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Testimony before the U.S. Senate Foreign Relations Committee

For a hearing on “Multilateral Economic Institutions and U.S. Foreign Policy”

Testimony • By Thea M. Lee • November 27, 2018

On November 27, 2018, EPI President Thea M. Lee testified before the U.S. Senate Committee on Foreign Relations, Subcommittee on Multilateral International Development, Multilateral Institutions, and International Economic, Energy, and Environmental Policy, for a hearing on “Multilateral Economic Institutions and U.S. Foreign Policy.”

Thank you, Chairman Young, Ranking Member Merkley, and members of the Subcommittee, for the invitation to participate in today’s important hearing. I am the president of the Economic Policy Institute—a nonprofit, nonpartisan think tank, which has analyzed the effects of economic policy on the lives of America’s working families for over three decades.

Our country is at a critical moment with respect to international trade and investment policy. We need clarity regarding our strategic goals and priorities in the global economy. At the same time, we urgently need to align our trade policy with our domestic choices on tax policy, infrastructure, workforce development, regulation, and labor markets.

Today’s hearing provides an opportunity to review U.S. engagement with multilateral economic institutions, and the importance of both using our influence in those institutions strategically and balancing international engagement with the use of appropriate unilateral tools and domestic policies.

Over the last several decades, the U.S. government has consciously chosen to accelerate our integration into the global economy, with a particular set of priorities focused on accommodating the concerns of multinational corporations that invest and operate both in the United States and abroad. The vehicles for this accelerated integration include the negotiation of more than a dozen bilateral and regional trade agreements, a corporate-centered agenda at the World Trade Organization and the international financial

institutions, and inconsistent and lackluster enforcement of U.S. trade laws.

At the same time, the U.S. government has dramatically under-invested in crucial infrastructure, education, and skills training, while workplace protections and the social safety net have eroded, and the tax code has become more regressive. Our macroeconomic policy has tended to weight concerns about inflation more heavily than the goal of achieving and maintaining full employment. On net, these global and domestic choices have exacerbated growing inequality and wage stagnation, and contributed to the erosion of the middle class and the manufacturing sector. This has deepened geographical, as well as class and race, divisions in the United States.

Critique of current trade policy

Past U.S. trade policy has failed American workers—as well as many domestic producers—and has undermined democratic decision-making authority with respect to environmental and consumer protections. Going forward, Congress and the executive branch should articulate and implement a new approach to global economic integration—one that prioritizes good jobs and strong communities, and that supports domestic democratic decision-making where possible. This strategy is most likely to succeed if implemented with the cooperation and support of key allies and the multilateral economic institutions. Transparency and predictability are essential elements.

The World Trade Organization (WTO) is the global organization tasked with defining multilateral trade rules. The 168 members of the WTO constitute about 98 percent of the global economy. While enforceable multilateral rules are essential to a well-functioning global system, the WTO has struggled on several fronts in recent years. First, it has become increasingly difficult to achieve consensus on new rules, and key areas like currency misalignment, climate change abatement, and coordination of tax regimes are not even on the agenda. Second, enforcement of existing rules has been contentious, and the member states are currently locked in a disagreement over dispute settlement.

For American workers, the WTO has often appeared to be an obstacle to a reformed trade policy—both in terms of the inadequacy of the current rules and problems with enforcement.

First, WTO rules are lopsided towards corporate interests over those of workers, consumers, and the environment. Investors' rights are prominently protected by provisions on investment, financial flows, and intellectual property rights, among others, while protections for workers' rights are almost completely absent (with the exception of a minor clause on prison labor). The WTO's regulatory rules also tend to favor corporate interests in weaker regulation over stronger domestic protections for consumers or the environment. In addition, the WTO has failed to address systematic currency manipulation or misalignment, as well as the use of permissive tax laws to attract investment. I would argue both of these are key areas where multilateral trade rules ought to be available and enforceable.

The U.S. government has not used its considerable clout at the WTO to press for deep

reforms along these lines. Even if it were to do so, it would only succeed if it were able to build a coalition with other industrialized countries and key developing and emerging nations. Perhaps the current moment of stalemate and rising tension could be an opportunity to build such a coalition.

And second, with respect to enforcement, the United States has not been able to manage its trade relationship with China effectively since China's accession to the WTO in 2001. This is, in our view, the most pressing U.S. trade concern, along with other countries that run persistent current account surpluses. The United States ran a goods trade deficit with China of $375 billion in 2017—up from $83 billion in 2001. This is the largest single bilateral trade deficit between any two countries in the history of the world—and it continues to trend upwards, despite twenty U.S. challenges to China at the WTO, despite earnest annual bilateral talks and commitments, and despite all the "reform" commitments China made upon accession. Currency misalignment is at the center of our trade imbalance with China.

The growth of the U.S. trade deficit with China between 2001 and 2017 was responsible for the loss of 3.4 million U.S. jobs—in all 50 states and in every congressional district. Nearly three-fourths (74.4 percent) of the jobs lost were in manufacturing.[1]

And our trade problems with China are getting worse, not better. The U.S. trade deficit with China is up almost 10 percent through September of 2018 (year to date, over the same period last year).

The composition of imports from China is changing in fundamental ways, with significant, negative implications for certain kinds of high-skill, high-wage jobs once thought to be the hallmark of the U.S. economy. Since it entered the WTO in 2001, China has moved rapidly "upscale," from low-tech, low-skilled, labor-intensive industries such as apparel, footwear, and basic electronics to more capital- and skills-intensive industries such as computers, electrical machinery, and motor vehicle parts. China has developed a rapidly growing trade surplus in these specific industries, and in high-tech products in general.

