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COMMENTARY

Happy Birthday ITA

 By **MATTHEW J. SLAUGHTER**

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There was an American industry that during the generation from 1960 to around 1980 ran rising trade surpluses with the rest of the world. In this industry we imported a rising amount from the rest of the world, but we exported even more to the rest of the world.

A very different generation dawned around 1980. Exports continued to grow but imports began to explode. By the late 1980s this industry had fallen back to about trade balance, and thereafter it began to run ever-rising trade deficits. By the year 2000 this trade deficit had reached around \$50 billion; today it is in the neighborhood of \$60 billion.

This is the history of which U.S. industry? For many, the surging trade deficit will evoke concern about dumping, un-level playing fields, and the like. Automobiles? Steel? Textiles? No, no and no. It was computers and office products, a core information-technology industry. "Really?" many will ask. "I thought IT was something America was good at."


We are. But thanks to the forces and opportunities of globalization, exactly *what* we are good at in IT has evolved. Up until around 1980, America was good relative to the rest of the world at making computers and related machinery. Even the earliest personal computers were produced largely in the United States -- indeed, Silicon Valley itself had some manufacturing sites.

Then IT firms, thanks to competition at home and opening markets around the world, began to establish and expand global production networks. Stages of production that had once been bundled now migrated abroad -- e.g., hard-disk drives to Singapore -- all linked together via international trade and investment. In the United States, IT firms shifted focus to higher value-added activities: core R&D, design, diagnostic manufacturing, marketing and management.

Today these high-end U.S. activities support assembly that is scattered around the world, with the massive imports described above now the way final products reach the American market. Just read the back of my sleek iPod: "Designed by Apple in California, Assembled in China."

A critical force in solidifying and expanding the globalization of IT production was the Information Technology Agreement. Signed in 1996, the ITA eliminated, in four stages from 1997 to 2001, all tariffs in

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dozens of signatory countries in hundreds of IT capital goods, intermediate inputs and final products. Indeed, to this day IT remains the only industry to have implemented a comprehensive free-trade agreement in the World Trade Organization. Not autos, or steel, or textiles: IT.

What impact did all this have on the U.S.? The best way to answer is in terms of productivity, which is the single most important metric to gauge the standard of living for any country. From 1973 to 1995, output per worker hour in the nonfarm business sector grew at just 1.35% per year. Then in 1995, productivity growth began to accelerate. From 1996 through 2006 it doubled, to an average annual rate of 2.7%.

The importance of this productivity acceleration is difficult to overstate. At the previous generation's growth rate, average living standards required 52 years to double. At the current growth rate, average living standards need just 26 years to double. This carries profound implications for the well-being of all Americans.

Here, then, is the critical answer. For the first several years after 1995, America's productivity acceleration was driven by one industry: computers and office products -- the one industry engaged in implementing a global free-trade agreement. Between half to two-thirds of the economy-wide productivity acceleration was driven by IT hardware, through two channels: a productivity acceleration in America's IT firms themselves, and a boom in IT capital investment by firms throughout the economy in response to the accelerated price declines in IT.

The globalization of IT hardware -- trade deficits and all -- has helped boost average U.S. living standards. Thus the Information Technology Agreement offers a textbook example of the benefits trade liberalization can deliver: a competitive spur to price declines and productivity gains in firms benefiting not just those firms but also companies and consumers economy-wide, through lower prices and new varieties.

This month marks 10 years since the ITA entered into force. As such, a Happy Birthday is appropriate -- but not a grand celebration. That's because, despite ongoing discussion since 2001, the World Trade Organization has failed to implement an ITA II to cover the hundreds of new IT products invented in the past decade. At the same time, since 2002 U.S. productivity growth has decelerated every year, in part because of decelerating IT productivity growth.

More generally, these are dark days for trade. On June 30, Trade Promotion Authority for the president expired. Congress is busy with several anti-China trade bills. And the Doha Development Round of the WTO is on the brink of collapse.

Instead of a grand celebration, here are four cautionary wishes: for an ITA II; for renewal of TPA; for Congressional forbearance. And, grandest of all, for a breakthrough to save Doha.

Mr. Slaughter is a professor at the Tuck School of Business at Dartmouth, a research associate at the National Bureau of Economic Research and a senior fellow at the Council on Foreign Relations. From 2005 to 2007 he served on the White House Council of Economic Advisers.

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