a report from
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Volume XXIV, No. 4 November, 1985

The Trade Deficit -- Cause for Alarm?

FACT -- Our 1984 trade deficit was a record-shattering $123 billion. This year's numbers are expected to climb even higher.

FACT -- Our federal budget deficit will exceed $200 billion this year. Since 1981, the U.S. has more than doubled it's national debt due to the higher budget deficits.

FACT -- This year the U.S. became a debtor nation for the first time in 75 years.

FACT -- Despite recent declines in the value of the dollar, it remains exceptionally strong, in international money markets.

When most Americans are confronted with these kind of economic statements, what often happens is MEGO sets in (MEGO -- My Eyes Glaze Over). I can sympathize. Today's economy is truly an international one and solutions to international problems are never easy to understand. But the above items are all interrelated and there is a bottom line: the U.S. economy will suffer if we continue on our present course.

The sad fact concerning our international trade deficit is that our number one export today is jobs. American jobs. Beyond all of the numbers and theories is the human side of the trade deficit. There are the stories of the copper workers in Ajo, Douglas and Morenci who have lost their jobs and futures due to foreign competition. There are the stories of textile workers who have been hurt by cheap imports from the Far East. To understand the trade deficit you don't have to look on the financial pages. Look at the employee parking lot of the Caterpillar tractor plant in Moline, Illinois. Visit an idled steel mill in Pittsburgh or Youngstown. Take a trip to a shoe factory in North Carolina or talk to a farmer in the Midwest.

But that's only half of the story. The other half is overseas. Take a look at the huge Chuquicamata copper mine in Chile; it's operating at full capacity. Visit one of the many subsidized steel producers in Europe, a shoe company in Italy, or a dress manufacturer in Taiwan. They are all doing well. The farmers in France and Germany are also doing well, with the help of subsidies that support highly inefficient farm production.

It is a serious problem. All across America, in state after state, industry after industry, production is being curtailed due to international competition. And it's not just the old smokestack industries like steel. A lot of our high-tech industries have been hit hard and are now laying off employees.

During the past year consumers have continued to increase their spending, often times going into debt to sustain their buying. Factory output, however, has remained level failing to keep pace with consumer spending. Why? Americans are spending a greater and greater proportion of their earnings on foreign goods: Italian shoes, shoes, Korean shirts, Japanese cars. A lot of overseas factories are humming with American business.

Some say, "So what, that's free trade. We buy their goods and they buy ours." Well, that's how it works in theory, but it's not working very well in practice. That's where the trade deficit comes in. This year, Americans will buy about $150 billion more in goods from foreigners, than foreigners will buy from us. In fact, we will buy almost twice as much as we sell. That's pretty one-sided, especially for a country accustomed to having a modest trade surplus.

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What's happened? Why is the trade deficit so large? One problem is the federal budget deficit. This year the federal government will borrow more than $200 billion to support its operations. In doing so, it will soak up a lot of the nation's capital. Other people still want to borrow for their needs; but they find there is a shortage of money. As a result interest rates are "bid" up.

As our interest rates climb, or remain high, foreign investors become interested in U.S. notes and securities. They want to take advantage of our high interest rates. But in order for them to buy a U.S. treasury note or a corporate bond they have to buy dollars first. So they sell their francs, pounds or yens and buy American dollars. In the process, however, they tend to bid up the value of the dollar and lower the value of their own currency. Simple supply and demand.

And that, in fact, is what has happened. As our budget deficit has grown, so has the value of the dollar. Since 1980, the dollar has increased in value, on the average, by 65 percent against major foreign currencies.

It's easy to think of a strong dollar as a sign of economic strength, but a strong dollar damages our ability to compete in the international marketplace. It makes our goods more expensive overseas. The price of everything we produce is boosted. Europeans that used to buy their heavy-duty earth moving equipment from American companies are now looking to Japanese companies like Komatsu, Ltd. The same goes for products like tractors, shoes and even semiconductors. American products, across-the-board, are being priced out of the world marketplace.

At the same time, a strong dollar makes foreign goods less expensive for Americans to buy. Foreign-made shoes, for instance, have dropped in price. The same goes for foreign-made shirts, tires, televisions and computers. As a consumer, that may sound good to you, but it's not good news if you are working for an American company that is being hurt by foreign competition. Not when your job is at stake.

* Free Trade or Fair Trade? *

The trade problem, however, is deeper than the federal deficit. Not all of our trade problems can be linked to the overvalued dollar. We are also hurt by unfair trade laws. For over forty years, our country has led the fight for free trade. We have pushed for international trade agreements to lower tariffs and eliminate import quotas. And, in part, we have been very successful. Since the end of World War II, a lot of trade barriers have been torn down. As a result, world trade over the past twenty years has expanded ten fold -- from $200 billion in 1965 to over $2 trillion today. That's quite an achievement.

