TRADE AND GLOBALIZATION

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

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TRADE AND GLOBALIZATION

TUESDAY, JANUARY 30, 2007

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The Committee met, pursuant to notice, at 10:00 a.m., in room 1100, Longworth House Office Building, Hon. Charles B. Rangel (Chairman of the Committee), presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
January 23, 2007
FC–3

CONTACT: (202) 225–1721

Chairman Rangel Announces a Hearing on Trade and Globalization

House Ways and Means Committee Chairman Charles B. Rangel today announced that the Committee will hold a hearing on trade and globalization. **The hearing will take place on Tuesday, January 30, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10 a.m.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

FOCUS OF THE HEARING:

This hearing is the third in a series on economic conditions in the United States. Trade and globalization present opportunities and challenges to a multitude of industries and sectors throughout the U.S. economy, affecting farmers, workers, businesses, and even whole communities. This hearing will explore the integration of markets brought about by globalization and examine how U.S. trade policy can be used as a tool to shape globalization to maximize its benefits, ensure that they flow evenly throughout society, including to working people, and to ensure that the forces of the global economy are harnessed most effectively and efficiently to generate the maximum amount of broadly based economic growth.

During the hearing, Members hope to elicit responses from witnesses on the following: (1) the philosophy that more trade is always better, no matter its terms or contents; (2) whether the benefits of globalization are being spread broadly to working people, farmers, businesses and consumers in the United States, and if not, what specific changes to U.S. trade policy and international trading rules should be recommended to maximize the benefits and minimize the costs of globalization; and (3) what have been some of the most important successes of U.S. trade policy in the recent past in terms of maximizing the benefits of globalization and minimizing its costs.

In announcing the hearing, Chairman Rangel said, **"We need a better understanding of the winners and losers under our current trade policy. Congress must be an active partner with the Administration in shaping trade policy to strengthen economic opportunities for American workers, farmers and businesses and this hearing will provide a framework for future legislative action."**

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "*110th Congress*" from the menu entitled, "*Committee Hearings*" (*http://waysandmeans.house.gov/Hearings.asp?congress=18*). Select the hearing for which you would like to submit, and click on the link entitled, "*Click here to provide a submission for the record*." Once you have followed the online instructions, completing all informational forms and clicking "submit" on the final page, an email will be sent to the address which you supply confirming your interest in providing a submission for the record. You ***MUST REPLY*** to the email and ***ATTACH*** your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, by close of business **Tuesday, February 13, 2007**. **Finally**, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721.

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1. All submissions and supplementary materials must be provided in Word or WordPerfect format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone and fax numbers of each witness.

Note: All Committee advisories and news releases are available on the World Wide Web at *http://waysandmeans.house.gov*.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman RANGEL. Good morning. The Committee will come to order.

I have been reminded that this may have been the first time in years that we have come together to review our Nation's trade policy, globalization, the positive and negative impact, and what we can do to develop a bipartisan policy where we are not talking at each other, but with each other for the goal of taking advantage of the progress that we have made in international trade, and also not ignoring the negative aspects of globalization and what we can do to ease the pain or to avoid it completely.

Soon we will have to deal with the question of trade promotion authority. In addition to that, I think it is realistic enough to believe that the Presidential elections may take away the opportunity for this Committee to come up with a bipartisan approach to trade, which of course would include the unions, the trade organizations, as well as the Administration.

Mr. McCrery and I have received very positive responses to attempting to see whether we can change the image of trade from everybody in the private sector, in Congress, as well as the Administration. So, we hope at the end of our discussions that we could come together in an informal way, agreeing at least in part to some approach to trade where it can get a more positive image, and we have more people appreciating that their government will be there with the private sector to assist them if and when it is needed.

I would like to turn it over to Mr. McCrery, since we chatted briefly before the hearing.

Mr. MCCRERY. Thank you, Mr. Chairman. I join you in welcoming the input of not only the witnesses before this Committee today, but Members of the Administration who have been working with us to try to discover ways to improve our approach to trade and improve the public's perception of trade, as well as the private sector that you and I have both engaged in conversations with, the business sector, I should say, in trying to address this problem.

Of course, organized labor has been long a proponent of changes in trade policy. So, we are also listening to their points as well. I am hopeful that through hearings like this—and I think the name that you have given this hearing, Mr. Chairman, is particularly appropriate. It is a hearing on trade and globalization.

I believe that many of the negative impacts that we see in our economy, dislocated workers and the like, are not caused directly by trade, but certainly are caused by globalization. So, we ought to be addressing these issues together, as you have chosen to do today. So, I commend you.

I have a full statement that I will submit for the record, Mr. Chairman. Suffice it to say that I believe this hearing will cover a number of areas that we need to be looking at that are not directly related to trade, but nonetheless have an impact on workers and consumers in this country that we need to consider. So, thank you for doing this.

[The prepared statement of Mr. McCrery follows:]

Prepared Statement of The Honorable Jim McCrery, a Representative in Congress from the State of Louisiana

Mr. Chairman, I am pleased that you are helping frame the debate in a fair and open fashion. Trade flows are so deeply imbedded in our economy, and economic activity criss-crosses national borders so frequently, that it is no longer sensible to discuss trade and our national economy separately from each other. Trade is just normal economic activity that happens to take place between people in different countries.

We must reject the myth that trade benefits only large, rich multinational corporations. Americans who shop at large retail stores to save money on food, clothing, and household needs are beneficiaries of trade. And those low prices disproportionately help lower-income families because spending on such necessities is a larger proportion of their household budget.

American businesses of all sizes are more competitive when they can import goods and services from overseas to make their products better and less expensive. Trade also includes American exports, which support 10.4% of total U.S. GDP, and 20% of the growth in the U.S. economy. One of every ten jobs in the United States is linked to the export of U.S. goods and services, and those jobs pay on average 13–18% more than others.

We cannot turn back the clock. It is pointless to think we can control globalization, slow it, or stop it. Other countries recognize this and are steaming ahead with new agreements to increase trade. China, for example, has four bilateral and regional agreements in place and is negotiating five more. The EU has 20 already and another seven in negotiation. And Japan—long thought of as a "protectionist" power—has five, with eight more in progress.

We should be looking at how we can position ourselves to establish a global economic environment that keeps U.S. businesses, workers, and consumers on top. Instead of thinking about trade in isolation, we should put it into the context of a much larger debate on our changing economy.

What specifically should we be doing?

1. *Grow trade opportunities:* The most compelling argument in favor of our recent free trade agreements is that they reduce the high tariffs other nations charge on our products (12% on average, according to the National Association of Manufacturers), while we charge them little or nothing. These agreements also play to our strengths by opening service markets to us in a dramatic way, helping build our $66 billion service surplus on $381 billion in exports (a figure that has doubled since 1994). Also, our free trade agreements have reduced our trade deficit by $5.5 billion. In fact, if remaining global trade barriers are eliminated, U.S. annual income would increase by an additional $500 billion—or roughly $4,500 per household. The choice is clear: renew trade promotion authority and give the country a raise. I'm delighted that the President may ask for a renewal of Trade Promotion Authority as early as tomorrow.

2. *Monitor and enforce trade agreements:* We can all agree that our trading partners are not living up to all of the obligations they accepted, and we must take action. The Bush Administration has had some important successes in changing that behavior through bilateral negotiation and—when necessary—taking dispute settlement cases to the WTO, but efforts by many of our trading partners to avoid their obligations continue to grow. This Committee must remain second to none in pushing for trade compliance, so we can enjoy the full benefits of what we bargained for.

3. *Help dislocated workers:* Our economy sees changes not only from trade but also from technology, productivity, and demographics. In fact, the Council of Economic Advisors estimates that fewer than 3% of long-term job losses are due to trade. Manufacturing jobs losses are mostly due to productivity gains, which have increased manufacturing output by 11% in the last 4 years, and overall industrial production by 41% between 1994 and 2005.

When we talk about workers dislocated because of import competition, we should be looking at a solution that addresses the problems encountered by *all* dislocated workers. Workers impacted by trade are a small subset but have those same characteristics—often they are less educated, older, unskilled minorities, and unmarried. So, when we are working on unemployment insurance, job training, and job creation tax incentives that help all dislocated workers and firms that hire them, we are also working on addressing those who were dislocated specifically because of trade.

