Trade Deficit Hits $489 Billion

Widening Gap Triggers Further Debate on Job Losses Overseas

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The U.S. trade deficit reached a record $489 billion in 2003, the Commerce Department announced yesterday, adding fresh fuel to a political fight that has flared all week over the loss of jobs to international competition.

The gap was widened by Americans' endlessly expanding appetite for foreign cars, consumer electronics, clothing and furniture. Although exports grew 4.5 percent last year, to $1.018 trillion, imports rose 8.3 percent, to $1.507 trillion. In December alone, the deficit rose by 11 percent from November.

"At the end of the day, the trade deficit reflects the fact that Americans are better shoppers in the world economy than other people," said Neal Soss, chief economist at Credit Suisse First Boston. "We buy more from ourselves and from other countries, while people in other countries don't buy as much from themselves or from us."

But while the trade report showed the robust growth in U.S. consumption, it also provided a stark reminder of problems on the economy's productive side -- in particular, the lack of employment growth, which is attributable in part to the loss of jobs to foreign competition. Controversy over that issue was stoked Monday, when President Bush's top economist said that the migration of service jobs overseas "is just a new way of doing international trade." On Wednesday, N. Gregory Mankiw issued a statement saying he had been "misinterpreted." He added: "It is regrettable whenever anyone loses a job."

The emergence of "outsourcing" as a potent political issue has been swift. Democrats on Thursday introduced what they called the Jobs for America Act, which would require companies moving jobs overseas to give employees three months notice and to disclose how many jobs would be affected, where they are going and why. Sen. Hillary Rodham Clinton (D-N.Y) took to the Senate floor to demand that her colleagues repudiate the comments of Mankiw, chairman of Bush's Council of Economic Advisers. Then yesterday, the White House Office of Management and Budget announced an initiative to roll back regulations that the administration says have raised the cost of manufacturing in the United States.

The political reaction has stemmed from growing voter sentiment that U.S. workers are losing ground to their low-cost competitors, especially in China and India. The University of Michigan yesterday reported an unexpectedly large drop in consumer sentiment, at least in part because of concerns over slow job growth and positions migrating abroad. The trade deficit figures only triggered a new round of recrimination. Sen. John Edwards (N.C.), who is seeking the Democratic nomination for president, said the deficit was a sign of national economic decline.

"This is not the way of a great nation," he said. "This is not our America."

The issue is especially potent more than two years into an economic recovery that has yet to generate substantial job growth.

"Economies and labor markets are dynamic things, with lots of growing and shrinking going on, and people really feel that at a time when we've lost over 2 million jobs," said Jeffrey Frankel, a Harvard economist and former member of President Bill Clinton's Council of Economic Advisers. "In the 1990s, we had a lot of this outsourcing going on, and that did hurt some sectors of the economy, but other sectors were rapidly expanding. And what we're missing now is other sectors that are rapidly expanding, at least in terms of employment."

The trade deficit worries economists because it is such a large percentage of the overall economy -- about 4.5 percent of gross domestic product -- and the United States collectively has to borrow roughly that amount from foreigners to pay for the surfeit of goods purchased from abroad.

The growing reluctance of foreigners to continue pouring money into the United States on such a vast scale is evident in the fall of the U.S. dollar against other currencies, which began in early 2002 and has picked up speed in recent months. If foreigners holding U.S. Treasury bonds and other assets suddenly decided to unload them en masse, the damage to the U.S. economy could be enormous. And even if the dollar's decline is gradual, that will adversely affect U.S. living standards, because it will increase the cost of the imported products.

Yesterday's report contained some good news on that front, however -- evidence that the falling dollar, which makes U.S. goods cheaper on world markets, is starting to boost exports.

In the fourth quarter, exports rose 19 percent in volume terms, noted Nariman Behravesh, chief economist at Global Insight, an economic forecasting firm. "The falling dollar has already made our exports much more competitive worldwide," Behravesh said. "And we expect the dollar to continue falling, so that will continue to provide a boost to employment."

Still, the trade debate has risen to the top of the economic agenda in the presidential campaign, and driven Democrats toward a more protectionist stance than the party held when Clinton was president.

Clinton's policies emphasized job training and education to help the victims of free trade find new work. But a shift is in order, said Gene B. Sperling, the former chairman of Clinton's National Economic Council, since many of the jobs moving to India, such as software writing and computer technical support, are precisely the ones Clinton aides thought unemployed factory workers would get.

At least, Sperling said, the government should subsidize the kind of infrastructure expansions that are heavily underwritten by the governments of India and China.

"One may not be able to control whether wages are lower in Bangalore than Buffalo, but you could make sure broadband access isn't better there," he said.

The swift change in the political climate may be taking a very real toll on legislation. Congress faces a March 1 deadline to repeal export subsidies ruled illegal by the World Trade Organization or face retaliatory sanctions from the European Union. In the heated political atmosphere, lawmakers are not about to pass legislation that would raise taxes on manufacturers without measures to more than offset that pain. But Senate Republicans -- and many of their House colleagues -- are at loggerheads with House Ways and Means Chairman Bill Thomas (R-Calif.) over just what those sweeteners would be.

Legislation approved by the House committee in the fall would provide up to $60 billion in tax breaks to business, some to domestic manufacturers but others to multinational corporations, many of which have taken advantage of cheaper business conditions overseas, critics say. Last year, 40 House Republicans said they would oppose the measure as a job killer, and those ranks have likely swelled to 100, said a Republican tax lobbyist with close ties to the GOP leadership.

"Thomas's bill is nowhere," he said.

Thomas aides said they are actually winning support for their approach in the House, but they conceded that the scrap over Mankiw's comments hurt the cause.

"You'd be a fool not to realize they were not helpful," one committee aide said.