Trading Away the Stimulus

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Washington - THE trade figures from the Commerce Department this week aren't pretty: despite anemic economic growth, so far this year America's trade deficit has hit $289 billion, compared with $204 billion for the same period in 2009.

For many people, the trade deficit seems unrelated to the nation's continued economic crisis. But it is actually a central reason why American growth has lagged and President Obama's stimulus hasn't led to a robust recovery: since February 2009, the government has injected $512 billion into the American economy, but during roughly the same period, the trade deficit leaked about $602 billion out of it and into foreign markets.

Consequently, a successful recovery strategy will require aggressive measures to reduce the trade deficit — including new and expanded tariffs to encourage the sale of domestic goods over imports and a serious reindustrialization policy to create the manufacturing strength to exploit these new opportunities.

Advocates of traditional stimulus measures, like increased government spending or tax cuts, rely on recovery models rooted in, respectively, the 1930s and 1980s. Back then government stimulus and tax cuts made sense, because Americans spent almost all the new money on domestically produced goods and services.

For the last few decades, though, our growing trade deficit has undermined the relationship between spending and growth. Today Americans purchase so many foreign-produced goods and services that even large stimulus programs produce virtually no new net growth or employment at home.

Of course, trade deficits have subtracted from American economic prosperity for decades. But until recently, that damage was masked by artificial sources of growth, like the last decade's credit and housing bubbles. With these phony economic engines gone, the trade deficit's impact has become painfully clear.

President Obama's pledge to double exports in five years at least shows the White House is aware of the problem. But without greater reductions in imports, even a doubling of exports would fail to generate substantial net growth or job increases.

It's also true, as some claim, that the rising personal saving rate could reduce the trade deficit. Indeed, the deficit dropped from July to August in part because American consumers saved more and thus bought fewer foreign goods and services. But increased saving cuts both ways — consumers buy fewer domestic goods and services, too. Higher savings might bring down our trade deficit, but growth would still stagnate.

Fortunately, the government can take other, more effective steps to reduce the trade deficit. For starters, Congress and the president should allow American victims of currency manipulation — primarily industrial companies whose prices are kept artificially high when trade partners keep their currencies under-valued — to obtain compensatory tariffs against currency-subsidized imports.

Second, "Buy American" requirements for federal procurement should be expanded to cover all spending at every level of government.

Also essential is a border tax to counter foreign export rebates. In countries with value-added taxes, those levies are returned to producers when they export their goods — which allows them to lower their products' prices in our market. In response, we can ensure fair competition in our home market by applying a tax equal to the rebate upon a product's entry to the American market.

Finally, America needs more sweeping and proactive tariffs on foreign goods and services that compete directly with existing and start-up domestic producers. Opponents insist that significant tariffs would increase international trade tensions. Experience, however, suggests otherwise.

In 1971, President Richard Nixon set unilateral tariffs against Japan, Germany and other countries that refused to let their currencies rise in value. Far from setting off a trade war, the tariffs persuaded other countries to help rebalance the world economy cooperatively. There's no reason the same thing couldn't happen today.

These steps would revolutionize American trade policy. They would require suspending some international trade obligations Washington has spent years fighting for. But in such perilous economic times, trade-policy conventions can hardly remain sacrosanct. Otherwise, imports will continue to sabotage the recovery.