4. *Encourage savings and investment:* Our trade deficit is a narrow measure of our economic picture. The broader capital account surplus reflects the health of our economy and its attractiveness to foreign investors, who make a significantly positive contribution by supplying a source of good "insourced" jobs. Currently over 5 million jobs are associated with such investment, and we should continue to encourage this growth. At the same time, because the trade deficit is related to our shortfall in national savings, we must save more by cutting government spending and by providing incentives for our citizens to save. We also need to increase investment by our companies, by taxing them less and by providing incentives to invest.

Conclusion

Mr. Chairman, trade has been wrongly blamed, often in a bipartisan fashion I might add, for many of our economic ills. We must move toward building a trade policy in a broad bipartisan fashion.

Chairman RANGEL. I would like to yield to Mr. Levin, who is the Chairman of the Subcommittee on Trade.

Mr. LEVIN. Thank you, Mr. Chairman.

As you mentioned, this is really the first hearing, at least, that I can remember where we have really addressed trade policy issues rather than a specific trade agreement. We haven't had a discussion like this in many, many years. It is long overdue. I think we should expect controversy, differences of opinion, and that will include the issue, "do trade policies themselves really matter?".

Mr. McCrery refers to globalization as an overarching issue. We need to confront this question. Within the dynamic of globalization that is here to stay: Do trade policies themselves really matter? Have our trade policies, for example, contributed to the disequilibrium in income in this country and in other countries?

So, I think we should look forward to this and to further hearings. My own judgment is that trade policies really do matter. My own feeling is that we have had trade policies under this Administration that have not been active enough, that have assumed that trade is an end in and of itself, that market forces will work themselves out, that there isn't really a role for government, while other nations have seen active governmental policies.

I think we have therefore faced this issue: Is it vital that trade be a two-way street? When it isn't a two-way street, what is the impact on sectors within this country, including manufacturing?

I close with this, Mr. Chairman. The President today is at Caterpillar. He is going to be talking about globalization, economic policy, and he is going to be talking about trade. In a way, I wish the President were not at Caterpillar, but at a different place that has had a different impact from our trade from globalization and from trade policies.

I finish with this. He is also going to be talking today about the importance of renewal of trade promotion authority. In my view, what we need to do is to do what we are doing today, focus on trade policies and on their consequences, and after we work this out and work on some of the trade issues that are going to be coming before us—Peru, Colombia, Panama—after we have considered this, then talk about Trade Promotion Authority (TPA).

To talk first about that before we talk about the need for changes in trade policies in my judgment is putting the cart before the horse. It is important to look at the horse. It is also important to look at the cart.

Thank you, Mr. Chairman.

Chairman RANGEL. Mr. Herger.

Mr. HERGER. Thank you. I want to join in thanking you, Mr. Chairman and Ranking Member McCrery, for this hearing. The issue of trade and globalization is certainly one of the most important issues, I think, that affects us as a Nation and certainly as citizens of the United States.

Globalization is a fact of life. The United States is the number one trading Nation, exporting Nation, in the world, and certainly is incredibly important to the economy not just of the Nation but particularly to the State of California where I am from.

I think it is so important that we be working together rather than against each other, that we be joining forces with labor and meeting these real challenges that we have of the fact that we do have displaced workers, but the fact that we are gaining far more workers and gaining far more jobs, and that we have a far lower unemployment rate than we would otherwise, but work together rather than against each other.

So, again I thank you, Mr. Chairman Rangel. I do have a full statement I would like to submit.

[The prepared statement of Mr. Herger follows:]

Prepared Statement of The Honorable Wally Herger, a Representative in Congress from the State of California

Thank you, Chairman Rangel, Ranking Member McCrery. I am glad we are discussing the importance of trade to our country's economy today. Although we hear much about the impact of globalization on workers, which is the exception and not the rule, trade also conveys enormous benefits to our society through quality job creation, higher wages, lower prices, overall economic growth and enhanced prosperity for all Americans.

As you know, I represent the heavily agriculture dependent 2nd congressional district of California. The simple fact is that we produce far more agricultural goods than we can consume, so, and therefore our farmers depend on exports, amounting to one-third of our production. Aside from agriculture, trade in non-agricultural goods and services is of vital importance to our State.

California is truly a global gateway—for both exports and imports of goods and services—all of which contribute to the health and welfare of workers in our State. Export growth helps employees by creating jobs and advancing California's manufacturers, service providers and farmers. Imports help keep costs low, which both supports the continued competitiveness of California's exporting companies, and also increases the buying power of individuals and families.

Based on differing studies, California's economy is between the sixth and tenth largest in the world. Within that more than $1.5 trillion economy, a global demand for California-produced manufactured goods generates more than 730,000 jobs, and accounts for an estimated 5.6 percent of the State's total private-sector employment. That means that export-supported employment related to manufactured goods supported 1 out of every 18 workers. In all, California exported $117 billion in merchandise in 2005, amounting to 7.2 percent of the total State economy. And far from these being low-paying jobs, employees at exporting plants were paid 18 percent more on average than non-exporting plants.

Mr. Chairman, manufactured goods exports sustain the successful operations of thousands of businesses in California, which in turn provide livelihoods for hundreds of thousands of workers. Furthermore, coming from a small business background myself, I am pleased to note that of the nearly 59,000 businesses in California that ship their products overseas, and rely on open and transparent markets abroad, 95 percent of those companies are small- and medium-sized firms with fewer than 500 employees.

Across the entire economy, an estimated 3.7 million jobs in California are supported by trade.

Another often overlooked benefit of America's open trade with other nations is the insourcing of capital from other countries. According to the Organization for International Investment, subsidiaries of foreign companies operating in California employ approximately 547,000 workers. Such firms have added value to our economy and expanded job creation to the tune of 17,400 new hires between 1999 and 2004.

These firms are also responsible for providing a significant increase in employment opportunities in other large States as well, such as New York, Texas and Florida, and smaller and mid-sized States like Connecticut, Washington, New Hampshire and New Mexico. And the list goes on.

In addition to jobs, imports, exports and expanded trade in general are responsible for supplementing State tax revenues, which fund public services, schools, roads and other infrastructure growth and improvement. According to the Chamber, California's businesses added nearly $96 billion to local economies in 2005 by purchasing local goods, which allowed them to export manufactured goods to customers worldwide.

Overall, globalization contributes to increases in productivity and real wages while expanding consumer choices in California. This, in turn, leads to greater purchasing power, meaning that every dollar a family in California earns goes farther to purchase the goods they use on a daily basis. Globalization and lower barriers to trade can also be credited with increasing per household incomes by more than $9,000 since 1945. And if we successfully eliminate the remaining global trade barriers, U.S. per household incomes could increase an additional $4,500.

Mr. Chairman, we cannot ignore this rare opportunity and must continue to facilitate the lowering of barriers to trade through our work in the 110th Congress. Globalization contributes to the general welfare, economic health and competitiveness of both California's and America's workers and economies.

Chairman RANGEL. Well, I want to thank the outstanding panel of witnesses that have spent so much of their professional lives in this area. You see the general theme in which we are going. I have talked with Mr. McCrery, and we do hope and expect that if we can get some positive ideas, that we will meet in an informal way with the Administration, with labor, with Members, and see if we can come up with something that can be agreed upon to make globalization less painful and to make America more beneficial.

We will start off with Professor Daniel Tarullo, who has worked in this field. He is a professor. He has taught at Harvard. He has been a part of President Clinton's Administration. He has made an outstanding contribution to the understanding of international economics. I thank you for taking time to be with us.

All of the witnesses' statements will be entered into the record without objection.

STATEMENT OF DANIEL TARULLO, PH.D., PROFESSOR OF LAW, GEORGETOWN UNIVERSITY

Dr. TARULLO. Thank you, Mr. Chairman, Mr. McCrery, Members of the Committee.

As you have already indicated, it is hard to find a bigger topic than globalization. Globalization implicates important issues of fiscal policy, exchange rate policy, innovation policy, education policy. It also implicates the major issue as to whether the resulting productivity growth and increase in income in the United States is going to be fairly shared among all of those who have contributed to those increases.

In your announcement of this hearing, you posed some questions specifically about trade policy. Although everything is connected, of course, domestic policies and trade policy, I think it is quite useful to focus this morning specifically on trade policies—our trade strategy, what agreements we negotiate, why, how, and what is in them.