The jobs displaced by flawed trade policies are often manufacturing jobs, which provide excellent wages and benefits, especially compared with jobs in the service sector, where employment has been growing. These manufacturing jobs are often unionized, and have generally provided higher than average wages, on-the-job training, and benefits like health care and retirement security.[2]

And EPI research has shown that the wage-suppressing effects of our poor approach to globalization and trade have hit all workers without college degrees across the country—of all races and ethnicities—not just those in manufacturing who have lost jobs directly to import competition. While trade-displaced workers face the largest individual losses, in the aggregate the wider effects of across-the-board downward pressure on wages are much more significant.[3]

What we *should* be doing on trade policy

We urgently need to work together to develop and implement a strategic trade policy that aligns with our values and goals, and that complements our domestic policy to create good, skilled jobs in manufacturing, in agriculture, and in the service sector.

The key elements of reform include the following:

Address currency misalignment. The United States must abandon our strong dollar dogma and target a currency that allows for a manageable and stable trade deficit. We absolutely can manage the value of the U.S. dollar, and we need to set it at a level that essentially balances trade. This will give U.S. manufacturing the breathing room it needs to gain back some of the few million jobs it has lost in recent decades. (More information can be found in a 2017 EPI report on the pervasive negative impact currency misalignment has had on American jobs and wages.[4]) Our multilateral economic institutions tasked with addressing currency—the WTO and the International Monetary Fund—have not provided any support or guidance for addressing currency misalignment. In the immediate term, we should test the multilateral institutions by taking necessary steps to manage the dollar, but in the medium and long term, the U.S. government should seek to strengthen and clarify currency tools at both the WTO and the IMF. This multilateral action can send a strong message to those countries that run large, persistent trade surpluses and have undervalued currencies. Ultimately, the goal should be to bring countries to the table to negotiate a new "Plaza Accord," as was last done in 1985. This is the single most effective way to rebalance global trade flows[5], and supportive action from the multilateral economic institutions could be crucial in incentivizing such a deal.

Moratorium on new trade agreements. There is no reason to devote policy resources to chasing a "better trade deal"—certainly not by negotiating agreements that incentivize outsourcing and boost the profits of the multinational corporations that actively subvert the bargaining power of American workers. Policymakers who want to work across international borders could instead focus on eliminating tax havens or harmonizing climate policies to ensure that countries do not free ride on others' efforts to mitigate greenhouse gas emissions. The most effective and appropriate way to address these concerns would be for the multilateral economic institutions to provide a forum, eventually moving toward consensus rules and enforcement capacity. (Recommendations in a 2017 report by EPI address how to reorient national policy toward measures that will benefit the United States and other countries.[6])

Make access to the U.S. market contingent on respect and enforcement of internationally recognized core labor rights. These core labor standards include the right of freedom of association and the right to bargain collectively, as well as freedom from discrimination, forced labor, and child labor (as outlined by the International Labour Organization in the Declaration on Fundamental Principles and Rights at Work). Enforcing these core labor rights is win-win for workers in all countries.[7] While the U.S. has included labor rights provisions in our trade agreements for many years, these rights still suffer from unnecessary loopholes and ambiguity in definition, and they have not been effectively and consistently enforced. We need a new approach and commitment, and the WTO in

particular must recognize that violation of internationally recognized workers' rights is as much an unfair trade policy as the violation of patents or copyrights.

And finally, but just as significantly, we need to develop and commit to a concrete economic plan to help workers in America—by focusing on skills and workforce development, job quality, infrastructure, the clean energy transition, and expanding a strong social safety net. The U.S. government has its own responsibility to develop and implement a coherent long-term economic strategy with respect to both manufacturing and services, both trade-related and domestic. We have failed to invest adequately in infrastructure and skills for decades, and business has not filled the void. We have a tax system that rewards capital over labor, and outsourcing over domestic production. It remains riddled with unproductive loopholes, and—especially after last year's changes—it fails to raise adequate revenue to fund needed investments. We must use domestic tax, infrastructure, and workforce development policies to ensure that American workers and businesses have the tools and skills they need to compete successfully in a dynamic global economy.

Thank you for your attention, and I look forward to your questions.

Endnotes

1. Robert E. Scott and Zane Mokhiber, *The China Toll Deepens: Growth in the Bilateral Trade Deficit between 2001 and 2017 Cost 3.4 Million U.S. Jobs, with Losses in Every State and Congressional District*, Economic Policy Institute, October 2018.

2. Robert E. Scott, *We Still Haven't Recovered Well-Paying Construction and Manufacturing Jobs*, Economic Policy Institute, August 2017.

3. Josh Bivens, *Adding Insult to Injury: How Bad Policy Decisions Have Amplified Globalization's Costs for American Workers*, Economic Policy Institute, July 2017.

4. Robert E. Scott, *Growth in U.S.–China Trade Deficit between 2001 and 2015 Cost 3.4 Million Jobs: Here's How to Rebalance Trade and Rebuild American Manufacturing*, Economic Policy Institute, January 2017.

5. Robert E. Scott, "Re-Balancing U.S. Trade and Capital Accounts," Economic Policy Institute Working Paper no. 286, December 2009.

6. Josh Bivens, *Adding Insult to Injury: How Bad Policy Decisions Have Amplified Globalization's Costs for American Workers*, Economic Policy Institute, July 2017.

7. Thomas I. Palley, "The Economic Case for Labor Standards: A Layman's Guide," Richmond Journal of Global Law & Business 2, no. 2 (2001): 183–195.