THE ECONOMY

Trading places

Clinton, who promised a new trading strategy toward Japan, has reverted to the failed policies of Reagan and Bush.

By John B. Judis
WASHINGTON D.C.

This fall, Congress and the administration will be focused on reforming health care and ratifying the North American Free Trade Agreement (NAFTA). Both are important, but what the Clinton administration does about U.S.-Japan relations will have more effect on Americans' standard of living than either NAFTA or national health insurance.

Japan's trade surplus with the U.S. has steadily risen over the last year and a half. In July, it increased by 23 percent to $4.7 billion, concentrated disproportionately in manufacturing. This surplus, which may exceed $50 billion this year, directly threatens American jobs. According to U.S. Trade Representative Mickey Kantor, each $1 billion costs 19,000 jobs—or almost 1 million total jobs.

At $12 billion for July, Japan's overall trade surplus is also destabilizing the world economy. Achieved in part by restricting imports and domestic consumption, it creates an excess of global supply over demand.

In his first months in office, Bill Clinton promised to attack the trade surplus. After a meeting last April with Japanese Prime Minister Kiichi Miyazawa, Clinton said, "I am particularly concerned about Japan's growing global trade surpluses and deeply concerned about the inadequate market access for American firms, products and investors in Japan. America is accepting the challenge of change and so, too, must Japan."

But Clinton has not followed through on this promise. Instead, he has ended up pursuing timid and self-defeating policies very similar to those of the Reagan and Bush administrations.

The Reagan administration attempted to reduce the surplus with Japan primarily by pressuring Tokyo to raise the value of the yen in relation to the dollar—which was supposed to make Japanese exports more expensive in the U.S. and American exports cheaper in Japan. The Bush administration talked up the yen, but it also pressured the Japanese to deregulate their economy by breaking up cartels and eliminating government subsidies to industry.

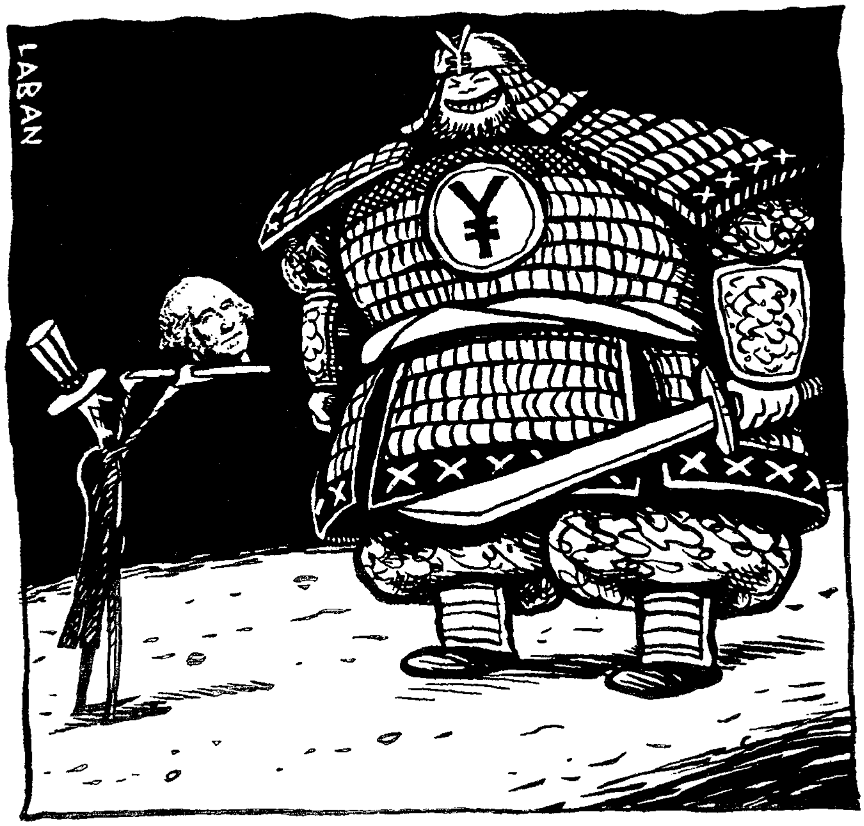
These strategies did not work. Japanese officials repeatedly (and predictably) ignored the Bush administration's demands to "Americanize" their economy. The U.S. can hardly expect other countries to model their economies on our own—especially when our own has not performed that well.

Devaluation had at best a marginal effect on imports and exports. Japanese consumer electronics firms have not had to worry about price competition from American firms, and in other industries, like auto, the Japanese kept their prices low abroad while maintaining informal import barriers at home.

And devaluation has had its down side. By lowering the value of its currency, the U.S. has reduced its international purchasing power and its citizens' relative standard of living. It has also made its own assets less valuable. Eventually, devaluation can lead to currency crises, as other nations attempt to cash in their dollars. Governments will be forced to buy back their own currency and to raise interest rates to attract foreign currency.

Upon taking office, the Clinton administration appeared ready to adopt a different trade strategy. Clinton appointed economist Laura Tyson, a critic of the Bush-Reagan trade strategies, as chair of the Council of Economic Advisers. She advocates reducing the trade surplus through managed trade—using economic sanctions to force Japan to meet specific numerical guidelines for opening its market to foreign goods. Tyson's model is the semiconductor agreement—negotiated under protest by the

Reagan and Bush administrations—which granted foreign firms 20 percent of the Japanese market.



Tyson's managed trade strategy allows the U.S. to attack not only the size but the composition of Japan's trade surplus, which is concentrated in high value-added manufacturing. It's more important to open Japan's market to American supercomputers than to American rice or apples.