Now, this is a big panel and I know you want to get to questions. So, let me just offer a few thoughts and place them on the table in an effort to get the discussion started.

First, so much talk about trade and trade policy, particularly in recent years, has had a binary quality to it. You are either for trade or you are against trade, almost without regard to what is in a trade agreement.

Now, in no other policy area of which I am aware do we favor or oppose things simply by labeling them. You are for tax policy; you are against tax policy. That shouldn't be the case in trade, either.

Second, selection matters. The selection of trade agreements matters enormously. Every Administration has limited resources. They don't have an infinite supply of negotiators. Top people in the Administration only have so much time in the day to focus on a limited number of issues. Plus the selection of particular agreements to negotiate has a strategic impact on opening up or closing off other possibilities.

So, one can't simply move from whatever opportunity presents itself exogenously to whatever opportunity next presents itself exogenously. One needs to have a strategy if one is going to provide leadership and move the country forward in the direction one wishes to see it go.

Third, content matters. The content of an agreement matters, and this for several very important reasons. First, the day has long passed when trade agreements were essentially about tariff reduction or reducing quotas or taking care of customs classification issues at the border. You all have seen the kind of agreements that have been presented to you over the last 5, 10, or 15 years.

They now involve domestic policies. They move deeply into the domestic policies of each participant—health standards, safety, environmental law, labor standards, intellectual property, industry regulation. All of these things are either directly or indirectly addressed in many bilateral trade agreements and in the Uruguay round of multilateral negotiations.

When you have that kind of far-reaching trade agreement, it is not only inevitable, but I think necessary, that the Members of Congress and the public focus on the changes that are being effected to our core domestic policies. This is not to say it is inappropriate always to address these things, but asking how they are addressed and how discretion is either limited or granted to domestic governments is an essential part of any Committee's oversight.

Now, the second reason why content matters so much is the nature of the global economy which, as many of you have already commented, is already moving us more closely to a truly integrated economy. In this world, we do not have for most industries the kind of competitive industry that textbooks present us with in first-year economics—that is, lots of producers, with nobody being able to set prices. In the textbook world, all you need to do is remove barriers and everybody competes and the price comes down to an efficient level.

Trade in the 21st century, and certainly trade among the United States, Japan, increasingly China, and Europe, involves to a considerable extent innovative products and innovative forms of providing services.

When you have trade based upon innovation, upon new products, you almost always have conditions of imperfect competition. You often have conditions of increasing returns to scale, meaning the more you can produce, the more profitable it is going to be for you. You have what people refer to as first mover advantages. If you are the first entity to get out a technology and you can establish the market, it is very hard for people to catch up with you.

So, for all these reasons, the practices of other countries, often mercantilist practices of other countries, matter a lot more than an old style tariff. Let me give you an example.

If a country establishes a standard for a new product, a high-tech product, and the country is big enough to have a domestic market that begins to cultivate the production of that product, and at the same time it is able to foist its standard on the rest of the world, or to exclude the competing foreign product which perhaps operates to different technological standards, then that country is well on its way to establishing what I refer to as first mover advantages.

If you have a trade agreement with that country and you don't address that problem of access for U.S. producers, but at the same time you gave U.S. market access and perhaps assurances of regulatory approval, then you have not only failed to achieve the benefits for American firms and workers that we ought to but you also, at least in some cases, might even produce a net loss for that industry because you accelerate the progress of its overseas competitor.

So, not surprisingly, in this era there are going to be well thought through trade agreements and well thought through trade strategies, and some not so well thought through trade agreements and trade strategies.

This hearing, as Congressman Levin said a few moments ago, is an opportunity to begin a more general discussion so that this Congress and the remainder of this Administration can go forward, I hope, with a more strategy sense of where we are trying to take the country internationally, domestically, and at the intersection.

Let me close, Mr. Chairman, by saying that if we can reestablish a consensus on trade, I think there is an enormous opportunity for the United States to recapture its leadership role in international trade, in international economic matters.

Each of the major international post-war arrangements is under stress. The trading system is going to change in the next several years. We have an opportunity to shape the rules that will govern the new trading system. I think—I believe strongly, the only way to do that is with a strong bipartisan domestic consensus.

Thank you very much.

[The prepared statement of Dr. Tarullo follows:]

Prepared Statement of Daniel Tarullo, Ph.D., Professor of Law, Georgetown University

Mr. Chairman, Ranking Member McCrery, Members of the Committee. Thank you for your invitation to testify this morning. I am a Professor of Law at Georgetown University Law Center and a nonresident senior fellow at the Center for American Progress. I testify today in my individual capacity as an academic, with no client interests or representation.

In holding this hearing as the new Congress convenes, you provide an occasion to step back from debate over a specific trade agreement or legislative proposal and to address more broadly the opportunities and challenges presented to the United States by the ongoing globalization of economic activity. In response to your specific inquiry, let me say at the outset that I certainly do not subscribe to the view that any trade agreement is a good trade agreement. Given resource constraints, the selection of agreements to negotiate is a critical decision. Furthermore, decisions on the provisions to be included or excluded can, almost by definition, make the difference between a good or bad agreement.

Having said that, I think it important to note that the United States does have an interest in negotiating additional trade agreements. The question ought not to be whether all trade agreements are good or all trade agreements are bad. Instead, the relevant questions are whether the selection of negotiating partners and topics is well-advised, and whether the terms negotiated comport with good international and domestic policy. This judgment must be applied on a case-by-case basis, though one would hope that an Administration would have an overall trade strategy that more generally embodied these aims and interests.

My testimony next explains why I believe this hearing comes at a critical period of change in the world economy and in the institutions that shape global economic activity. Next I will identify the role that trade policy can and cannot play in a sensible and strategic response to these changes. Finally, I will suggest some criteria for devising a sensible trade policy that is growth-oriented, socially equitable, and politically sustainable.

The Impact of Economic and Political Change

Trade policy has always occupied a point at the intersection of economic policy, international relations, and domestic politics. An intelligent approach to setting current trade policy must take into account the fundamental economic and geopolitical changes we encounter today. At the same time, we must recognize that the trade and other international economic policies we adopt will help shape these changes, whose end points are far from clear.

The *economic changes* associated with contemporary globalization are most frequently cited in discussions of trade policy and, for that reason, may need less elaboration. But they are useful to recall, at least briefly, in providing the context within which trade policy is formulated. It is particularly important to specify how the current wave of globalization differs from prior episodes and thus calls for new responses.

First, successive revolutions in information technology have driven much economic change in recent decades. Past periods of economic integration, national and international, were propelled as much or more by technological advances that reduced transportation costs as they were by communications advances such as the telegraph and telephone. But there have been no revolutionary advances in land, sea, or air transportation for decades. In the present phase of globalization, economic distances have shrunk because of the increasing ability to communicate by voice, data, and image nearly instantaneously at costs that continue to decline. Meanwhile, the declining cost and growing power of computing has enabled coordination of complex activities that was unthinkable just a generation ago.

The implications of the IT revolutions for economic organization are profound. Let me note several that are especially significant for present purposes: The availability of these information technologies has enabled companies to break up their production processes into discrete segments that are not physically proximate to one another. Each segment can be placed in whatever location in the world offers the combination of infrastructure, skills, labor markets, and general business environment best suited to produce that segment at the lowest cost. This capacity also enables a company to contract out much of its production process to independent suppliers while maintaining effective communication concerning inventory, customer needs, quality control, and other issues.

Finally, the IT revolution has opened up new possibilities for services to be performed at locations remote from either a related producer or an ultimate consumer. Consequently, the set of potentially "tradeable" services is growing and with it the likelihood of further structural economic shifts. Note, however that much or all of this offshoring of services can be achieved without any person or physical product ever crossing a national border. These services, whether provided as intermediate steps of a production process or directly to consumers, are delivered solely through high-speed electronic transmission of voice, data, or images.

Second, the accelerating participation by China, India, and other emerging markets in the global economy means that the world labor force will be increasing by a billion or more workers in a relatively short period of time. A growing portion of these new entrants will be reasonably well educated and trained; a significant fraction will be highly skilled professionals whose abilities match those of their counterparts in North America, Europe, and Japan. Combined with the technological developments just mentioned, this explosion of the global workforce could lead to the kind of fundamental shift in world economic power that has occurred periodically since the Industrial Revolution. This one, however, may occur at an unprecedented speed.

