



By Robert Pollin

# ECONOMIC PROSPECTS

## *U.S. Trade Policy and the Jobs Crisis*

AMID THE ONGOING EMPLOYMENT CRISIS IN THE UNITED STATES, THERE ARE growing demands across the U.S. political spectrum for the U.S. to become more aggressive about closing the roughly \$700 billion annual gap between the imports we purchase and the exports we sell on global markets. There is no doubting the severity of the jobs crisis. The U.S. economy shed over eight million

jobs between 2007-2009, and we would need to create eighteen million new jobs to bring the economy to a 4 percent unemployment rate by the time President Obama is up for re-election in November 2012.

How much, by itself, could a change in our global trade policies—including especially tariff restrictions on imports or lowering the value of the dollar relative to other currencies—accomplish toward pushing the unemployment rate down to around 4 percent? My own answer is: not very much. At the same time, Buy America provisions can sometimes, but not always, make sense, as one part of a broader set of industrial policies, especially on behalf of building a clean-energy economy. More generally, the issues at play entail several twists and turns, at times involving a most undesirable situation of

pitting the well-being of U.S. workers against those in other countries.

### TARIFFS AND A DOLLAR DEPRECIATION ARE WEAK POLICY TOOLS

**T**HE U.S. HAS BEEN IMPORTING more than it exports for thirty-four straight years. In 2007, just before the Wall Street collapse and recession, the trade deficit amounted to about 5 percent of GDP. During the 2008-2009 recession, the trade deficit did fall along with overall spending both in the U.S. and throughout the world, though it still averaged a substantial 3.8 percent of GDP. Let's say the U.S. could reduce its imports by 10 percent and increase its exports by the same amount. Those changes by themselves would

generate about four million new jobs in the U.S., a bit more than 20 percent of the total needed to bring the economy to around 4 percent unemployment by 2012. A high proportion of these new jobs generated by reducing our trade deficit would be in manufacturing, thus delivering major benefits to the hard-hit major manufacturing regions of the country, such as Ohio and Michigan.

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A large number of analysts, including many progressive economists, think that we could indeed deliver major employment benefits in the U.S. through a shift in our trade policies. One approach would be simply to impose new tariffs on imports coming into the U.S. This would increase the prices of imported goods in the U.S., making them less attractive to consumers. Another would be to lower the value of the dollar by, say, 20 percent relative to the euro, Japanese yen, and Chinese yuan. Assuming this could be accomplished, the cheaper dollar would mean that the prices of foreign-made goods would rise in the U.S. market, while the prices that foreigners would pay for U.S. products would fall. This should discourage U.S. imports and encourage exports. However, in my view, neither raising tariffs nor lowering the value of the dollar, on its own, is likely to produce any significant job gains for workers in the U.S., either in the short or long run. What are the problems with imposing tariffs and lowering the value of the dollar?

The issue is more straightforward in the case of tariffs. The tariffs would have to be set relatively high, like the 10 percent surcharge imposed by President Nixon in 1971, in order to seriously discourage U.S. consumers and businesses from purchasing imports. But setting a high tariff barrier against foreign producers seeking access to U.S. markets would no doubt provoke other countries to retaliate, which in turn would reduce our exports as well as our imports. The net result could still be some gain in overall U.S. employment, since the U.S. market is larger than those of the countries we trade with. But the benefits would not likely be nearly large enough to seriously help in producing the eighteen million new jobs we need by 2012.

Lowering the value of the dollar is a less overtly aggressive act than imposing new tariffs. But it is not even clear that the U.S. could keep the dollar at a significantly lower level on a sustained basis, even if the Europeans, Japanese, and Chinese did not retaliate directly against such a U.S. initiative. The fiscal crisis throughout Europe last spring—that led to a plunge in the euro relative to the dollar—provided yet another reminder that, however bad conditions are in the U.S., they can easily become worse somewhere else. In such situations, global traders cling to their dollar-based assets, which in turn props up the value of the dollar in currency markets.

But even if we could succeed in lowering the dollar on a sustained basis, it still would not follow that our imports would fall and our exports would rise significantly. The evidence on this question is decidedly mixed. Especially as regards the type of high-end manufacturing products that will be needed to, among other things, build a clean-energy economy over the next generation—including components for mass transit trains, wind turbines, and solar panels—the key to competitive success is producing high-quality products, not modestly

cheaper domestic versions of products that foreigners produce at higher quality.

