THE U.S. TRADE DEFICIT AND OUR INTERNATIONAL COMPETITIVE POSITION

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The problem of trade is one of the three or four most significant economic and foreign policy challenges our nation confronts today. The international economy and domestic economy are interdependent; we cannot grow at home if the demand and the capacity to pay for our products does not grow abroad.

But much that is usually said about the subject misses the main point. Often, when the issue is discussed, especially by politicians, the tendency is to divide everyone who speaks, and everything that is proposed, into two camps: to label one camp protectionist, the other for free trade; and then to suggest that one approach will always work, while the other will always fail. Unfortunately, our preoccupation with labels and our penchant for choosing sides doesn't solve anything, and it obscures a larger issue.

What is it, after all, that we mean by free trade? By protectionism?

Is it protectionist when we here in Massachusetts provide an urban development action grant that helps the apparel industry in Fall River and New Bedford to compete more effectively in the world market?

Does it interfere with fair trade when we provide the funds to build water and sewer facilities for the new Ocean Spray Cranberry headquarters in Lakeville?

Are we engaging in unfair subsidies when we provide a customized training program for a particular company's workers or make a low-interest loan to that same company?

Are we operating on a level playing field when we put public funds into our Center of Excellence in photovoltaic energy in an effort to help our photovoltaic industry compete with the Japanese in Third World countries?

We are doing these kinds of things all the time. So are our competitors. At the state level. At the national level. Internationally.

I met recently with the economic minister of the State of Baden-Wurttemberg in West Germany, where industry-university partnerships assisted by the government have saved the textile industry, and where more than 40 percent of the new jobs in all of West Germany are being created. I asked him how

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long this sort of joint government-industry enterprise had been going on. He thought for a minute and answered. "Well, at least since Bismarck."

In short, we live in a highly competitive world. And governments are deeply involved in that competition.

That is why the labels used in the trade debate often mean so little. And that is why we need to focus on some more basic questions.

What kind of economic future do we want for ourselves?

What steps do we have to take to make sure that American workers and their families will have a high standard of living and an improving quality of life in the years to come?

What kind of reputation will the label "Made in America" have in the world five or ten years from now?

How do we achieve the kind of vibrant and sustained economic growth that will reach every region in this country and that will create genuine opportunity for every citizen in the land?

That is the goal — opportunity for all — that we set for ourselves, on a smaller scale, here in Massachusetts, and it is the goal we must set — and achieve — for our nation, as well.

Because Massachusetts is a living demonstration of the importance of the international economy to the prosperity of American businesses and workers.

Over the past two decades, our state saw the needs and demands of the international market change. We realized that our own economy had become too dependent on too few industries; that we were clinging to obsolete production methods; that our working people, in many cases, needed new and more sophisticated skills, if they were to compete effectively; and that management techniques that had worked in the past were no longer good enough.

We were, for a time, uncertain; many of our workers lost their confidence and their jobs; mistakes were made. But ultimately we came not to fear change, but to embrace it, to turn the new rules of economic competition to our advantage, and to prosper once again.

And I was particularly pleased last spring to read an article by Peter Drucker in *Foreign Affairs* in which he compared our success in New England to that of the largest trade surplus countries. It is an apt comparison. For we — like many other states — have focused on the world market; we have invested heavily in basic education, job training, and industrial development; we have emphasized the quality of our products; and we have worked to make labor and management partners, not rivals, in the pursuit of economic opportunity and growth.

Today, exports account for 12 percent of the gross state product of Massachusetts, a percentage that will continue to rise as the dividends from our investment in competitive strength mature. More than 100,000 Massachusetts workers depend on exports for their jobs.

I believe that what has worked in Massachusetts and in New England can work in every state in the nation. Of course, the details of each state's and each region's economic strategy will vary. But the message to farmers in Iowa and North Carolina, oil industry workers in Louisiana and Texas, auto workers in Michigan and California, is that aggressive, creative leadership that combines public resources with private initiative *can* make a difference.

And the time to begin is now.

Now, because last year's trade deficit was a record $170 billion — up from a record $148 billion in 1985.

Now, because America's share of the world market is shrinking, farm exports have declined by 37 percent in six years, and more than a million manufacturing jobs have been lost during the same period.

Now, because every time an industrial plant is shut down or a family farm goes out of business, the lives of those affected are forever changed and the promise of the American dream is betrayed.

Nor should it surprise us that there is pressure for new tariffs and quotas, or that there is a search for a quick and simple solution to the problem.

The fact is that the plea for a level playing field on which to compete economically is a just plea. But whether or not we should erect trade barriers around that playing field the height of Fenway Park's left field wall is another matter.

As any long-suffering Red Sox fan can tell you, it takes more than a left field wall — in fact, it takes more than a level playing field — to guarantee competitive success.