Changes in the international system have hastened economic globalization and, at the same time, deprived it of a stable structure for organizing the international economy. The world is moving towards a multipolar economic system with a novel set of characteristics. The multiple economic poles will include countries at very different levels of development (principally China and India, as compared to Europe, Japan, and the United States). This change reflects an ongoing secular shift in the economic weight of the world's major regions.

Most dramatic, of course, is the rise of Asia ex-Japan. Most countries in this fastest growing region in the world have pursued variations on export-led growth strategies. Many have presented formal, and sometimes less transparent but very real, barriers to market access for foreign companies. Such practices by many of these countries continue, to be sure, along with foreign exchange policies that often artificially depress the values of their currencies in order to promote exports. Yet these countries are also shifting their policies, both in response to their own movement up the economic ladder and in response to the impact of China on the regional economy.

Meanwhile, the World Trade Organization, the International Monetary Fund, and the World Bank are under stress. For a variety of reasons—the growth in the number of economically important countries, the shift in relative economic weight towards Asia, and their roots in a bygone era—these institutions are significantly misaligned with the contemporary mission of creating stable, prosperous, and equitable structures for a global economy.

Just as the end of the Cold War and the consequent passing of the familiar bipolar system engendered uncertainty in the political sphere, so the emergence of a multipolar economic system of such unusual configuration leaves us in a new environment. Few of the rising economic powers are traditional allies of the United States. They are all, to a greater or lesser extent, skeptical of the postwar international economic system over which America has had substantial influence. At the same time, even from the perspective of the United States and other mature economies, the current system seems increasingly outdated. In such circumstances, the potential for significant change in international economic arrangements over the coming years seems quite high.

The Role of U.S. Trade Policy

It is important to be clear about the relationship of trade policy and trade agreements to the phenomena described in the preceding section. Globalization is an important manifestation of economic changes that have simultaneously yielded remarkable leaps in productivity and highly disproportionate concentrations of the benefits of consequent economic growth. In many countries, including the United States, the result has been a significant rise in income inequality.

Here at home, technological change and production specialization have accelerated the loss of jobs, both where trade is involved and where the relevant economic activities are dominantly domestic. Even as these new technologies also *create* new jobs, many Americans worry that the losses will outweigh the gains and, as a consequence, they and their children will face a stagnant or declining standard of living. The previously mentioned upsurge in the global labor pool only increases these fears of job loss, along with a concern that the result will be downward pressure on wages for broad segments of American workers.

Trade agreements have often been the lightning rod for the anxieties and anger associated with these changes. Yet the trends described earlier will proceed regardless of whether the United States ever signs another trade agreement. Eschewing additional agreements would not stop emerging market nations from further developing their industrial capacities and improving the productivity of their workers. Nor would it halt the outsourcing of services.

A decision by the United States to forego all new trade arrangements would not dissuade other countries, both developed and developing, from pursuing new trade agreements of their own. In just the last 2 months we have witnessed an acceleration of the timetable for the creation of a free-trade zone by the Association of Southeast Asian Nations (ASEAN) and an agreement between ASEAN and China to liberalize trade in a number of service sectors.

The United States has a continuing interest in its leadership role in trade and other international economic arrangements. This role gives us the ability to shape the rules by which global economic actors must play. If we play this role in a constructive manner, it can reinforce overall American influence in the world. In addition, of course, the right kinds of trade agreements can provide American firms and workers with access to the world's fast-growing economies as favorable as that enjoyed by other important economic powers.

Our challenge is to manage globalization to ensure that its benefits, both at home and abroad, are not limited to one privileged group while the costs are borne by others. Trade policy cannot do all, or even most, of this work on its own. But a well-conceived and well-implemented trade policy can play an important part.

Standards for a Sensible Trade Policy

Trade policy is sometimes depicted in binary terms: You are either for free trade or you are a protectionist. Anyone who opposes any trade agreement must be a protectionist. Or—as seen from another perspective—if you favor any trade agreement, you must be in favor of undermining labor or environmental or safety standards. But sensible trade policy, like most sensible policies, must recognize the multiplicity of interests at stake, as well as the different ways in which those interests are balanced and realized. It again bears saying that negotiating something called a trade agreement does not make it good or bad, a sensible or misguided allocation of government resources. The scope and specifics of the trade agreement itself are what matter. In that spirit, I suggest some standards for formulating or evaluating trade policy.

First, our trade policy should provide significant gains for U.S. workers, consumers, and businesses. Deserving of particular attention is the issue of whether the nation's trade policy is opening significant opportunities for the export of goods and services produced in the United States. Opportunities for the export of competitive goods and services support the good jobs associated with those exports. This standard implies both that new agreements should be conceived and negotiated with an eye to this aim and that access granted under existing agreements should be protected.

Judged against this standard, the performance of U.S. trade policy in the last 6 years has been disappointing. While raw statistics can never tell the whole story, the contrast between the 1995–2000 period and the 2001–2006 period is striking. In the former, the United States initiated 68 dispute settlement cases under the new World Trade Organization procedures. In the latter timeframe, only 16 cases have been initiated. Mercantilist practices are still prevalent in some important export markets, either in particular sectors or more generally. Whether through WTO dispute settlement or otherwise, countering these practices must be an integral part of a sensible trade policy.

Equally disappointing are the opportunities created by the new trade agreements into which the United States has entered in that same 2001–2006 period. Cumulatively, these agreements account for less than 5% of U.S. exports. It appears that, for several years, selection of countries with which the United States sought trade agreements was driven almost exclusively by geopolitical considerations. While there is nothing inherently wrong with factoring such considerations into trade policy, application of this selection criterion by the current Administration came at the expense of important commercial opportunities. Negotiators are not in infinite supply and senior officials must generally concentrate on no more than a few priorities at any one time.

The missed opportunities include the Doha Round and the faster growing markets that pose significant problems of access to U.S. exporters. At least at its top levels, the Administration seemed never more than nominally committed towards timely conclusion of the Doha Round of multilateral negotiations, which had (and, hopefully still has) the potential to reduce significant barriers to our agricultural exports. While the Administration has more recently initiated discussions with some emerging market countries in which such problems are encountered, there is considerable doubt as to the viability of the approach taken in those negotiations.

Second, our trade agreements should contain provisions that are consistent with the exercise of responsible governmental authority. Trade agreements have for some time included terms that move well beyond border measures and into domestic economic policy. To some extent, this is inevitable, since the reduction of border measures has increased the impact of internal policies on trade. However, some agreements have gone too far down this road by restricting or prohibiting government prerogatives to take nondiscriminatory actions that many would find best left to the discretion of each country. Not every regulation is a "trade barrier." On the other hand, some nontraditional provisions, such as requirements for government transparency in regulatory or procurement, could actually reinforce the accountability of governments to their own people, as well as leveling the playing field for commercial actors.

A related matter is the inclusion of protections for basic labor and environmental standards. For years there has been a great struggle over these issues, particularly where labor standards are concerned. Yet it is hardly responsible government practice to permit violation of the five familiar internationally labor standards, and it is certainly not consistent with the aim of spreading the benefits of globalization to all. The approach of simply requiring countries to enforce their own standards—whatever they may be—is an evasion of the whole purpose of minimal labor protections. At the same time, the refusal to include such standards as an integral part of bilateral trade agreements, subject to the same dispute settlement system as other provisions, sends an unfortunate message to the average American that liberalized trade is somehow antithetical to the most elemental protection of worker standards. Such a position seems almost perversely designed to stoke fears of trade and globalization.

A third standard for our trade agreements is that they support an international economic system consistent with American economic and political interests. This aim is particularly salient for multilateral agreements, which set global rules for trade and associated policies. For example, just as we must pay heed to our own citizens who may be left behind by globalization, so it is very much in our interest to promote development in the poorest countries of the world—for economic, political, security, and humanitarian reasons. Trade negotiations such as the Doha Round can advance this interest at the same time they generate more conventional opportunities. The use of trade agreements can bind the world more closely together in an economic system that produces gains for all nations, thereby benefiting the United States both directly and indirectly.

Fourth, trade policy should be situated in programs and policies that will give all Americans a chance to prosper. Almost all proponents of trade agreements acknowledge that there will be losers as well as winners from liberalized trade. While there is always much talk of compensating losers, there is rarely more than modest action to back up this talk. In decades past, it was perhaps reasonable to expect that most workers displaced by trade could, with some minimal assistance, move fairly quickly into jobs of comparable skill and pay.

