That worrisome trade deficit

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By Harold Jackson

'Now, don't you worry your pretty little head about that" always seems to be the retort of the economics literati when the economically stupid start asking questions about the U.S. trade deficit.

My head's neither pretty nor little, but I am stupid about world finance, despite the heroic efforts of my 11th-grade economics teacher. (Sorry, Miss Foster, I was only pretending to pay attention when you were speaking.)

So, when it was reported Tuesday that the U.S. trade deficit for 2006 reached a record $763.6 billion, I was a little shaken. I do remember enough about economic theory to know you make money by selling more goods than you buy. We're not doing that very well.

December saw America's monthly trade deficit increase to $61 billion from $58 billion in November. The Wall Street Journal (no economics slackers there) says the 5.3 percent increase was more than its experts had predicted. They blamed high oil prices, mostly.

The record trade gap caused House Democrats to fire off a letter to President Bush calling for new policies to end the string of five straight years of record-setting trade deficits. The letter's 15 signers, including U.S. Rep. Allyson Schwartz (D., Pa.), said the trade deficits were in part responsible for the loss of three million U.S. manufacturing jobs.

They asked the president to present a comprehensive plan to eliminate the largest trade deficits - with China, the European Union and Japan - within 90 days.

China is a particular worry. Its entry into the World Trade Organization in December 2001 was in some ways as important as the tragic events three months earlier in its impact on life in the United States. Of course, we didn't know it at the time.

I don't remember anyone predicting that the People's Republic would become America's favorite peddler when President Bill Clinton was pushing for China's entry into the WTO in the 1990s.

China has achieved dominance in its trade relationship with the United States by heavily subsidizing its manufacturers and by undervaluing its monetary unit, the yuan, to keep its exports inexpensive. We can't get enough of the cheap Chinese-made products we now purchase from Wal-Mart and other such stores.

China does buy our goods, too. But I like the way Yvonne Smith, a Port of Long Beach, Calif., spokesperson explained the difference on PBS Television's *Frontline*: "We export cotton, we import clothing. We export hides, we bring in shoes. We export scrap metal, we bring back machinery. We're exporting waste paper, we bring back cardboard boxes with products inside," she said.

The House Democrats' letter asks President Bush to act "aggressively" to stop currency manipulation by China and Japan and to push for tougher enforcement of WTO rules. The Bush administration did recently file a complaint against China with the WTO, but it did not address valuation of the yuan. Maybe we don't want to upset China too much, given its importance to us in other matters, including efforts to calm North Korea.

But there's something else, says the University of Maryland's Peter Morici, a former chief economist at the U.S. International Trade Commission. Multinational corporations such as General Electric, Caterpillar and General Motors have profited by investing in China's markets and have lobbied against trade sanctions on China, he says.

Morici also points out that China isn't the only culprit in the trade deficit story. The aforementioned price of oil requires long-term solutions that decrease our use of fossil fuels. And there's our moribund auto industry, beset by personnel costs and poor management that add thousands to the price tag of American cars.

So we've got another huge trade deficit. But not to worry, some experts say. The dollar will eventually fall in value and make our exports cheaper in foreign markets. OK, but what about the time between now and then?

We're buying more than we're selling, and borrowing to make up the difference. Morici says the debt service on the $6 trillion that this nation has borrowed to finance trade deficits is $300 billion a year. That's money that could be going to a number of purposes, including research and development to reduce our dependence on foreign oil.

Worried about the increasing trade deficits? Call me stupid, but yes, I am.