in dealing with China, it is the situation that we are in.

Most of these textbooks do have a chapter on trade; a chapter that persuasively describes the benefits of free trade. In former presidential advisor Greg Mankiw's economics textbook a farmer, who is better at growing potatoes than raising cattle, trades potatoes for meat with a rancher whose strength is raising cattle. Both come out ahead. But the farmer trades potatoes, not IOU's for the rancher's meat.

Today we are trading IOU's for many of the things we no longer make and those promises to pay later are building up on the other side of the Pacific while the people who could have made those goods in the U.S. are looking for new jobs, having lost their old jobs to subsidized and underpriced imports.

If Mankiw's farmer was doing what we are doing he would know he was on the way to losing his farm.

### **Refusing to See**

When people fail to see the obvious it is natural to immediately accuse them of stupidity. But those who ignore the destruction of our industries and the ever-increasing outsourcing of jobs are in no way lacking in intelligence. They are much more accurately described by the old adage, "There are none so blind as those who do not wish to see."

Unfortunately, today our country's economic policies are deeply influenced by those who do not wish to see what is actually happening.

### **Global Corporations and Wall Street**

Our global corporations do not wish to see the negative impact of their actions; they are profiting from the present situation, even if the country is not. They make their goods cheaply abroad aided by foreign subsidies, manipulated exchange rates, and cheap labor, and then import them very profitably into the U.S.

Wall Street is lined up with the global corporations because it too finds the present situation profitable.

It is easy to underestimate and hard to overestimate the influence of this combination on both Congress and the Administration. That influence has resulted in rescue packages for the major financial institutions that have enabled them to resume their high-flying pay packages while doing little lending, and as the auto companies revive, we have seen them intensifying their transfer of production and technology out of the country.

As long as profitability is the only goal of Wall Street and of our global corporations, and as long as our government accepts that point of view and refuses to see or act on the negative effects on the country, we can expect only more of what we have seen through both Republican and Democratic administrations, an ever increasing trade deficit with all that means to jobs and productivity.

### **Obstacles to Balancing Trade: The Divisions within the Country**

The largest and most important obstacle to taking meaningful steps to balance trade is that there are deep divisions within the country about the effects of what is going on. As we have seen, powerful segments of our society, such as the global corporations, are doing well now and steadily oppose change. But there are also segments that do want change. The domestic manufacturers are suffering; they are often in favor of imposing tariffs. The labor unions too see the standard of living of their workers endangered by both the reality and the threat of outsourcing. But in any battle for influence these groups are far outgunned by the opponents of change.

But what about the American people as a whole? How are they doing? After all, consumers benefit from the low-priced imported goods sold by Wal-Mart and others. However the tradeoff to that benefit is that the American jobs that earn the money to buy those goods are also disappearing.

### **Balanced and Unbalanced Trade**

If balanced trade is maintained when an industry is lost to foreign competition, it means that the displaced workers have found new jobs in the remaining industries; and their new jobs create exports that the trading partner buys. The output of these new jobs balance trade. Depending on the productivity and scale of the industries being lost relative to those being retained, this new balanced trade situation can be better or worse than the original one in terms of what goods the entire country ends up able to buy and consume.

But a mercantilist trading partner, such as China, does not need to wait and slowly develop its industries to enter the most productive sectors, and it is not obliged to limit the scale of its entry to what matches its imports. By mispricing its currency, using subsidies, and demanding technology transfer in exchange for access to their market, a mercantilist nation can enter the most productive sectors very quickly. They can then continue to export into these sectors even if they are not importing to match, so that the new American jobs to match the imports with exports never materialize.

Such a nation is willing to live with what is for them a huge favorable trade balance. They are willing to develop their industries while destroying ours, and are willing to decide later what they will do with the huge accumulated debt that we owe them. They will decide that later, when they are dominant and we are weak.

But for us this is a steady downward spiral.

This is the scenario that we are facing, or rather ignoring. That is why we need to act. And we need to act now, before it is too late.

### **Balancing Trade with a Mercantilist Nation**

There are ways to balance trade, even with a mercantilist nation. If, despite our internal divisions, we finally do determine to balance trade, we should choose methods that will actually work. This means that:

1. The actions we choose should be under our control and not depend on our trading partner. Trying to persuade a mercantilist nation to do things differently when they see their approach is working for them is unlikely to succeed.
2. The actions we choose must be comprehensive enough to balance trade. . A sole focus on currency revaluation, even if successful, can be nullified by our trading partner through larger internal subsidies and other such practices.

Clearly our present approach to China meets neither of these criteria and that is why we discuss other possibilities in Part II.

### **Conclusion**

The future of our country is endangered by massive trade deficits that are destroying industries and destroying jobs. Yet balancing trade is not on our government's agenda. We must make clear to our government that it can no longer ignore the destruction of our jobs and our productivity that is caused by unbalanced trade. We must make balancing trade a national goal, and then act effectively to bring it about.

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