But not all trade barriers have been removed. New trade barriers have taken the place of tariffs and quotas. These non-tariff barriers generally take the form of regulations that make it difficult or impossible for outsiders to compete. The United States, for example, is the undisputed leader in telecommunications. American telecommunications firms are the most advanced and efficient in the world. But various non-tariff barriers have effectively prevented them from competing in Japan, one of the largest telecommunications markets in the world.

At the same time, free trade patterns have been distorted by government subsidies. Many foreign governments actively subsidize selected industries, like steel. In some cases, the subsidies are very large. As a result, highly inefficient producers that might otherwise fail are able to sell their products at substantially lower prices. In the case of steel, Western European countries have been dumping subsidized steel on U.S. markets for years. And it's not just the Europeans. A lot of developing countries subsidize their steel production as well.

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When foreign governments actively subsidize an industry, they break the "rules" of free trade. Free trade becomes unfair trade. By international agreement, countries are permitted to "remedy" this unfair trade advantage by imposing a duty (a "countervailing" duty) on any imported product that is government subsidized. The burden, however, is on the "injured" industry to prove the size and existence of a subsidy. In the case of steel, U.S. companies have been able to prove their case, but they have fought a long and hard battle to obtain adequate relief.

Most people, myself included, consider themselves "free traders." If conditions are fair, everyone benefits by free trade. That's what our founding fathers were thinking of when they decided to require free trade between the states. Today, the United States is one of the largest free trade zones in the world. And no one would think of putting a tariff on Michigan apples or Idaho potatoes. But outside of the U.S., free trade is not always fair trade. And that makes it hard for policymakers in Washington.

International trade, it turns out, is very important to Arizona. Exports account for 17 percent of our state economy. On a per-capita basis that makes Arizona the third largest exporting state in the country. In 1977, exports accounted for $680 million in earnings for Arizona firms. By 1983, this figure skyrocketed to $2.4 billion. Arizona manufactured goods accounted for $1.8 billion in 1983 sales and agricultural exports another $329 million. And despite recent setbacks, mineral exports (primarily copper) accounted for another $250 million in foreign sales.

To emphasize the growing importance of trade to Arizona, you need only look at the cotton industry. Eighty percent of all U.S. raw cotton is now shipped to the East Asia-Pacific region, with a staggering 90 percent of all Arizona cotton going to this area of the world.

* Two Special Cases *

There are many industries that international trade affects. Let's take a look at two special cases that are of special interest.

The first is **copper.** Our domestic copper industry is struggling to survive against foreign producers that have a large and unfair competitive advantage. While our domestic producers have been laboring under near-record high interest rates, foreign producers like Chile and Zambia have been expanding their production with the help of low-interest loans from multilateral lending institutions like the World Bank. While our domestic producers have complied with stiff environmental regulations, foreign smelters continue to operate without significant environmental controls. While domestic copper prices have been depressed by an overvalued dollar, foreign copper prices have been artificially inflated by their undervalued currencies. And while our privately-owned companies have had to curtail production due to failing world prices, their government-owned competitors overseas have actually increased their production.

Today, foreign copper mines and smelters are operating at full capacity. It's a different story here in the United States. The American copper industry is operating well below its capacity. Nearly half of the major mines are shut down. Many may never reopen. Copper production has declined sharply and so has our share of the world market. Five years ago we produced nearly one-fourth of the world's copper; today we produce less than one-sixth.

Thousands of men and women have lost their jobs. Employment in the mining and smelting portion of the industry has been cut in half since 1979. More than 23,000 jobs have been lost. In Arizona alone, 13 mines and three smelters have been closed, and more than 14,000 jobs have been lost. For both the state and the industry, it's an economic disaster.

Last year, the copper industry petitioned for relief before the U.S. International Trade Commission. By a unanimous decision, the Commission found that the industry had been injured and recommended that the President impose temporary tariffs or quotas. The President, however, rejected that request.

Later in the year, Congress directed the President to consider talks with Chile, Zaire, Zambia and Peru with the aim of getting them to agree to voluntary restraints on their production levels. The Administration, however, rejected this request as well, despite Congressional pleas.

This year, I introduced H.R. 1520, the National Copper Policy Act. If enacted, it would direct the President, acting through his Special Trade Representative, to enter into negotiations with the principal foreign copper producers: Chile, Zaire, Zambia and Peru. The purpose of these negotiations would be a voluntary production restraint agreement that would limit the aggregate copper production of those four countries to their 1983 levels -- about five percent below current levels.

