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Testimony for a hearing on "Trade and Labor: Creating and Enforcing Rules to Benefit American Workers"

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Thank you, Chairman Blumenauer, Ranking Member Buchanan, and members of the subcommittee, for the invitation to participate in today's important hearing. I am the president of the Economic Policy Institute, the nation's premier think tank for analyzing the effects of economic policy on America's working families. I'm honored to have the opportunity to speak to you today about how the U.S. government can create and enforce better rules—both in international trade and domestic policy—to benefit American workers.

The challenge

In 2019, we all live, work, and shop in the global economy, but our political structures and effective rule-making are national in scope. As this committee knows well, when we make the often difficult decisions about how to tax economic activity; stimulate the economy; and regulate consumer safety, labor markets, and competition nationally, we are more often than not frustrated by how transnational flows of capital, goods, services, and people effectively undermine our domestic policy objectives. In an ideal world, trade policy should allow us to address this challenge, but the trade agreements and rules we've put in place over the last several decades have exacerbated domestic challenges and frustrated democratic decision-making.

We need to develop a coherent national economic strategy—as all of our successful trading partners and rivals have done—to ensure that our national policies are coordinated with and complementary to our international trade policy.

While some policymakers give lip service to the job-creating potential of trade liberalization, our trade policies over the last several decades have generally undermined the creation of good jobs in the United States. We have been accelerating and rewarding outsourcing rather than exports and prioritizing corporate profits over good jobs and strong communities. We have not been intentional about how to preserve our scope for democratic decision-making while deepening integration into the global economy. The result has been nontransparent, back-door deregulatory pressures in environmental, public health, and labor protections. These flawed trade policies that enhance corporate mobility and bargaining power at the expense of workers and local governments have therefore contributed to the growing wage and income inequality in the United States (Bivens 2017).

We can do better going forward, but we will need an entirely new approach.

The need for ambition

Rather than continue to focus narrowly on tweaking the specific provisions of an outdated model or the preferred partners for the next iteration of bilateral or regional trade deals, we should step back and reexamine our ultimate goals and the tools available.

What is the problem we're trying to solve? The problem is not that particular trade barriers are too high or that the volume of trade is too low, or that we don't have a deal with a specific country. Rather, the problem is that trade policy has undermined our goals of rising living standards for working families, good jobs, strong communities, safe consumer products, and a healthy environment. And we should examine how our domestic policy levers work in concert with or in opposition to our trade levers. Finally, our policy choices need to be dynamic, not static, so that we are planning for a changing world, not reacting to short-term crises.

The elements of a pro-worker trade policy

There are three broad steps that we should take to implement a new pro-worker trade policy, as the Economic Policy Institute has laid out in our Policy Agenda (EPI 2018).

First, we should restore and protect American manufacturing by using policy levers to ensure that American manufacturers' ability to compete in global markets is not hamstrung by a chronically overvalued dollar, as it has been for decades. A competitive value of the dollar will shrink persistent trade deficits in manufactured goods, allowing room for millions more domestic manufacturing jobs.

When the dollar is expensive relative to other currencies, it's more expensive to produce things in the U.S., and U.S. exports become more expensive. An expensive dollar also makes imports cheap, inducing consumers to switch away from domestic products. An expensive dollar also makes outsourcing production of American consumer goods more profitable. The result of importing more from other countries and exporting less to them is a growing trade deficit. Trade deficits have been the primary reason why we have millions fewer manufacturing jobs today than we averaged between 1970 and 2000 (Scott 2015).

Policymakers should make a competitive value of the dollar a key priority. There are a range of approaches that could achieve this. We could engage in international negotiation—like the negotiations for the 1985 Plaza Accord, an accord that led to a more competitive dollar and reduced trade deficits. If negotiations fail, the U.S. Treasury and Federal Reserve could unilaterally sell dollars in global markets to reduce the price of the dollar and realign the dollar's value against other currencies. Or we could impose a tax on the purchases of dollar-denominated assets by foreign governments and investors to reduce demand.

Second, we should ensure that the rules of international trade and investment do not privilege corporate interests and profits over those of workers and typical households. While negotiating new bilateral and regional trade deals should not be a priority, renegotiation of existing trade deals and more effective engagement in multilateral trade negotiations are priorities. We can use these renegotiations and multilateral trade negotiations to address big international challenges—like global tax havens, global overcapacity, eroded workers' rights, and greenhouse gas emissions—that have been ignored by international economic policy.

These international challenges cannot effectively be addressed by individual countries operating alone in a world where trade barriers and transportation costs are trending down and capital is mobile. While the World Trade Organization (WTO) has not been able to find consensus in recent years, it is worthwhile for the U.S. government to seek allies from both the industrialized and developing countries to at least open dialogue around the enormous challenges that many countries share: growing inequality, climate change, and tax avoidance. In any case, we should negotiate global compacts—within or adjacent to the WTO—to track offshore wealth and crack down on tax havens and seek binding agreements to lower greenhouse gas emissions, agreements that would include border carbon adjustments. In a world where countries are moving at different speeds to reduce greenhouse gas emissions, it is essential that international trade rules allow offsetting border adjustments to eliminate incentives to move production to countries with the weakest rules.

Third, we should consistently and aggressively enforce our own trade laws and use existing international mechanisms to make sure other countries' policies do not lead to an unlevel playing field. For example, when other countries' exports to the U.S. are subsidized, we should use trade protection or countervailing subsidies to ensure that our own producers are not disadvantaged.

As we pursue these three broad trade policy strategies I have just outlined, we need to keep in mind that our enormously lopsided trade relationship with China poses numerous special challenges—both with respect to enforcement of existing trade rules and in the need for more tools. Forced technology transfer, intellectual property rights transgressions, and the loss of domestic capacity in key sectors can all contribute to the undermining of American innovation and technological leadership. This has consequences not just for the current labor market, but for our future trajectory.

On the home front, the U.S. government needs to 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. Shamefully, the U.S. government has 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 (Clausing 2018; Kysar 2018).

Conclusion

Finally, if we go back to first principles of trade policy, we should reflect on the notion of comparative advantage. In Economics 101, we are taught that patterns of trade are determined by factor endowments—in other words, countries tend to export goods that are produced with their relatively abundant factors and import goods made by factors that are relatively scarce (the classical example is Portugal exporting wine to England and importing cloth). Attempts to subvert that natural order only lead to inefficiency and lower consumption, according to popular versions of economic theory.

But once we get beyond agriculture and natural resources, it should be apparent that countries shape their own endowments over time through conscious choice. Endowments of skilled labor or capital are not immutable characteristics. Technological know-how does not come from the sky, but is developed through investment in education and research. And capital is not an endowment tied to a particular country, but rather a mobile factor that can and does cross national borders easily to seek higher returns.

These realities mean that the challenge of competing and thriving in the global economy today has less to do with reducing tariffs and other trade barriers and more to do with investing strategically in skilled workers and big ideas—and then maneuvering to increase the likelihood that the returns to those investments will redound domestically.

In some ways, U.S. trade policy over the last couple of decades has been exactly backward. Our trade agreements have privileged outsourcing and corporate profits over good jobs, undermining our manufacturing sector and exacerbating inequality. At the national level, policymakers have shortchanged infrastructure investments and education, and our tax code has incentivized offshore production.

As my colleague, Josh Bivens, has written, "It is time to reorient all levers of economic policy—both international and domestic—to ensure that the gains globalization produces actually filter through to help, not harm, most American workers" (Bivens 2013).

Thank you for your attention. I look forward to any questions you may have.

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