Whatever the reasonableness of such assumptions in the past, they are clearly inoperative now. The social compact has been eroded in the United States. The economic insecurity that comes with disappearing pensions, unaffordable health care, and stagnant wages already grips many Americans. Trade is by no means the only—or even the principal—cause, and legislation implementing trade agreements is hardly the place to tackle health care reform or pension portability.

Still, trade agreements should be occasions for reaffirming the social compact. There is no single formula for doing so. What is sensible and feasible will vary with the nature and scope of the agreement at issue. But, in one form or another, each should include measures specifically addressed to the needs of Americans whose economic prospects and security are threatened by the forces of economic change, including globalization.

Conclusion

Although I have tried, with these four standards, to develop a starting point for assessing the kinds of trade agreements we should pursue, application of these necessarily general standards will not always produce clear answers as to the advisability of a proposed trade agreement. In a sense, the best mechanism for selecting among proposals for negotiations and evaluating the terms of agreements once negotiations are launched is for an Administration to consult with Congress.

The current up-or-down voting procedures for agreements under the President's trade promotion authority were designed to prevent delicately negotiated agreements from unraveling during the legislative process. But the inability of Members to offer amendments places a premium on consultation and accommodation during the conception and negotiation of trade agreements. Traditionally, Presidents of both parties since the time of Franklin Roosevelt tried to pursue a bipartisan trade policy. But trade, like so many other issues, has become increasingly partisan. While this is probably inevitable to some degree, given the nature of trade policy today, the prevailing pattern during the past 6 years of nonconsultation with Members of the opposition party is surely ill-advised.

There have been signs that this pattern has changed. Obviously, the change in control of Congress makes bipartisan consultations not just advisable, but necessary for the Administration. I hope, and believe, that today's hearing is the start of a forthright and open discussion by all sides of the trade policies that will best serve American interests.

Thank you for your attention. I would be happy to answer any questions you may have for me.

Chairman RANGEL. Thank you, Professor. We are going to have to try to ask you to stay closer to the 5-minute rule so that we can ask questions.

We are lucky to have Grant Aldonas, who holds the William M. Scholl Chair in International Business. He has a distinguished career in international economic policy. We thank you so much for taking the time to share your views with us.

STATEMENT OF THE HONORABLE GRANT ALDONAS, WILLIAM M. SCHOLL CHAIR IN INTERNATIONAL BUSINESS, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Mr. ALDONAS. Mr. Chairman, Mr. McCrery, Members, it is great to be back with you. I have an enormous amount of respect for the Committee and the task you have in front of you.

If we are going to rebuild a bipartisan consensus on trade, this is where it has to start. Frankly, given the House is the voice of the people, it is where it should start. We need that respect, frankly, for the voice of the American public in this debate.

Before turning to your specific questions, though, I want to emphasize one point. We are not at the mercy of globalization. We control our own destiny. Whether it is through our trade policy, our domestic policies, we can provide the tools necessary to succeed in the global economy. That is going to take an effort by everybody.

Frankly, we can't afford to leave any individual in America behind as a part of that process. I think that ought to be the focus as we go forward through this debate. I think it is a basis on which we can build that bipartisan consensus.

Now, turning to the Committee's questions, you asked whether more trade is always better regardless of its contents. I would say the answer is unequivocally yes, for three reasons.

First, more trade encourages us to specialize in what we do best. That increases our productivity and it raises our standard of living. That is what economic policy is all about.

Second, there is a moral dimension to trade that reinforces the economic effect. Whether it is Mali or Mississippi, encouraging economic development is really about giving folks their economic freedom and the tools to shape their own economic future.

Lifting restraints on trade, whether they are in another country or whether our own, means lifting restraints on economic freedom, and I have to say both the best and the worst of our own history confirms that economic freedom is absolutely essential to the exercise of political freedom as well.

Third, more trade is an indicator of our openness to the global economy. That openness exposes us to new trends and technology, consumer preferences, production methods, and business practices, and that drives innovation. It lifts productivity, and again, it raises our standard of living. All economic evidence confirms that countries that are more open to trade fare much better than those that isolate themselves from the global economy.

Now, what that doesn't mean is that more trade agreements are better regardless of their terms or their content. I think we have sacrificed political support in the country for trade by negotiating agreements that have only marginal value to U.S. exporters rather than focusing on markets that would make a real commercial difference or set precedents that would move the trading system forward in some important respect. It is also true that more trade agreements without adequate policies intended to put the tools of the global economy in the hands of every American don't make a lot of sense as well.

Now, the Committee also asked whether the benefits of globalization are widely spread. In one sense, the answer to that question is again unequivocally yes. Every day, Wal-Mart takes a lot of criticism, but every day Sam Walton's store is open for business, they are delivering globalization to our doorstep. They are raising our standard of living by lowering its cost.

That matters most to people at the bottom of the economic pyramid, not at the top. That is important to remember as a part of this when our friends in the retailing end of businesses are taking a lot of criticism for what they deliver.

Now, at the same time, there is no doubt that wages for Americans at the low end of the wage scale have not budged at all while incomes earned by the highest quintile in America have grown significantly. Globalization is generating higher returns to education. That shouldn't be any surprise.

So, the question in front of the Committee should be: Do we isolate ourselves in response to that, or do we focus hard on improving our own educational system and encouraging young people to finish their schooling? I think the answer is obvious. We should be investing heavily in education.

The example underscores the basic point of my testimony, which is that much of the tools of grappling with globalization don't lie in trade policy. They do, however, lie in this Committee's jurisdiction, whether it is tax, whether it is health care, or whether it is our adjustment policy.

Finally, you asked what specific changes in U.S. trade policy I would recommend. Let me offer just a few examples.

First of all, unless we see substantial progress in the next month, we ought to declare Doha dead. We ought to move instead toward moving toward a free trade agreement among developed countries within the World Trade Organization (WTO), with an agreement to harmonize our preference systems for developing countries in a way that would offer members of the least sort of effective participants in the trading system the opportunity to have a much larger market into which they could sell.

As a step toward that goal, I would advocate launching free trade area negotiations with Europe and Japan, again including a common approach to rural economic development that does not depend on paying people to produce commodities. At the same time, harmonizing our preference programs for the benefit of the least developed.

As a further step in that direction, I would suggest that in our discussions with the least developed, particularly in Africa, we bargain for a single tariff—they have revenue concerns that need to be addressed—but a single rate of tariff; and beyond that, negotiate for changes in the business conditions in those markets so they can be served both by American companies and by their own domestic companies to further economic progress.

I would launch free trade area negotiation with willing partners in the Asia Pacific region to fulfill the Apex Bohar commitments with a view toward anchoring the United States in Asia as a counterweight to China's influence.

I would launch negotiations with all of our current free trade agreement partners in the western hemisphere in order to harmonize the rules of origin and create a common market, with a specific framework that would allow for the accession of other countries in Latin America and the Caribbean when they are ready.

I would adopt Spencer Bachus' idea of negotiating an agreement on financial services with China that allows our banks, insurance companies, and other financial institutions to enter the Chinese market and create the capital market disciplines that would drive many of the worst distortions out of the Chinese system.

In terms of enforcement, I would focus our efforts, including WTO dispute settlement, on the most serious distortions in the international trading system. I would not be shy about losing cases. Frankly, just like the Justice Department in the days of civil rights, oftentimes bringing cases that highlighted the problems and the gaps in the area of law are just as important as winning cases on behalf of American companies. That is something that we ought to take seriously as a part of our strategy.

In terms of trade promotion, I would focus on what it takes to put American goods in global supply chains. We no longer live in a world of trade between independent buyers and sellers where we are thinking about exporting individual markets. The key for everybody is to try and find their way into a global supply chain. That is what we should focus on as well.

Last, I would open our own health care market unilaterally to foreign competition. Why? The rising cost of health care is killing our manufacturers and frankly, what we need is more competition in that space rather than focusing on insurance.

Thank you.

