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Just how much more evidence do our leaders need before they can recognize that existing U.S. trade policies are a failure and change course? Apparently, a great deal more since the following facts have not dampened their enthusiasm for the current approaches. Consider these:

The United States has run massive trade deficits for 36 out of the past 38 years. Between 1991 and 1996, the U.S. merchandise trade deficit more than doubled expanding from a loss of $74 billion in 1991 to one of $187 billion in 1996. At the current pace of loss, the 1997 U.S. merchandise trade deficit will exceed $220 billion. The trade balance with Mexico since the passage of the North American Free Trade Agreement (NAFTA) has shifted from a surplus of slightly less than $2 billion in 1993 to a deficit of $16 billion in 1996.

Under the U.S. policy of "constructive engagement" with China, the trade deficit with that country alone has exploded from $6 billion in 1989 to almost $40 billion in 1996. The statistics don't lie. Despite these facts, President Clinton and the Republican Congressional leaders now advocate more of the same failed policies, including expanding NAFTA to South America and the Caribbean.

Deficits do matter

It is as though U.S. trade deficits don't matter. But these losses do matter for they reduce, not expand, our domestic market, production and jobs.

The arithmetic of these trade-related losses is straightforward. The U.S. Commerce Department, for instance, reports that each $1 billion of trade equals 14,000 to 20,000 jobs. Therefore, the $114 billion net U.S. trade deficit of 1996 (that is, all our imports minus our exports) came at a loss of more than 1.6 million U.S. jobs.

Commerce Department data also document that our trade deficits are cutting sharply the growth rate of the overall economy. Again the arithmetic is simple. The Gross Domestic Product (GDP) is comprised of only four components: (1) personal consumption expenditures, (2) gross private domestic investment, (3) government expenditures and investments, and (4) the balance of exports and imports of goods and services (net exports). Thus, a surplus trade balance increases the GDP growth and a deficit reduces it.

The reason for slow growth

For 12 of the past 14 years, the U.S. trade deficit has exceeded 1% of the GDP. This constitutes a major economic loss. In 1996, for instance, the $114 billion net trade deficit equaled 1.65% of the GDP. Had the U.S. trade accounts simply been in balance at the end of 1996, the U.S. economic growth rate would have been 4.1 percent rather than an actual 2.5%. The trade deficit cut 1996 GDP growth by more than 40%.

The vital point is that our persistent trade deficits are shifting the productive capacity to other nations and undermining our workers, who are also our consumers.

In manufacturing, for example, in 1970 imported manufactured goods constituted less than 11% of the manufacturing component of the GDP, while today imported goods exceed 51%. The result of this shift is fewer good paying jobs, stagnant wages, low savings and high consumer debt.

What's to blame?

By contrast, Japan and Germany, our two principal economic rivals, are running massive trade surpluses -- more than $70 billion for Germany in 1996 and $135 billion for Japan. What makes this contrast so startling is that the U.S. economy is supposedly more competitive than either those of Japan or Germany. In 1996, for the third year in a row, the World Economic Forum measured the U.S. economy as the world's most competitive.

The unspoken question, of course, is this: If the U.S. economy is so competitive, why does it have such massive trade deficits?

The answer is a potent mix of ideological inflexibility, outdated Cold War thinking, and breathtaking political incompetence.

The costs of free trade

Ideologically, today's U.S. leaders are as indoctrinated in the dogma of free trade economics as yesterday's Soviet leaders were in that of Marxism, and just as the ex-Soviet leaders were unable to change their policies to fit new circumstances, neither are ours, at least in trade matters.

Thus, the United States continues to use trade as foreign aid -- a policy that made sense when we were containing Soviet expansion but makes no sense in the post-Cold War world. Equally irrational, U.S. leaders keep our markets open to foreign imports from nations, such as Japan and China, which violate existing trade agreements with impunity while keeping their markets closed to U.S. exports -- all in the name of free trade theory.

The reaction of American companies to unresponsive U.S. trade policy is to shift their production to other nations from which they export goods and services back into the U.S. market. For the fleeing companies, this overseas shift means lower production costs and higher profits. For the abandoned U.S. workers, it means diminished expectations.

Once upon a time, U.S. leaders showed the world the benefits of expanded production inside the borders of our country and the links between good paying U.S. jobs and strong U.S. consumer demand. Today's American leaders would do well to relearn those lessons.

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