True, it may be necessary at times to impose some barriers to trade, especially when those barriers are limited in time and *require* the beneficiary to invest and modernize and become competitive.

But such barriers should be the exception, not the rule. Unfair trading practices are only a partial cause of our overall trade deficit; many of our own products are already sheltered from foreign competition; and a trade war — like any war — will yield only victims, not victors. *In fact, if every barrier to American goods abroad disappeared tomorrow, we would still have a trade deficit of $125 billion.*

So, the central question we must address has to do not with levels, but with goals.

What are we trying to achieve?

What are the elements of a strategy for national economic growth?

How do we create economic opportunity and a high standard of living for *all* our people in an increasingly global economy?

First, *we must get our national fiscal house in order.* We cannot create new opportunities for American workers if our economy is being choked by a $150 billion to $200 billion budget deficit year after year after year.

And there is a direct relationship between the budget deficit and our ability to compete in the international economy.

According to the U.S. Department of Commerce, *"the critical element" in producing the trade deficit "was the uninterrupted expansion of the federal budget deficit from about $60 billion in 1980 to over $200 billion in 1985."*

Without those record high deficits, American savings would have been enough to meet American investment needs; the value of the dollar would not have skyrocketed; a massive influx of foreign capital would not have occurred; America would not have become a debtor nation; and our huge trade deficit would be far, far smaller than it is today.

But, instead, we have a national debt that is well over a trillion dollars, that is still growing, and that must be serviced, with interest. And these payments will seriously damage our ability to improve our standard of living and to become competitive in world markets for years to come.

Now, there are two ways to reduce the budget deficit — control spending and increase revenues. And we must do both. But instead of rushing to impose new taxes — on income, on imported oil, on gasoline — we should first collect the taxes that are already due.

This year, the federal government will not collect $110 billion that are legitimately owed to the Treasury but that will not be paid.

Twenty years ago, the tax compliance rate in this country was 94 percent; today, it is 80 percent. In short, with $200 billion budget deficits staring us in the face, we have been looking the other way while one out of every five Americans has failed to pay the taxes he or she owes.

That is not only dumb fiscal policy, it's just not fair to the overwhelming majority of Americans who pay their taxes in full — and on time.

Eighteen states — including Massachusetts — states with Republican as well as Democratic governors, states as different as Massachusetts, Illinois, New York, California, and North Dakota, have shown that it can be done.

In short, the most effective way to reduce the deficit is to enforce our tax laws. And it's the fairest way, too.

But we must do a lot more as well. We must invest in our physical infrastructure, in roads and highways and bridges and transit and water and sewer systems that are the building blocks of our economic future.

We must invest in people, in good schools and good teachers so that our children will enter the twenty-first century with twenty-first century skills.

We must train and re-train our workers, so that they can keep pace with economic change, and find well-paying and satisfying jobs.

We must invest in the technology of the future, and in the application of new technology to our older, more mature industries so that American products will find new markets and the number of jobs created by exports will grow.

We must improve the climate for long-term productive economic investment by bringing insider trading and short-term financial speculation under control.

And we must make a special effort to help those regions of the country — 31 states in all — that have been in recession for the past seven years.

There are those who tell us that America will — that somehow it inevitably must — de-industrialize; that we have entered a post-industrial age; that we can provide services *to* others, but that we must buy products *from* others. I couldn't disagree more.

Our national security cannot become hostage to raw materials purchased abroad, processed abroad, and transported to America from manufacturing enterprises abroad.

We need our basic industries. We need a stable and abundant supply of food. And there is no reason why we can't have both — if we're prepared to work at it.

Let me give you just three examples of what I'm talking about.

In 1983, competition from imports was driving Harley-Davidson, America's last producer of motorcycles, out of business. The company sought, and received, temporary tariff protection. But that protection was limited to five years, and it was provided only because of Harley's plans to modernize. Harley did modernize. It introduced new manufacturing practices, improved product design, and raised the percentage of motorcycles leaving the assembly line without defects from 50 percent to more than 98 percent.

Three weeks ago, Harley-Davidson went to Washington with a new request: to get rid of those tariffs. The company is *ready* to compete, and it *wants* to compete in an open market.

In 1985, the United States and Japan began a series of talks aimed at reducing or removing barriers to U.S. exports in four important areas, including telecommunications equipment. These talks led to the sale of $750 million in communications satellites, $300 million in central office switches, numerous joint venture arrangements, and to a projected increase of 13 percent annually in U.S. telecommunications exports to Japan over the next three years.

This type of jawboning may not always lead to great breakthroughs in trade; but if we push hard enough and long enough, it *will* produce progress, and lead to steady expansion of markets for American goods.

In March 1985, I led a trade mission to China. Six months later, a trade delegation from Guangdong Province visited Massachusetts. This past December, the General Scanning Company in Watertown announced a contract to sell $2 million worth of galvanometers to a company from Guangdong.