[The prepared statement of Mr. Aldonas follows:]

Prepared Statement of The Honorable Grant Aldonas, William M. Scholl Chair in International Business, Center for Strategic and International Studies

Chairman Rangel, Mr. McCrery, and Members of the Committee, I welcome the opportunity to be with you and want to thank you for holding this hearing on trade and globalization as part of the Committee's series on economic conditions in the United States. By way of introduction, I am currently the William M. Scholl Chair at the Center for Strategic and International Studies. I previously served as the Under Secretary of Commerce for International Trade from 2001–2005.

In my view, these hearings are long overdue. We are in an era of rapid and unprecedented economic change—change that has no rival even in the industrial revolution, the previous era of globalization at the end of the 19th century, the Great Depression, or the extraordinary economic growth of post-World War II America. Given that fact, it is worth remembering that the changes wrought by those earlier eras rewrote the basic social contract in America and elsewhere in the world.

A similar process is under way today. Like all eras of change, many of the forces at work can be profoundly beneficial. At the same time, change brings inevitable hardships, particularly for those in our society who are least able to adapt to the changes they face.

I am a firm believer in free markets. Not only because they are economically efficient, but because they are inextricably bound up with and reinforce the exercise of the broader political freedoms that represent the genius of our democracy and our society. The habits of freedom are not, in fact, neatly divisible between political and economic spheres. Much of the legacy of our own history, including both its best and worst, underscores the point that individuals without their economic freedom lack the wherewithal to exercise their political rights.

That said, I am also a firm believer in democracy and in the values that underpin our great Nation. In the midst of the Civil War, President Lincoln pointed out a simple fact—we will either succeed together or fail together. For we are one country, economically and politically. The glue that holds us together is our shared commitment to freedom and equality. It is the vision of America as an equal opportunity society that holds us together and draws so many, including my father, from other countries to our shores.

So, while I am a believer in the benefits of globalization, I also think it is critical that we examine the effects of globalization, not just in terms of economic efficiency, but also in terms of our ability to deliver on the promise of an equal opportunity society. And, we should measure our own actions in response to the economic challenges we face on that same basis.

That is why it is critical for Congress—and particularly the House of Representatives, which is as close to the voice of the American people as any institution in our government—to play the role that our Founding Fathers and the Constitution set out for it. Your job is to serve as the mediator between the aspirations of all your constituents and the reality of the economic challenges we face. Your responsibility is to make choices that serve the best interests of all Americans, not just a select few, whether those select few are corporate presidents or union members.

What that means in more practical terms is that we need to have an honest debate about the terms of our engagement in the global economy. It is too easy to label advocates of free trade as uncaring and too easy to label those who express concerns about international trade as protectionists or isolationists. What's missing is what I hope your hearings will provide—a thoughtful appraisal of where we stand in the global economy and what it will take to ensure that all Americans have the tools to succeed in the global economy going forward.

Now, having said that, let me lay my cards on the table in terms of what I see both as to where we stand in the global economy and what it will take to ensure that all Americans have the opportunity to succeed. Free markets and the liberalization of trade serve the interests of the poorest in our society precisely because free markets represent the greatest leveling force we know. The reason our antitrust policy disfavors monopoly and limitations on competition is because limits on competition serve the interests of entrenched power and perpetuate privilege. Contrary to what many of globalization's critics say, the same holds true of our trade policy.

That does not mean that government does not have a role and that only the market is relevant to achieving our economic and social goals. Government has a critical role to play in putting the tools of the global economy in the hands of every willing worker in the U.S. economy and in helping every American adapt to the economic changes we will inevitably face in the coming years.

The reasons why that is the case and the economic policies we ought to adopt to ensure that the benefits of globalization reach every American make up the remainder of my testimony. I want to start by defining what drives globalization and then discuss what tools we have, including but not limited to trade policy, to shape the terms of our engagement in the global economy in ways that will allow us to deliver on the promise of equal opportunity.

What Globalization Is and Is Not

It is important to be clear about what globalization is and what it is not in order to think clearly about how we shape the terms of our engagement in the global economy. In my view, there is no more important topic for the Committee to consider as part of its work because it is the forces driving globalization—rather than globalization itself—that will shape our economic future and that of the younger Americans who follow us.

We tend to speak of globalization as if it were a force in and of itself. It is not. Globalization is a noun, not a verb. It is a consequence, not an all powerful economic tide that is sweeping over us.

The reason it is important to say that is because how we define globalization will tend to shape our view of the options we have for defining our economic future. Viewing globalization as a single, monolithic external force almost necessarily implies the need to protect ourselves from it by isolating ourselves from the world economy. Viewing globalization purely as a function of trade policy or trade agreements will inevitably lead us to think that retooling our trade policy might be sufficient to shape our response to the global economy.

I understand why that is an attractive thought. Trade policy has become a flashpoint in American politics precisely because it represents the interface between our economy and those of our neighbors and trading partners. It lends itself to the easy answer about how to address our ills. Because trade policy deals with the intersection between our economy and the global economy, both sides of the debate tend to invest trade policy with a power that it does not have.

If, however, there are forces at work in the process of globalization other than trade and trade policy, I think we would all agree that a focus on trade policy alone would not be adequate to the task of shaping our response. We would be wise, under those circumstances, to look beyond the tools of trade policy for the answers to the challenges we face. And, that is where much of the truth about responding to globalization lies.

There are three broad trends that have driven the current integration of world markets. The first is technology, which has sharply reduced the cost of communication and transportation that previously divided markets even where there were no other barriers to trade.

Plainly, trade policy tools—whether in the form of tariffs or antidumping duties on imports—will not help us in the face of technological change. In fact, quite the opposite, isolating the United States and U.S. producers from international competition will only mean that we would fall behind in terms of technology, which ultimately contributes to our productivity and our ability to compete.

In the world of trade policy, imports get a bad rap. We tend to think of exports as good and imports as bad. In fact, imports and the competition and the spur to technological innovation they provide are critical to our ability to remain in the game globally. When he was Chairman of the Senate Finance Committee, my former boss, Senator Bill Roth, used to say—frequently, and to all that would listen—that "there was no protection in protectionism." The reason he said that was that he understood that it was competition that kept us sharp and continually innovating.

It may seem ironic or counterintuitive, but limiting imports as a means of grappling with the changes that new technologies have wrought is the surest way to be washed away by the competition those changes generate.

The second force that has driven the accelerating integration of global markets is not often discussed as an economic phenomenon. That is the end of the Cold War. What the end of the Cold War represented in economic terms was the elimination of barriers that had divided the world into warring camps for the better part of the 20th century. Like any markets that are divided for artificial reasons, both markets—the west and the east—maintained production capacity in excess of what would be needed in a single integrated world market.

With the fall of the Berlin Wall and the acceleration of China's movement toward a market economy, the barriers that had sustained that excess capacity fell. With the collapse of economic activity in the former Soviet Union, the installed industrial capacity sought new markets through exports and gained market share by cutting prices. The effect on pricing and competition in the markets for a broad range of industrial products reacted predictably. The price effect ensured that we would face the burden of adjustment along with the former Soviet states.

Developments in the steel industry provide an example of the fallout from that process. Exports of steel from the former Soviet Union have disrupted markets for over a decade largely because the remaining capacity found no market in the former Soviet states and was priced to sell on world markets. That caused a significant drop in both world and U.S. prices, putting significant pressure on our steel producers to adjust to new levels of competition.

We are, in fact, still in the midst of absorbing the overcapacity that flourished in those times. And, the adjustment process has been delayed by continuing distortions in various markets. Again, steel offers an example. The lack of significant capital market disciplines in China has kept an enormous amount of old steel capacity on stream even as China has added new capacity. Fortunately, China's growth has absorbed much of the excess, but only a slight downturn in China's growth could drive steel prices down again, forcing another round of adjustment.

Both instances offer some insight into how and when trade tools might be useful, but underscore the basic point that the larger forces driving globalization require economic policy responses that reach beyond trade policy. There is little that either tariffs or other border measures could have done to offset the effects of adjustment unleashed by the end of the Cold War.

Certainly, the steel industry used antidumping actions and lobbied heavily for relief under section 201 of the Trade Act of 1974. Based on my own direct experience in those episodes as Under Secretary of Commerce for International Trade, however, the real clue to the steel industry's current success flows from higher demand among developing countries like China and India meeting their infrastructure needs (i.e., offsetting the decline in demand in the former Soviet states) and the adjustments that the industry has made to lower their productions costs, rather than trade restraints.

