

## **It is time to pause on free trade**

By Jeff Faux

*The Hill*

April 18, 2007

In the Depression-era joke, a street peddler is asked how he expects his business to survive when he buys his apples for a dime and sells them for a nickel. "I make it up on the volume," the peddler responds. "And by the way, I'm out of inventory. Can you lend me 10 cents?"

That pretty much describes Washington's "What, me worry?" attitude toward the ballooning U.S. trade deficit. For over two decades we Americans have been buying more from the rest of the world than we've been selling - and making up the difference by borrowing from foreigners. The Commerce Department just reported that last year we added \$857 billion in foreign debt to cover our trade losses.

Like the apple seller, the more we expand our global business the deeper into the hole we get. Yet, successive U.S. administrations - driven by U.S. corporations that want to shift production to cheaper overseas locations - have busily promoted international agreements aimed at increasing the overall "volume" of trade, which relentlessly expands imports faster than exports.

You don't need a Harvard business degree to know that no business - or nation - can pile up its debt faster than its income forever. Already our creditors are getting nervous that they will get paid back in dollars whose value will be lower than it was when they lent it to us. Thus, the dollar has steadily dropped against the Euro. China, which has been lending us back the profits from its gigantic U.S. trade surplus in order to keep us buying their goods, is now slowly diversifying its international investment portfolio away from the United States.

Market forces will eventually drive down the dollar much further, until our exports become cheap enough and our imports expensive enough to start rebalancing our trade. The landing may be gradual and "soft," or sudden and "hard." But either way, the borrowing binge that has protected American living standards will have to end. Without a change in the way we do business, growth will slow, and the real incomes of the average American will stagnate further or decline.

You'd think that re-balancing trade would be close to the top of the economic agenda in Washington. But the Bush administration continues to stuff one special-interest trade deal after another into the legislative pipeline.

Fresh from his Latin American trip, the president wants Congress to approve agreements with the governments of Colombia, Panama and Peru, and to renew his authority, which expires on June 30, to put all such deals on a legislative "fast track" that forbids Congress from amending them. Congressional Democrats are demanding that such deals include minimum international labor standards and more help for U.S. workers laid off because

of foreign competition. Good ideas. But even if the two sides reach a compromise, it will do little to address the fundamental problem behind the spiraling trade deficits - American workers flung into dog-eat-dog global economy where corporations can replace them for as little as ten cents on the dollar.

It is time therefore to take a deep breath. Congress should declare a "strategic pause" on all trade negotiations and postpone approval of agreements not yet signed. The pause should remain in effect until Congress and the president come up with a credible program to reduce the trade deficit substantially and to adopt policies that will enable Americans to compete and raise their living standards. If they cannot agree, at least the pause will prevent the economic hemorrhaging from getting worse.

Reversing the trade deficit will not be easy. Among its root causes are the artificially low Chinese currency, bad trade agreements, tax rules that reward off-shoring, insufficient investment in education and infrastructure, and a wasteful and dysfunctional healthcare system. The first step is convincing the public of the need for change. A strategic pause would force those running for president into a full debate about the diagnosis of our declining competitiveness and what they would do about it.

The country urgently needs this debate. Continuing to expand the volume of trade that leads to more deficits and debt makes it more likely that many of us will end up on the street corner selling apples.