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U.S. Foreign Investment Policy Forum

Max S. Baucus

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* "required information"
A great deal has been written lately about changing attitudes toward trade in the United States. Many of our newspapers -- both major and not-so-major -- have editorialized against the "growing protectionist sentiment in the Congress."

Congress is taking a more active role in trade policy. This is a response in part to the lack of Presidential leadership. It is also a response to concerns expressed by our citizens.

As trade affects more and more Americans, they naturally turn to their elected Senators and Representatives for action and assistance.

Remember that the Constitution assigns the responsibility for commerce not to the Executive Branch but to the Legislative Branch.

The Congress is a representative institution. It naturally reflects the schizophrenia inherent in the American attitude toward trade. Perhaps that schizophrenia is best seen in the responses to opinion surveys. The editorialists are right:
AMERICANS CONSISTENTLY SUPPORT FREE TRADE -- IN THE ABSTRACT. THEY ALSO CONSISTENTLY SUPPORT STEPS TO PROTECT AMERICAN JOBS FROM BEING LOST TO FOREIGN COMPETITION. AND THAT, AFTER ALL, IS ONE MAJOR RATIONALE FOR PROTECTIONIST POLICIES.

THIS SCHIZOPHRENIA HAS SHOWN UP IN THE WAY WE APPROACH TRADE POLICY. TRADE CONSIDERATIONS HAVE ALWAYS BEEN AN AFTERTHOUGHT -- TO GOVERNMENT, TO LABOR, TO INDUSTRY. WHEN TRADE AFFECTED A RELATIVELY SMALL NUMBER OF JOBS AND A RELATIVELY SMALL SHARE OF OUR PRODUCTION, THIS ATTITUDE MAY HAVE BEEN AFFORDABLE.

TODAY'S PROBLEM

TODAY, HOWEVER, TRADE IS THE SOFT UNDERBELLY OF THE AMERICAN ECONOMY.

THE LITANY OF FIGURES IS FAMILIAR TO ALL OF YOU:

-- THE U.S. TRADE DEFICIT HAS GROWN FROM $69 BILLION IN 1983 TO $124 BILLION IN 1984 AND WILL LIKELY BE EVEN LARGER THIS YEAR;

-- A CURRENCY THAT HAS APPRECIATED 40 TO 80 PERCENT SINCE 1980;

-- A CURRENT ACCOUNT DEFICIT OF ABOUT $100 BILLION.
AND SEVERAL WEEKS AGO THE WORLD'S RICHEST NATION MOVED FROM NET CREDITOR TO NET DEBTOR. A CREDITOR POSITION BUILT UP OVER MORE THAN 60 YEARS HAS BEEN SQUANDERED IN ONLY FOUR. NEXT YEAR WE WILL BE THE WORLD'S LARGEST DEBTOR NATION.

THESE FIGURES ARE NOT ABSTRACT ECONOMIC CONCEPTS. THE VICTIMS ARE NOT THEORISTS OR THEORIES, BUT REAL PEOPLE.

YOU ALL ARE INVESTORS, MONEY MANAGERS AND ANALYSTS. YOU TRACK THE DOLLAR ON COMPUTER. BUT YOU SHOULD LEAVE YOUR PAPERS AND GO AMONG THE AMERICAN PEOPLE.

TALK TO STEELWORKERS IN OHIO AND PENNSYLVANIA WHO WORKED HARD ALL THEIR LIVES IN SWEATY JOBS, LIVING WHAT THEY THOUGHT WAS THE 'WORK ETHIC', AND WHO ARE NOW IDLE.

TALK TO MINERS IN MONTANA, UTAH OR ARIZONA WHO MAY NEVER WORK AGAIN BECAUSE A FOREIGN GOVERNMENT IS WILLING TO FLOOD THE MARKET WITH BELOW-COST MINERALS.

TALK TO THE AMERICAN WHEAT FARMER WHOSE PRODUCTIVITY IS THE ENVY OF THE WORLD AND WHO TODAY FACES BANKRUPTCY.

TALK TO EASTMAN KODAK WHICH INCREASED ITS PRODUCTIVITY 13% LAST YEAR AND SAW THAT GAIN SWAMPED BY THE DOLLAR'S APPRECIATION.
Talk to Eastman Kodak which increased its productivity 13% last year and saw that gain swamped by the dollar's appreciation.

Most of these people will tell you they support free trade. And most will mean it.

But a growing number will tell you "unilateral free trade" is like unilateral disarmament when you're on the battlefield facing an armed opponent.

There is a growing perception that we are playing on an uneven field and to those who say protection or retaliation is "irresponsible" they reply it is irresponsible to ignore reality.

It is not written that the U.S. will always be dominant. In the sweep of history nations rise and fall. We must not sit back complacently.

In one sense our forefathers were right -- the world is a dangerous place. But because they could not see the technology that would shrink the world, they were also wrong. We cannot exist in a vacuum.
Trade can no longer be the poor stepchild in decision-making by American government, business or labor.

Earlier this year, fifteen Democratic Senators joined in a Working Group on Trade Policy to study the question of whether current U.S. government policies regarding trade serve our national interest. Our report -- issued last month -- was adopted by the entire Democratic Caucus.

