well if productivity were to slip due to declining technology and capital investments or lowered aggregate demand and lessened output per worker, capital might seek higher returns in Asia or in the Euro further depressing the US jobs market. This scenario however looks improbable as US capital markets continue to recover and the economy begins to grow at about 3 % per annum. Such growth is already built into long-term T-Bill rates, which anticipate rising interest rates as the economy recovers.

In an environment in which nominal interest rates are low and deflation fears [however exaggerated] persist, tax policy plays an important role. President Bush's proposal to eliminate the double taxation of corporate income, [embedded in his 2003 $350 billion tax cut package] significantly decreases the cost of capital for investment, raises corporate asset values, and strengthens household and business balance sheets. Acceleration of the phased-in 2001 tax cuts will beef up consumer spending. These tax changes will reduce and likely eliminate the gap between current output and potential output in the short term—reducing deflation fears—and increase potential output for the long term. By raising the desirability of U.S. assets and promoting economic growth, these effects would also strengthen the dollar, thus reducing fears of capital flight. It would be expected that aggressive tax policy will stimulate growth attracting FDI, increasing the long term value of the US currency and covering the state and Federal deficits.

International Trade and US Self Interest

If for some reason the US cannot attract the capital needed to underwrite its deficits it will face in both consumer and corporate markets, financial problems and debt issues. Given these economic uncertainties it should be expected that the US administration will address its trade deficit through multi-track and if need be unilateral actions. The US administration has clearly indicated that it wants to bring down its high currency value and exchange rate somewhat, in order to stimulate exports and pry open foreign markets to US producers. We can therefore expect US trade measures and pressures,

to be levied against the following nations with large trade deficits(s) [2002 in US$ Billion]:

1. China; $69 B
2. Japan; $73 B
3. Canada; $32 B
4. Germany; $28 B
5. Mexico; $22 B
6. Taiwan; $16 B[465]

If the US were to move aggressively to reduce its trade deficit the Doha talks might be put into jeopardy. Yet these trade talks have much to commend themselves to American self-interest. Prior to the Uruguay round the GATT did not cover three key sectors: farm produce, service sectors and intellectual property. The last two were vital to American interests with the service sector now accounting for 67 % of the US economy and billions of dollars per annum are lost due to pirated intellectual property rights in film, software and music. Farm produce was long a contentious issue between the EU and the USA with the European CAP programme and direct subsidies of producers dislocating agricultural trade between the two actors.

The Uruguay round brought these issues into its orbit via the WTO and improved the dispute settlement mechanism to resolve any disputes between its members. Even in light of this settlement mechanism there is a history of the EU contravening WTO trade rules (for instance in its banana and hormone treated meat importation policy) and the US resorting to unilateral actions, bypassing WTO policies in order to effect a solution and force compliance to its own trade interests.[466] Given US trade deficit pressures and its recent actions in increasing steel and lumber tariffs as well as agricultural subsidies it might be very difficult to reach a comprehensive agreement to address these failings of the current WTO structure even given that such an accord would in large measure be beneficial to US interests.[467]

Some experts feel however, that the failed WTO Doha talks and other future multi-lateral initiatives will be consummated due to the