Both Clinton and Kantor endorsed managed trade. Clinton told an interviewer last spring, "I'm concerned not only about how much we sell but about what we sell. I would like to have a focus on specific sectors of the economy, and I would like to obviously have specific results."

The strategy initially worked. In the spring, the Japanese, fearing sanctions from the Clinton administration, announced that semiconductor imports had finally exceeded 20 percent. American negotiators then demanded that Japan agree to a 33 percent overall increase in imports over the next three years.

But as Tyson and Kantor were promoting managed trade, Clinton Treasury officials were undermining this new approach, championing the old strategy of currency devaluation and macroeconomic adjustment. Last spring, Treasury Secretary Lloyd Bentsen and Undersecretary Lawrence Summers began calling on the Japanese to raise the value of the yen, and Clinton publicly urged revaluation, sending currency traders scurrying to their computers.

This strategy worked no better under Clinton than it had under Reagan and Bush. The yen has risen sharply, but so has the U.S. trade deficit with Japan. The growing trade deficit has put further downward pressure on the dollar, setting the stage for a currency crisis.

When I interviewed Tyson last May, she insisted that the administration had not abandoned managed trade, but was pursuing a two-track approach to reducing the surplus. Yet the administration, faced with stiff Japanese opposition to managed trade, also began to back away from specific numerical targets.

The first to go was the semiconductor agreement. After the Japanese reached 20 percent, Kantor announced that the administration no longer needed to insist on that numerical target. As if on cue, semiconductor imports have now dropped below 20 percent.

At the July economic summit in Tokyo, administration negotiators, facing stiff Japanese resistance and eager for political success at home, signed a meaningless "framework" agreement that both sides could interpret as they pleased.

The currency traders, however, understood the real meaning of the agreement. The day after its announcement, the dollar fell against the yen.

Last month, as the dollar hit a record low in relation to the yen, the Clinton administration found itself on the verge of a currency crisis. The Treasury Department was forced to defend the dollar by buying up dollars. If that hadn't raised the dollar's value, the Federal Reserve might have had to raise interest rates, threatening the fragile economic recovery.

It was a sure sign that the devaluation strategy had once again gone awry. But instead of acknowledging this, the administration hinted that its intervention to prop up the dollar was in exchange for Japan's agreement to stimulate its economy. Having tried Reagan-style currency devaluation, the Clinton administration is now betting on Bush's strategy of demanding macroeconomic adjustment.

The president has failed to develop a viable trade strategy for the same reasons he has failed to secure a budget that "puts people first." Faced with strong opposition, whether on Capitol Hill or in Tokyo, Clinton invariably backs down. Three months after he announced his managed trade strategy, he gave it up, much the same way that under political pressure he gave up his "investment budget."

Clinton's abandonment of managed trade has also been abetted by officials in the Treasury and National Economic Council who were never comfortable with a managed trade strategy. Bentsen and Summers are now in control of American trade policy, not Tyson and Kantor. Under their leadership, Clinton, who ran as an agent of change, has once again embraced the ruinous status quo. ◀

POLITICS

Run for the border

Even with its side agreements, NAFTA means that U.S. jobs and the Democrats' future prospects are both heading south.

By David Moberg

Bill Clinton's choice of a salesman for the North American Free Trade Agreement (NAFTA) gives a clue as to why the Democrats are in trouble. It also demonstrates why Clinton embraces an agreement hurriedly negotiated for George Bush's re-election campaign.

Lawyer William Daley is the Chicago mayor's brother, but above all he is a high-stakes fund-raiser for the Democratic Party. Implicitly or explicitly, Daley will convey the message to wavering members of Congress: big corporate political money is behind NAFTA; ignore it at your peril.

Nonetheless, both the core of the Democratic Party and much of the country as a whole oppose the Canadian-Mexican-U.S. trade pact. Some polls show half of all Americans don't know what to think about it, and the remainder are about evenly split. Presented with arguments pro and con in a mid-July Gallup poll, nearly two-thirds of the respondents nixed NAFTA.

On most trade issues, only the Washington lobbyists and corporate money are relevant, but "this is an issue where members of Congress are listening to what people have to say at home," argues former Rep. Jim Jontz, head of the anti-NAFTA Citizens Trade Campaign.

To placate core Democrats, Clinton had promised during the campaign to deal with shortcomings in NAFTA by negotiating labor, environment and agricultural "side" agreements to supplement the original pact. Farmers were soon dropped altogether. Now the labor and environment side agreements have been revealed to have no teeth. They barely have gums. The labor agreements even retreat from protections under current trade law.

The side agreements are important because there is widespread fear that U.S. firms will take advantage of NAFTA to shift investment south of the border, exploiting workers and ravaging the environment in Mexico while leaving U.S. workers without jobs. The record of U.S. firms along the border in the *maquiladora* factories, where workers typically make $1.60 an hour and the environment has become what the American Medical Association describes as a "cesspool," gives ample grounds for concern.

More ominously, the corporate threat of moving jobs, as well as NAFTA's rules prohibiting trade barriers, may be used to drive down wages and weaken environmental protection in the United States. In a *Wall Street Journal* poll, 55 percent of corporate respondents said NAFTA would probably lead them to shift investment to Mexico and 25 percent said they'd use it to push wages downward in the United States.

Many smaller businesses are anxious about the potential impact of NAFTA. "No question about it, we'll be affected," says Joan Wrenn, co-owner of Hudson Screw Machine Products, an 87-year-old precision metalworking firm that employs 100 people in Chicago. "My husband tells my son to learn Spanish and to expect to spend part of the year south of the border. If we could divide the skilled and semi-skilled work, it would be to our advantage to move the semi-skilled part." Ironically, many of the displaced workers may be Mexican-Americans: about 40 percent of Chicago's Latino community work in factories.