THE WALL STREET JOURNAL.
WSJ.com
APRIL 15, 2010

Lopsided Trade With China Really Does Cost U.S. Jobs

Only in Washington could Daniel Ikenson of the Cato Institute get away with this whopper: Imports do not replace U.S. jobs and production ("China Trade and American Jobs," op-ed, April 2). Walk into any bar in the rest of America and try to sell that tale and you'll be lucky if you only get laughed out of the place.

Contrary to Mr. Ikenson's uninformed contention that "most economists" don't accept the methodology used in our report to calculate the number of U.S. jobs lost or displaced due to our trade imbalance with China, the fact is that this methodology has been widely used for decades. The New York Federal Reserve published a paper with a nearly identical methodology in 2005; it found that rising trade deficits displaced roughly three million U.S. jobs.

This methodology takes into account all of the component trade with China. If Intel Corp. ships a microprocessor to China, and that chip goes into a computer that is shipped back to the U.S., our model accounts for both the jobs gained through exports and the jobs displaced by imports.

Our study attributes the rise in the trade deficit and resulting U.S. job displacement to several factors, including China's currency manipulation, suppression of labor rights, tariff and nontariff barriers to imports, and export subsidies. On the currency issue alone, there is widespread agreement among economists, including Nobel laureate Paul Krugman and Fred Bergsten of the Peterson Institute for International Economics, that a 40% revaluation by China would create up to 1.4 million jobs in the U.S.

Mr. Ikenson twisted himself into knots claiming that a 40% increase in the price of imports from C hina and a comparable decrease in the cost of U. S. exports would not, over time, improve the trade balance. It seems that in Cato's universe, international trade is the only market where the price mechanism doesn't work.

While a 40% increase in the yuan may hurt the profits of multinational companies such as Wal-Mart, Fed-Ex and Volkswagen, it would be beneficial for the larger U.S. and Chinese economies. It's time we put national interests before corporate interests.

Robert E. Scott

Economic Policy Institute

Washington