What's more, even in those instances, trade restraints came at a significant cost. While the section 201 relief may have helped the U.S. steel industry adjust, it also raised the costs of small manufacturers in the U.S. auto parts industry that already faced incredible pressure from U.S. car manufacturers to reduce the prices of their finished products. In other words, the smaller downstream manufacturers could not pass on the increase in prices resulting from higher steel costs, despite the fact that they too faced intense international competition. In other words, many of our traditional trade tools have become a double-edged sword in the global economy, creating winners and losers in their own right.

No one I know would like to return to the Cold War, even if it looks considerably more stable than the international environment we find ourselves in now. But, equally important, there is nothing that our trade policy tools can do to reverse that trend. They are of some limited use in addressing the trade-distorting aspects of it, but ultimately we have to find a way to adjust to that competition until markets find a new equilibrium between productive capacity in certain industries and demand, much as has happened in the case of steel.

The last significant driver of globalization does directly involve trade policy—that driver is the success achieved in lowering the barriers to trade through successive rounds of multilateral trade negotiations under the auspices of the General Agreement on Tariffs and Trade ("GATT") and various regional and bilateral agreements, such as the European Union and the North American Free Trade Agreement ("NAFTA"). The reductions in trade barriers coincided with periods of significant long-term economic growth in the United States and other economies that opened themselves up to the global economy. Indeed, all of the economic evidence suggests that economies that were more open to trade have fared better economically than those that have remained closed.

In one sense, that should not come as a surprise. The whole purpose of engaging in trade is to allow us to specialize in what we can do best. Because we are more efficient at those activities, we are more productive and that gain in productivity translates into a higher standard of living. Economies like the United States that are more open to trade have also maintained relatively higher standards of living.

Along those same lines, it is worth underscoring the fact that, even as we are discussing the impact of trade and globalization on our economy and whether it produces winners and losers, the economy continues to grow steadily. Unemployment currently sits well below the 6 percent figure that the Clinton Administration identified as full employment and well below the trend line of the last 30 years.

What that reflects is an economy that is extraordinarily flexible and capable of adaptation. It is that flexibility and adaptability that is the hallmark of success in the global economy and holds the clue to the economic policies we should pursue in order to succeed in a global age.

But, for now, it is worth asking what we would do with traditional tools of trade policy to reverse the progressive lowering of tariffs that have resulted from our network of trade agreements? The answer is, of course, we should do better at opening markets and eliminating trade-distorting practices. The argument most often heard is that we have been out-negotiated and ended up signing inequitable deals that forced us to open our economy faster than our trading partners opened theirs.

The point, however, is that even those arguments against the recent history of our trade agreements do not counsel a pause in negotiations. What the criticisms necessarily imply is the need for further negotiations to address the inadequacies of the past arrangements, rather than rolling back the disciplines that already exist or otherwise violating our international obligations in an effort to redress what is perceived as an imbalance between our duties and our rights under those accords.

In short, trade policy alone is neither the author of the economic challenges we face as a country nor the answer to those challenges. We do, in fact, need an adjustment policy worthy of its name. In my view, we ought to think of every tool of economic policy, including trade negotiations, as fair game in an effort to improve the ability of our citizens to adapt and succeed in a global economic environment. But, that, of course, means looking at a variety of other instruments of economic policy that extend well beyond the purview of trade, even though many of them reside in the Committee's jurisdiction.

The Economic Challenge Facing America

If you asked me to define the critical economic challenge confronting America, globalization would not top the list. The greatest challenge we face is demographic. We have a rapidly aging workforce, which means many more retirees and fewer productive workers. With fewer workers, we will need to raise our productivity significantly simply to maintain our existing standard of living, much less raise it. In my view, we should bend every tool in our economic policy arsenal—whether in tax policy, trade policy, transportation policy, or education—toward lifting our productivity.

That is not as simple as it sounds since professional economists do not always agree on what economic policy inputs succeed in raising our productivity and our economic growth. Doing it in the face of the continuing competitive pressure generated by globalization makes it seem doubly difficult.

The good news is that the competition that globalization brings is absolutely essential to drive the gains in productivity that contribute most to improving our efficiency and raising our standard of living. What's more, by lowering the cost of putting the tools of the global economy in the hands of American workers, trade liberalization and globalization can contribute to their ability to compete.

Now, workers also need the training necessary not only to do their current jobs, but to adjust to changes in the market for their services. They would also benefit from an environment that facilitated their ability to move from job to job and industry to industry without losing their health insurance and retirement benefits.

Businesses need roughly the same things. They need economic policies that encourage their ability to retool just the way workers need the training to adjust to changes in the market. Businesses also need policies that reinforce their ability to reap efficiencies from the shop floor as well as the step change in technology that flows from their spending on research and development.

What you can see immediately is that government has a critical role to play in setting the right environment for both workers and businesses in a way that maximizes their ability to prepare for and shape their own economic future. Indeed, that should be the focus of our economic policy response to globalization.

Economic Policy in a Global Age

Given the analysis set out above, what should the Committee explore in terms of changes in U.S. economic policy? Let me offer just a few examples that might point the way toward a more coherent response to globalization and offer our firms and workers the opportunity to succeed in a global economy.

By all means, the Congress should assert its traditional oversight responsibilities with respect to the negotiation of trade agreements and the conduct of trade policy. Congress should also focus intently on developments in the dispute settlement processes under the World Trade Organization and our bilateral agreements to ensure that we are using those tools aggressively in our exporters' interest. Congress should also reexamine our unfair trade laws to ensure that they serve their purpose, which should be to deter unfair trade practices, rather than become a vehicle for ongoing protection, often at the expense of other American manufacturers.

That said, more of the Committee's focus and the Congress' focus should bear on creating the economic environment that encourages adaptability and adjustment. The Committee should, for instance, reexamine the basis for the research and development tax credit which helps startups but does nothing significant for our manufacturing base despite the billions of dollars they invest in research and development in order to maintain their competitiveness in the global economy. Similarly, if the Committee wants to encourage equity investment and entrepreneurialism, as well as close the trade deficit, it should eliminate the preference for debt under the Tax Code that has given us a highly leveraged economy and eliminate the double taxation of a worker's income that a tax on interest and dividends implies.

From the perspective of workers, the Committee should reexamine our adjustment assistance programs. First and foremost, the Committee should question why, if the most valuable training takes place on the job, we have a program that obliges workers to get out of the job market for an extended time in order to qualify for benefits, all the while their skills are eroding.

Second, the Committee should examine whether the adjustment assistance we offer should be linked to trade, which simply creates the need to define a layoff as trade-related in order to qualify, rather than acknowledging that the adjustment workers face is now a permanent feature of the American economy and that workers would be better served by a program that was designed with that in mind, rather than a now largely artificial link to an increase in imports.

Third, the Committee should look closely at enhancing the portability of health insurance and retirement benefits in ways that reach beyond the current commitments to portability.

Finally, the Committee should examine alternatives, such as picking up the cost of moving expenses in lieu of training, when a worker can find employment elsewhere and is prepared to move.

My own instinct is that both the business community and labor leaders would be willing to work with the Committee in developing an agenda along those lines because it has one important virtue—it would actually come to grips with what both businesses and workers actually face in terms of competing in a global economy.

Trade Policy's Role

Our trade policy should dovetail with that more comprehensive strategy to come to grips with what globalization really demands of both U.S. businesses and workers. In that context, the Committee has an opportunity to shape the future goals of our trade policy as it prepares to consider renewal of the President's Trade Promotion Authority ("TPA").

Indeed, the negotiating objectives set out in TPA should serve as Congress' voice on trade policy. It should reflect the Committee's aspirations for our trade policy, as well as providing our negotiators with their instructions. In that regard, I do think we should renew our focus on eliminating trade-distorting subsidies and other policies and practices designed to shift investment and employment artificially from one country to another.

I know that much of the focus of organized labor has been on negotiating objectives that would require increased labor protections and stronger enforcement of those rules under the domestic law of our trading partners. Having worked on that issue both on the Hill and in the Administration and having been a part of negotiations on the topic, I have to say that I am honestly skeptical that the approach will achieve labor's aims.

I wonder whether it would make more sense as a pro-labor, pro-worker agenda to focus intently on those distortions in other countries' trade policies and practices that artificially encourage a shift in investment and employment to their markets, rather than where the market would otherwise dictate. Ultimately, the fight is not about labor standards, as worthy a goal as that is. It is a fight over jobs—whether the jobs will be here in the United States or whether they will shift in response to trade and investment-distorting practices of our trading partners.