If after six months of negotiations the President is unable to certify that such agreements are in place, the bill would impose a tariff of 15 cents a pound on all copper and various fabricated copper products. The tariff would be imposed for five years. At the same time, the bill would require the copper industry to take steps to improve productivity through new investments and to provide programs for the retraining and relocation of displaced copper workers.

I think the bill is a fair response to an admittedly difficult trade problem. The bill has already been approved by the House Interior Committee, but the bill has a long way to go before final Congressional passage. I am hopeful, however, that some action will be taken soon.

Citrus is the second trade issue. Arizona is a major producer of citrus. We produce over 13 million cartons of citrus a year. And an increasing portion of that is being shipped overseas. For years Japanese citrus producers effectively barred U.S. citrus from their markets. Under U.S. pressure that has been gradually changing. Last year Japan agreed to double the amount of citrus that the U.S. could export to Japan.

U.S. citrus producers, however, also have trouble in gaining acccess to European markets. Lemon growers in this country have complained that European Common Market was giving Mediterranean countries freer access to their markets. The U.S. government took their complaints to the Europeans, but the Common Market refused to change its policy.

Because of their refusal, the U.S. government decided a few months ago to exercise its rights under international trade law to take retaliatory action. The U.S. announced that it would impose a 10-cent tariff on every pound of imported European pasta. The U.S. took this action, however, only after a finding that European pasta production was being unfairly subsidized.

The U.S. action, taken in late June, gave new life to an old trade dispute. Pretty soon reporters were calling it the Citrus-Pasta War. Shortly after the U.S. decision was announced, the Common Market decided to counter-retaliate against U.S. lemons and walnuts by more than doubling the Common Market tariff on lemons and tripling the tariff on walnuts.

Since then, a truce has been declared in the Citrus-Pasta War. The Europeans have agreed to reduce the amount by which they subsidize pasta and are trying to reach some type of settlement on the lemon dispute. The U.S., in the meantime, has suspended the tariff on pasta. The stakes in this dispute are not large. U.S. citrus growers estimate that they lose about $40 million a year in business because of the preference given by the Common Market to Mediterranean countries. That's important to them, but it's small potatoes by international trade standards. The Citrus-Pasta War, however, demonstrates how sensitive trade disputes can become.

Congress, later this year, is expected to take important action on the trade issue. Action that will go far beyond the Citrus-Pasta War. It's not clear yet what form that action will take, but Republican and Democratic leaders in both Houses of Congress are urging action this fall.

A lot of attention has focused on our trade deficit with Japan. Last year Japan bought $23.1 billion in goods from the U.S., but we bought over $60 billion in Japanese goods, including $20 billion in cars. Our trade with Japan, in fact, accounts for nearly one-third of our total trade deficit. That has led a lot of Congressional leaders to insist that Japan open up more of its markets to U.S. goods. And in response to those demands, Japan has taken some steps. Earlier this year, Japanese Prime Minster Nakosone even went on television to urge Japanese consumers to "Buy American." But it's going to take a lot more than a speech to put a dent in the U.S.-Japan trade deficit.

As you can see, trade issues present very difficult choices. It is clear from our past experiences that protectionism is not in the long-term best interest of this country. It is equally clear, that our interests are being hurt by the trade deficit and the unfair trade practices of our foreign competitors. We must search to find a reasonable middle ground. I have been very disappointed that the Administration has failed to provide leadership in this important economic arena, forcing the Congress to search for solutions to the trade deficit problem.

It's my hope that Congress will adopt a "carrot and stick" approach to resolving our international trade disputes. Whether it's a question of foreign trade subsidies or foreign trade barriers, I think it is important to give our trading partners an opportunity to take corrective action before imposing any trade sanctions.

World trade is too important to risk a major trade war. We have to stand up for our legitimate trade interests, but we should do so in a way that leaves the door open for negotiation and conciliation.

Above all else, we shouldn't let all this concern about unfair trade practices stop us from dealing with the budget deficit and the overvalued dollar. If the trade deficit is a serious problem -- and I think it is -- then we should be working overtime on reducing the budget deficit.

Internships Available

Congressman Udall invites students to apply for an internship in his Phoenix or Tucson District Office. Interns perform the full range of District Office functions, including representing the office in the community and assisting constituents in a variety of ways. Fall and spring internships are available for college credit. If you want to have fun while learning about politics through hands-on experience, please contact either the District Office in Phoenix (2613018) or Tucson (629-6404).

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