Now that's a small example of a big opportunity. Because there are thousands of small and medium-sized companies who are making products for which there is a *potential* demand overseas. The Commerce Department estimates that there are *18,000* companies nationally that could enter the export market but have failed to do so.

Government can help to open the doors for those companies; we can bring people together; we can provide them with information and identify needs. In so doing, we can reduce the trade deficit, and create new jobs — good jobs — quality jobs.

Giving an industry time to modernize; opening up a closed market; helping small companies get into the export business; these are some of the things that we can do to build a competitive America.

The world may be changing. But the era of America's industrial leadership is far from over.

In fact, it may have just begun. But it won't happen if we sit on the sidelines and watch the world go by.

We must invest in ourselves. Other nations devote as much as 14 percent of their government research budgets to promote industrial growth. We're at one percent.

We need a balance between research for military and civilian purposes; and, in recent years, it is military research and development that has dominated federal spending. This imbalance, if not corrected, will weaken America and weaken our national security. It will narrow our intellectual and scientific base. And it will make it impossible to build the kind of America we want for ourselves and for our children.

Today, the Japanese are investing three times as much in manufacturing technology as we are. They invest more in new plants and equipment. They invest more in civilian research. They graduate 50 percent more scientists, mathematicians, and engineers; and their entire educational system is geared, with public leadership and support, toward economic growth and success in the world market.

What about *our* system? We're training a lot of MBAs who can wheel and deal for paper profits. But we aren't doing anywhere near enough to train our best and brightest in industrial production, in new technologies, in managing the shop floor.

For that reason, I was very pleased to learn that Lester Thurow, the new Dean of MIT's Sloan School of Management, has committed his school to developing precisely the kind of skills that American managers need.

And I'm also very encouraged by two elements of the administration's recently announced — and long overdue — program for restoring America's competitiveness.

First, the President has proposed a 17 percent increase in this year's National Science Foundation budget and a *doubling* of NSF appropriations over the next five years. Those funds are designed to create a national network of Centers for Excellence in new and applied technology.

Second, the administration has finally recognized the urgent need to train American workers displaced by foreign imports. We need that billion-dollar training program, and we need it right away.

We can take another step in the right direction if our schools can help restore America's spirit of adventure, its curiosity, and its interest in those from other lands. Too many Americans speak only English. If we are to compete successfully, we must be able to communicate successfully, not just in New York, but in Tokyo, in Bonn, in Buenos Aires, and in Beijing.

The leaders of major U.S. companies need to return to the policies that originally made their companies grow: they must take risks, produce high quality goods, invest in new technology and training for their workers, and they must aggressively and imaginatively seek new markets.

Finally, America must develop a creative and flexible response to the international debt crisis, a crisis that threatens the stability of democratic governments in Asia and Latin America and that has contributed heavily to our deficit in trade.

The debt crisis is not just a problem for our bankers and foreign ministers. Its victims include the American manufacturing worker and the farmer whose jobs depend on a vigorous export market. A substantial portion of Latin American debt interest payments, for example, have been generated by *reducing* purchases of American goods.

Senator Bill Bradley of New Jersey has pointed out that the costs of the debt crisis must be equitably shared. Economic reform, debt relief for selected countries, innovative methods of discounting, trading, and settling loans must all play a part. Our government cannot solve the debt crisis alone, but it can propose. It can mediate. It can encourage. It can demonstrate its commitment to easing as promptly and fairly as possible a problem that deeply affects both our friends abroad and our workers and farmers here at home.

In short, we can *lead* the way in resolving the debt crisis, and we can *show* the way in reducing our trade deficit, if we rise above the quibbling and name-calling that now dominate the trade debate and if we concentrate, instead, on the underlying problem.

The core question, not just this month or this year but for decades to come, is whether the United States has the will to reverse its competitive decline and to expand into the world market. Not just with services or fast food franchises, but with products conceived and designed by Americans, built in American factories, on American soil, by American hands, with old-fashioned American quality and durability.

Can we do it? Sure we can. If Lowell, Massachusetts and the Merrimac Valley were able to move from decay to dynamism in a decade, so, too, can Louisiana, West Virginia, Iowa, Michigan, and the entire nation.

For we, in America, still have the largest economy in the world. We import more, and we export more than any other country. We have 5 percent of the world's population, but we produce 22 percent of the world's goods. More than four million American workers and more than one million American farmers are dependent on exports for their jobs.

We are a great trading nation. We are the descendants of frontiersmen and pioneers. We should not be afraid to look beyond our borders. We should not be afraid to compete.

When the next president of the United States takes office in January 1989, it will be his responsibility to re-energize America, to build an America that is strong and vibrant, and to create opportunity in every part of this nation for every citizen of this land.

When that happens, we will solve our trade problems. Not by putting an end to competition, but by becoming better and stronger competitors ourselves.