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An Overlooked Way to Create Jobs

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Washington

BY virtually ignoring trade, President Obama and Congressional Republicans are missing a major opportunity to create jobs. The United States runs an annual trade deficit of about $600 billion, or 4 percent of our entire economy. Eliminating that imbalance would create three million to four million jobs, according to Commerce Department estimates, at no cost to the budget.

It is clear that our economy can no longer rely on consumer borrowing, housing bubbles, government deficits and super-low interest rates. The United States must start selling much more to other countries, especially China and other emerging markets that are growing at 6 percent or more per year.

Mr. Obama has set a goal of doubling the nation’s exports over five years. But his administration has done little to achieve that goal, which is inadequate to begin with. For one thing, the focus should not be the level of exports but the overall deficit — the difference between what we import from abroad and what we sell overseas.

This will of course require us to get our house in order: balancing the budget over time; investing in education, infrastructure and scientific research; and making taxation and regulation more efficient. But there are three steps we can take that would pay off more quickly.

First, the United States must, in effect, weaken the dollar by 10 to 20 percent. This step alone would produce one million to three million jobs. It’s been done before: In 1971, President Richard M. Nixon ended the dollar’s convertibility in gold, and in 1985, Treasury Secretary James A. Baker III reached an agreement with foreign countries to devalue the dollar relative to the yen and the Deutsche mark.

The bulk of our current misalignment is vis-à-vis the Chinese currency, the renminbi, and a small group of other Asian currencies. Partly in response to pressure from the United States and other countries, China has let its currency rise modestly over the past year, but it continues to intervene in foreign exchange markets, purchasing one billion to two billion United States dollars every day to prevent the value of the renminbi from rising more quickly.

The artificially low value of the renminbi — it is 20 to 30 percent less than what it should be —

amounts to a subsidy on Chinese exports and a tariff on imports from the United States and other countries. The United States should take China to the World Trade Organization in Geneva for engaging in illegal competitive currency devaluation, and retaliate if China does not cease this protectionist policy. Many members of Congress have urged such action, but Mr. Obama, like President George W. Bush before him, has been too timid to take this step.

Along with pressuring the Chinese, Congress and Mr. Obama should reduce the budget deficit, the Federal Reserve should continue to pursue an expansionary monetary policy and politicians should drop the “strong dollar” rhetoric of the past. An overvalued dollar only exacerbates the trade imbalance.

Second, the United States must negotiate a reduction in foreign regulations, monopoly practices and other barriers to the export of American services. Work done by American architects, engineers, lawyers and accountants for foreign customers is an export, just like Boeing planes and Caterpillar tractors. We run a $750 billion trade deficit in goods but a $150 billion trade *surplus* in services.

Services make up 80 percent of our economy, and we have a huge opportunity to serve emerging markets like Brazil, China and India. We could expand services exports by at least $200 billion a year by completing a free-trade agreement with South Korea; pursuing a trade agreement known as the Trans-Pacific Partnership; and reviving the Doha round of global trade talks, with a focus on services. The administration has not pursued these steps with enough vigor.

Third, we must get serious about defending the intellectual property rights of our companies against theft by foreign companies and governments. A recent study by the International Trade Commission suggested that Chinese companies alone, with support or at least acquiescence from their government, are stealing $50 billion to $100 billion in United States products each year. The global total is probably at least twice as large.

The theft of intellectual property cuts across such highly competitive products as Microsoft Windows, Apple iPads, groundbreaking pharmaceuticals and award-winning films. Negotiations have failed to achieve significant progress. We must take many more intellectual property cases to the W.T.O. and credibly threaten unilateral retaliation if the foreign piracy continues.

These steps are no doubt aggressive. They would require taking tough initiatives with some of our main trading partners, especially China, and giving trade a more prominent, even central, role in our overall foreign policy. To be sure, some American corporations will fret that these actions would needlessly antagonize the Chinese and threaten a trade war. Some economists worry that a weaker dollar would invite inflation and endanger the dollar’s status as the dominant global currency. I believe these fears are overblown. The real threat to the world trading system is, in fact, the protectionist policies, including undervalued currencies, of other countries and the vast trade imbalances that result.

Not every country can expand its economy through exports, because one nation’s smaller deficit is another’s smaller surplus. But the United States has a unique claim now to pursue such a strategy, because it has run large deficits for most of the last three decades, become the largest debtor country and accommodated other countries’ desire for export-led prosperity. If we want to avoid bankruptcy and raise growth, we have got to attack the trade deficit.

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