develop a trade policy that makes as its priority the competitiveness of American jobs and American businesses. The government, rather, has pursued a policy that sends manufacturing jobs overseas to third world places like China, which represents a growing share of this red ink. Talk to tool and dye makers in Ohio, those who somehow have survived. Talk to workers in the auto industry or the auto parts sector; they must wonder whether it is the official policy of the United States Government to throw them to the wolves.

Where, they ask, is the policy for making the United States economy competitive here at home in each of the categories where we have lost the edge?

Together, the trade deficit with China from petroleum and from automotive products account for 95 percent of the total, and somebody's got to pay. In order to finance the deficit, Americans are borrowing and selling assets to the tune of approximately $600 billion a year. Anything in your town been put on the chopping block yet? Debt service amounts to approximately $2,000 a year for every working American. We are truly indebted.

Sooner or later somebody has to pay that bill, and the American people know who that somebody is. The Chinese government alone holds enough foreign reserves to purchase about 5 percent of the shares of all publicly traded U.S. companies. The U.S. trade deficit is the main source of that Chinese wealth. Dr. Peter Morici of the University of Maryland has written about the impact of our trade policy on economic growth. He notes that every dollar spent on imports that is not matched by a dollar of exports reduces domestic demand here at home and employment and shifts workers into activities where productivity is lower.

Productivity is at least 50 percent higher in industries that export and compete with imports, and reducing the trade deficit and moving workers into these industries would increase our gross domestic product. If the administration and Congress showed the fortitude to cut the trade deficit, and we're not talking about a balanced trade account, just cutting the deficit by half, the gross domestic product would increase by an estimated $250 billion, or more than $1,700 for every working American. That comes to 1 percent a year due to this halving of the deficit rather than the loss of 1 percent of economic growth every year due to this continuing failed trade policy, which has been in place for at least two decades.

If we could just cut the deficit in half, workers wages could once again keep pace with inflation, families would no longer fall further behind with each passing month, and we would have better jobs, better paying wages and better benefits.

Mr. Speaker, unfortunately we will not see that economic growth until our government deals with this trade deficit and stops the hemorrhage. That would require political courage. I would sure like to see some of it here in this town.

U.S. RECORDS $193 BILLION FIRST QUARTER CURRENT ACCOUNT DEFICIT TAXING U.S. GROWTH

(By Peter Morici)

Today, the Commerce Department reported the first quarter current account deficit was $192.6 billion, up from $187.9 billion in the fourth quarter.

The deficit was 5.7 percent of GDP. The consensus forecast was $203 billion, and my published forecast was 195.8.

The current account is the broadest measure of the U.S. trade balance. In addition to trade in goods and services, it includes income received from U.S. investments abroad less payments to foreigners on their investments in the United States.

In the first quarter, the United States had a $24.1 billion surplus on trade in services and a $10.4 billion surplus on income payments. This was hardly enough to offset the massive $200.9 billion deficit on trade in goods.

The huge deficit on trade in goods is caused by a combination of an overvalued dollar against the Chinese yuan, a dysfunctional national energy policy that increases U.S. dependence on foreign oil, and the competitive woes of the three domestic automakers. Together, the trade deficit with China and on petroleum and automotive products account for about 95 percent of the deficit on trade in goods and services.

To finance the current account deficit, Americans are borrowing and selling assets at a pace of about $600 billion a year. U.S. foreign debt exceeds $6 trillion, and the debt service comes to about $2,000 a year for every working American.

A significant share of these funds was loaned to Americans by foreign governments. China and other governments loaned Americans more than 4.3 percent of GDP.

The current account deficit imposes a significant tax on GDP growth by moving workers from export and import-competing industries to other sectors of the economy. This reduces labor productivity, research and development (R&D) spending, and important investments in human capital. In 2007 the trade deficit is slicing about $250 billion off GDP, and longer term, it reduces potential annual GDP growth to 3 percent from 4 percent.

FINANCING THE DEFICIT

The current account deficit must be financed by a capital account surplus, either by foreigners investing in the U.S. economy or loaning Americans money. Some analysts argue that the deficit reflects U.S. economic strength, because foreigners find many promising investments here. The details of U.S. financing belie this argument.

In the first quarter, U.S. investments abroad were $420.8 billion, while foreigners invested $623.6 billion in the United States. Of that latter total, only $23.5 billion or less. than 4 percent was direct investment in U.S. productive assets. The remaining capital inflows were foreign purchases of Treasury securities, corporate bonds, bank accounts, currency, and other paper assets. Essentially, Americans borrowed $600 billion to consume 5.7 percent more than they produced.

Foreign governments loaned Americans $147.8 billion or 4.3 percent of GDP. That well exceeded net household borrowing to finance homes, cars, gasoline, and other consumer goods. The Chinese and other governments are essentially bankrolling U.S. consumers, who in turn are mortgaging their children's income.

The cumulative effects of this borrowing are frightening. The total external debt now exceeds $6 trillion. The debt service at 5 percent interest, amounts to $2000 for each working American.

The Chinese government alone holds enough U.S. and other foreign reserves to purchase about five percent of the shares of all publicly trade U.S. companies. The U.S. trade deficit is the primary driver behind this phenomenon.

CONSEQUENCES FOR ECONOMIC GROWTH

High and rising trade deficits tax economic growth. Specifically, each dollar spent on imports that is not matched by a dollar of exports reduces domestic demand and employment, and shifts workers into activities where productivity is lower.

Productivity is at least 50 percent higher in industries that export and compete with imports, and reducing the trade deficit and moving workers into these industries would increase GDP.

Were the trade deficit cut in half, GDP would increase by about $250 billion or more than $1,700 for every working American. Workers' wages would not be lagging inflation, and ordinary working Americans would more easily find jobs paying higher wages and offering decent benefits.

Manufacturers are particularly hard hit by this subsidized competition. Through recession and recovery, the manufacturing sector has lost 3.2 million jobs since 2000. Following the pattern of past economic recoveries, the manufacturing sector should have regained about 2 million of those jobs, especially given the very strong productivity growth accomplished in durable goods and throughout manufacturing.

Longer-term, persistent U.S. trade deficits are a substantial drag on growth. U.S. import-competing and export industries spend three-times the national average on industrial R&D, and encourage more investments in skills and education than other sectors of the economy. By shifting employment away from trade-competing industries, the trade deficit reduces U.S. investments in new methods and products, and skilled labor.

Cutting the trade deficit in half would boost U.S. GDP growth by one percentage point a year, and the trade deficits of the last two decades have reduced U.S. growth by one percentage point a year.

Lost growth is cumulative. Thanks to the record trade deficits accumulated over the last 10 years, the U.S. economy is about $1.5 trillion smaller. This comes to about $10,000 per worker.

Had the Administration and the Congress acted responsibly to reduce the deficit, American workers would be much better off, tax revenues would be much larger, and the Federal deficit could be eliminated without cutting spending.

The damage grows larger each month, as the Bush administration dallies and ignores the corrosive consequences of the trade deficit.

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Indiana (Mr. BURTON) is recognized for 5 minutes.

(Mr. BURTON of Indiana) addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)