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Bernanke Sees Long Slog to Trim U.S. Trade Deficit

By GREG IP
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WASHINGTON -- It could take a decade to shrink the huge U.S. trade deficit to more sustainable levels, Federal Reserve Chairman Ben Bernanke said.

Noting it has taken 10 years for the gap on trade and investment income -- known as the current-account deficit -- to reach 6% of gross domestic product, Mr. Bernanke told Congress "it might take that long to reverse."

Mr. Bernanke was delivering the second of two days of testimony on monetary policy and the economy. His appearance before the Senate Banking Committee was dominated by questions about the U.S. trade deficit, in particular with China.

He said the current-account deficit can't persist at 6% of GDP "indefinitely."

"It's desirable for us to bring down that ratio over time. ... But it's very hard to judge how long that's going to take."

Last year, the U.S. ran a $202 billion trade deficit with China, the largest bilateral gap in its overall $726 billion deficit. Many in the U.S. blame China's policy of pegging its currency, the yuan, at an artificially low level against the dollar. That keeps China's exports cheap in the U.S. and U.S. imports expensive in China.

Sen. Charles Schumer (D., N.Y.) and Sen. Lindsey Graham (R., S.C.) have introduced a bill that would impose a 27.5% across-the-board tariff on Chinese imports if Beijing fails to do more to strengthen its currency.

Responding to a question from Mr. Schumer about that approach, Mr. Bernanke said: "It's not a good idea to break down some of the gains we've made in terms of freeing trade in the world economy."

He offered few alternatives for prodding China to change, other than persuasion and technical assistance, which have prompted only a minuscule move to strengthen the yuan.

"They have mixed views about the benefits to their own economy of making that change," Mr. Bernanke said. "They see some benefits in what they view as stability; they see an advantage in exports. But ... it's very much in their interest to move forward with a more flexible exchange rate, to increase their monetary independence, to reduce their reliance on exports and play an appropriate role in contributing to global financial and trade stability."

China has invested the billions of dollars accumulated through its surpluses in U.S. Treasury bonds, raising concerns it could sell those bonds, which may push up U.S. interest rates. Mr. Bernanke, however, said U.S. capital markets are "sufficiently large and liquid that the impact of such changes would be mostly transitory and could be managed."

As he did in his House testimony on Wednesday, Mr. Bernanke disputed that the low level of long-term interest rates relative to short-term rates is signaling a recession. He pointed to recent signs of economic strength, including low claims for unemployment insurance. That upbeat assessment reinforces the likelihood the Fed will raise its rate target to 4.75% from 4.5% at its March 27-28 meeting.

The committee approved the nominations of University of Chicago economist Randall Kroszner and White House aide Kevin Warsh to become two of the seven governors on the Federal Reserve Board. Full Senate confirmation is expected in time for the two men to participate at the March policy meeting.

Write to Greg Ip at greg.ip@wsj.com[1]