Some of our analysis will not surprise you. We concluded that the world had changed dramatically since the establishment of the Bretton Woods institutions and the creation of the GATT. We called special attention to four major changes:

First, currency flows may now be as much as 25 times the size of world trade in goods. Exchange rates no longer reflect trade but drive it.

Second, the explosion in world trade since the 1960s has meant a larger share of jobs and income than ever before is tied to foreign trade. This means that currency volatility has tremendous reverberations in domestic economies.
THIRD, ONE-WAY FREE TRADE -- what my colleagues and I call "new mercantilist trade policy" -- has increased. The most obvious example of this is Japan which restricts access to its markets but aggressively pursues export markets. But Japan is not the only practitioner.

FOURTH, THE PLACE OF THE UNITED STATES HAS CHANGED. We are still the largest free world economy, but by ourselves we cannot control currency markets or the mercantilist trade practices of other governments.

RESPONSE

WHAT THEN SHOULD WE DO?

FIRST, WE MUST REDUCE THE FEDERAL DEFICIT. The editorial writers and some of your leaders are right when they say we must put our domestic house in order. We brought some of these problems upon ourselves when we chose to accept the economic policy of a President who ignored basic arithmetic. As long as we are spending one-third more than we take in, our borrowing will drive up interest rates and contribute to the overvaluation of our currency.
Clearly we must reduce the federal deficit. This week has not shown the U.S. Senate at its best as it struggles toward a deficit reduction package. But as all of you know, democratic governments make painful choices slowly and with great agony.

Reducing the deficit is a necessary component of any trade policy -- but it is not a sufficient policy by itself.

In fact, there is no single action to solve the trade problems confronting U.S. companies, workers and farmers. There are, however, a number of necessary actions.

First, sensible trade policy requires presidential leadership and vision.

This administration has consistently used the rhetoric of free trade, but it has imposed more trade barriers than any administration since the 1920s. The protectionism of the Reagan administration has been ad hoc, politically motivated, and unconditional. There has been no look to the future.

The administration's call for a new trade round has the same problem. The call looks suspiciously like an attempt to divert
attention from its own economic policy. Does this Administration know what results it wishes to obtain from such a round?

My colleagues and I do not advocate discarding the GATT -- but we do say it is flawed.

It is riddled with loopholes:

- The agricultural section is outdated and its subsidy provision feeble;
- The dispute resolution mechanism is slow and unwieldy;
- Trade in services isn't covered at all.

The bigger problem with GATT is that it hasn't kept up with world trade. In the 1950s, 20% of world trade was covered by the GATT; today it is less than 5%.

Let me be clear. We do not oppose a new GATT round. But we do believe our goals must be clear.
A new GATT round must deal with general subsidies. If we fail in this, hidden subsidies will become the dominant non-tariff barrier.

A new GATT round must include agriculture.

The dispute resolution mechanism must be streamlined and strengthened.

And, finally, any new agreement must cover trade in services.

These agenda items must be agreed upon in advance. But it is not enough just to list the topics. We in the Congress will not extend fasttrack authority -- which was critical to the implementation of the Tokyo Round -- on the basis of vague commitments and ideas. We must have a firm idea of what the Administration intends to do about the failures in international trade.

Waiting for a New Round

In the meantime, we in Congress will address some of these failures.

My colleagues and I do not advocate protectionism. We did not call for an import surcharge.
DEMANDING THAT INTERNATIONAL AGREEMENTS BE ENFORCED AND THAT FREE TRADE BE A TWO-WAY STREET IS NOT PROTECTIONISM.

WE IN CONGRESS WILL MOVE TO STRENGTHEN OUR TRADE LAWS. WE WILL DEMAND THAT THE PRESIDENT USE THE AUTHORITY WE HAVE GIVEN HIM TO RETALIATE AGAINST UNFAIR FOREIGN TRADE PRACTICES. WE WILL MOVE TO STRENGTHEN OUR OWN "ESCAPE CLAUSE" PROVISION.

AT THE SAME TIME, WE EXPECT OTHER NATIONS TO RECOGNIZE THEIR RESPONSIBILITIES AS WELL.

JAPAN MUST ACCEPT THE BURDENS AS WELL AS THE BENEFITS OF BEING A STRONG ECONOMIC POWER. JAPAN IS NOT SWITZERLAND, AND IT CAN NO LONGER PLAY THE PART OF A SMALL, ISOLATED NATION INDEPENDENT OF INTERNATIONAL ENTANGLEMENTS.

JAPAN IS NOT OUR ONLY PROBLEM. WE WILL INSIST ON TOUGHER BARGAINS WITH ALL OUR TRADING PARTNERS.

CONCLUSION

THese REFLECTIONS HAVE NOT BEEN TIED TO YOUR SPECIFIC WORK. YOU ARE PARTICIPANTS IN THE MASSIVE CURRENCY FLOWS THAT NOW AFFECT ALL OUR LIVES. PERHAPS SOME OF YOU HAVE MADE A GREAT DEAL OF
MONEY FROM CURRENCY VOLATILITY AND THE RISE OF THE DOLLAR. BUT STILL YOU HAVE A STAKE IN THE RESTORATION OF AN OPEN TRADING SYSTEM WITH LESS VOLATILITY IN EXCHANGE RATES.

FAILURE TO ACHIEVE SUCH STABILITY COULD LEAD TO ARBITRARY REGULATION, AND TO INCREASED PRESSURES FOR PROTECTIONISM.