Moreover, maintaining a lower dollar will still not prevent foreign competitors from outcompeting U.S. producers on price itself. Consider now lower-end products, such as garments and textiles, and the situation for businesses in developing countries seeking to export these products into the U.S. When a fall in the dollar produces stiffening price competition for business owners in developing countries, they will likely respond by lowering

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their own costs and prices to remain competitive. They could do this either by increasing productivity in their factories or simply cutting wages of their workers. Here, then, is one major instance where an aggressive U.S. trade stance can end up worsening conditions for workers in developing countries without even expanding employment in the U.S.

## REACHING FULL EMPLOYMENT WITH A TRADE DEFICIT

**O**F COURSE, AFTER WE WORK through all the reasons why imposing tariffs or lowering the value of the dollar will accomplish little to solve the U.S. employment crisis, we do still need to solve the crisis. Keeping the focus on our real goal of job creation, we need to begin with fiscal and monetary policies that promote the expansion of employment opportunities at least as aggressively as inflation control; financial market regulations that prevent asset bubbles and move credit to productive uses; and labor market policies that ensure decent wage standards, good training programs, and non-discriminatory access to good job opportunities. Among these other measures, trade policy per se can play only a complementary role in achieving this most basic aim.

It is important to recall that at the end of the Clinton presidency, we did in fact reach very low unemployment rates while operating with trade policies and a trade deficit similar to those in place today. Thus, for the last four months of 2000, unemployment fell below 4 percent for the first time in forty years. The U.S. trade deficit during 2000 was 3.8 percent of GDP, the same as over 2008-2009. It is true that the excellent employment trends in that period were driven by an unprecedented stock market bubble. But this experience only underscores a fundamental challenge: if we can create a growth engine for the U.S. economy other than some type of asset bubble, we demonstrably have the means to reach near-full employment even while carrying a large trade deficit.

Public investments and industrial policies—the subject of my article with Dean Baker in the Spring 2010 issue of *New Labor Forum*—will have to play a critical role here. If they are well designed, they can be a driving force pushing overall investment activity in the U.S. into productive projects such as building a clean-energy economy, as opposed to yet new variations on casino capitalism. As Baker

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and I described, public investments entail creating a modernized infrastructure capable of lowering operating costs for business, while industrial policies can provide research and development support for technical innovations, cheap credit, tax benefits, and guaranteed markets. In combination, these measures will certainly enhance the global competitiveness of U.S. businesses.

### WHAT ABOUT “BUY AMERICA”?

**I**N THE CONTEXT OF SUCH PUBLICLY-funded investment activities, it is appropriate that the majority of spending and job creation be channeled into the communities in which the taxpayers themselves reside. This means that some form of regulations promoting purchases of domestically-produced goods is justified in the context of a broader industrial policy and

public investment agenda. For example, the “Buy America” standards that currently apply to government purchases of autos, buses, and trains require that 60 percent of the components be produced in the U.S. and that the assembly also be performed within the U.S.

But how far to go with such standards cannot be determined by appeals to general principles—either that U.S. taxpayer-funded projects should *only* purchase U.S.-made products, or that publicly-funded projects should be free of any Buy America provisions. Unavoidably, we rather need to weigh conflicting considerations. For example, if U.S. industrial policies and public investments do succeed in delivering an effective infrastructure, cheap credit, tax benefits, and guaranteed markets to U.S. firms, this will certainly assist U.S. businesses to operate competitively relative to foreign producers. What if some U.S. businesses still are unable to compete against foreign producers, even after receiving these advantages of an effective U.S. industrial policy? Certainly at that point, these U.S. firms should be allowed to fail, rather than be given further benefits to prop them up against foreign competitors.

The best way to make these issues less complicated is for the U.S. to commit to a set of policies capable of delivering full employment. If the U.S. successfully implemented full employment policies, then an important additional result would follow: the costs to U.S. workers would fall sharply from opening the economy to imports. From the workers’ standpoint, trade protectionist policies are actually a form of social protection. But trade protectionist measures are a poor substitute for direct forms of social protection, including especially full employment.