Let me suggest an example that illuminates not just what I think a truly pro-employment trade policy would look like, but also underscores why we need to engage more broadly on the negotiating front, rather that walk away from the negotiating table at this stage, which the failure to renew TPA would imply. The example involves China.

China's currency peg has received an enormous amount of attention in the past couple of years. Most objective analysts agree that the renminbi is undervalued. But, what is not clear to me is that the currency peg is the most significant trade and investment distortion extant in the Chinese system.

The argument generally runs that we should compel China to revalue its currency upward or demand that it float. What most fail to consider is that a revaluation is likely to work only under certain circumscribe conditions, most importantly conditions under which China maintains its currency controls at the same time. It is worth thinking through the logic of a position that would fully eliminate all barriers to the free float of China's currency, including the elimination of the currency controls.

Currently, China's pool of savings is larger than its economy. Those savings are currently invested in an effort to prop up its currency. That means China buys our Treasury bonds as a way of sopping up the dollars in its economy and the excess liquidity they represent. What that means both from an individual saver's perspective in China and from the perspective of the Chinese economy as a whole, that they are making a poor investment—one that generates a significantly below market rate of return.

What would happen to those savings if the average Chinese saver was able to invest freely anywhere in the world, which is what a complete liberalization of the Chinese currency regime would actually imply? Those savings would seek a higher rate of return; one that would not necessarily flow from further investment in China's overheated property markets or another steel mill. To the extent those savings flowed abroad in search of a higher rate of return, it would put downward pressure on the renminbi, not encourage its appreciation. The net result would be a fall against the dollar (or at least a limit on the renminbi's upward rise).

In short, we should be careful what we wish for on the currency front. But, the more serious problem, in my view, is that the focus on currency diverts our attention from a far more injurious set of economic policies and practices. Currently, Chinese state-owned banks account for much of the finance that drives investment in manufacturing capacity in China, particularly in basic manufacturing like steel. Those state-owned banks continue to lend for political reasons in many instances and their exorbitant nonperforming loan rates translate into a zero cost of capital for their borrowers. Imagine what that does to distort investment in manufacturing worldwide.

The answer to that problem, moreover, lies squarely within the ambit of our trade policy. It involves opening the Chinese market to U.S. and other financial institutions that would enforce stronger capital market discipline on lending throughout the Chinese market. Such discipline would eliminate the distortions that the current Chinese practices create, which translates into jobs. It also identifies a target for which our traditional trade policy tools would be extraordinarily useful.

In other words, negotiating an agreement that opened the Chinese market further to U.S. banks and financial firms would not only increase our services exports and help redress the bilateral trade balance with China, it would also offer the possibility of doing more about the underlying complaint of U.S. workers, which relates to employment opportunities more than labor conditions in China.

In fact, even if the goal was to address China's labor practices directly, I wonder whether we would not be better off addressing them in pure trade terms. To the extent that the Chinese houkou system, which ties labor to specific enterprises, limits their ability to seek employment elsewhere, it is, in economic terms, a significant subsidy to any Chinese firm that benefits from the undervalued labor. That is not to dismiss the serious and legitimate human rights questions that attend the houkou system, but we may find that we have a better case by presenting the problem in traditional trade terms that we would if we make the case purely in terms of labor rights.

In short, there are many things that trade policy can do to help create an environment in which the playing field is level and, frankly, I think it is ultimately consistent with the notion of free trade to ask for the elimination of those sorts of trade-distorting practices mentioned above. But, the point should be to use trade policy where it is best calculated to achieve our aims, rather than in those instances in which other economic policy tools would be better equipped to help American firms and workers succeed in the global economy.

Thank you.

Chairman RANGEL. Thank you very much.

Now we go to Dr. Gene Sperling, my friend, who has been advisor to Presidents and a voice in international as well as national economics. We thank you once again for sharing your views and your time with the Congress and, more specifically, with this Committee. Thank you.

STATEMENT OF GENE B. SPERLING, SENIOR FELLOW AT THE CENTER FOR AMERICAN PROGRESS AND DIRECTOR OF THE CENTER FOR UNIVERSAL EDUCATION, COUNCIL ON FOREIGN RELATIONS

Mr. SPERLING. Thank you, Chairman Rangel, Congressmen McCrery, Herger, Levin, and the Members of the Committee. Thank you all for the tone that you have set starting out.

I would start with the notion that when we judge economic policy, to borrow from John F. Kennedy, we focus not just on whether we are raising the tide, but whether or not our policies are lifting all boats. I think the critical question that the country wants to know about trade and globalization is: Is it strengthening or hollowing out the middle class? Is it leading to the development or exploitation of poor people here or around the world? I think that is the question of which we need to focus this and other policies.

I also think we do need to come together, as you are suggesting, on a new compact on globalization, a new consensus. I would like to point to three areas that I think we have to do well on together.

One, as Dan was suggesting, or I would perhaps put it, the debate on trade I often say is like divorce court. It is two sides simply marshaling every bit of evidence they can against the other with no nuance, no willingness to look at cost and benefit. Sometimes I have called this the trade over blame game versus the discount pain game. Let me say that I think we have all been a part of it. I want to say I have been a part of it. I regret it.

Five years after the North American Free Trade Agreement (NAFTA), we helped organize an Administration press conference on the strengths of NAFTA. We did nothing but give the benefits. All we did was argue our case. I regret that. I don't think that is the way that we should carry on. I think we need to, as this Committee is trying to do, look at what works and doesn't work, and all sides being willing to acknowledge those benefits and costs going forward.

Second, we need to ensure in this new compact that our trade policies are consistent with our values. Let me draw the distinction. It may be painful, but it is one thing when we lose jobs and productions to developing countries because they are at a lower cost, a lower stage of development, and have lower labor and other costs. That is one thing.

It is another thing to lose jobs because countries are participating in a race to the bottom through child labor, through putting labor union officials in jail, through sweatshops. That is a type of competition that is not consistent with our values.

Therefore, I do believe that labor standards do fit and are a critical part of ensuring that the competition we participate in is enlightened, and that the country and the public can look and support it. I think labor standards therefore have to stress that countries enforce their laws, that they strive to reach the International Labor Organization (ILO) core labor standards, and there be enough of an enforcement for them to be taken seriously.

Second, however, though, we can't just take a punitive approach to developing countries and look like we are there just to impose our will. So, while we need enforcement, we also need to have positive partnerships like the Cambodia agreement. We need to look at monitoring what is happening on the ground. We need to combine our development strategies so that we are working together to lift up labor rights, safety nets, the universal basic education of countries.

If that is the global—if the first two are more honest debate, and second, a compact on our values on globalization abroad, as has been mentioned, a critical part will be having a compact on jobs and economic dignity here in our country. Part of that is unquestionably helping people deal with dislocation. I think there are a few things we need to do.

One, policies from now on have to be universal. They can't be tied to how you lost your job. As Mr. McCrery said, the difference between technology, globalization, and trade, they all blend together. If a worker loses their job, they need help regardless of how they did it.

It needs to be one stop, one place. It needs to be simple. It needs to be broader. It needs to include wage and perhaps help on mortgages, and most importantly, universal health insurance. There is nothing that causes more anxiety than the fear that losing your job will lose your health insurance.

I will also tell you something everybody in this—everybody who runs your office knows. If you go to the public and just say, here are all the things I am going to do once you lose your jobs, they say, that is just a better band-aid or burial insurance.

So, if you want to have—you need to help people ensure economic dignity when they lose jobs. You have to have a strong job compact that focuses on making sure there are not tax incentives for moving jobs overseas, that there is trade enforcement, that we have education and research. These are all part of the compact.

The last thing, and I will go very briefly, is—and this is a big question—is how do we deal with trade going forward before we have implemented this broader new compact? On one hand, you could take the approach that all trade is good and you just have to keep going forward. On the other hand, you could decide to put everything on hold until you have fixed all these things.

I encourage this Committee to instead take a case-by-case approach, where you see if you can make enough of a downpayment on some of these things to make some progress. I think it was legitimate for people to vote against the Central American Free Trade Agreement (CAFTA). In that case, I don't think it was as important, and I think the agreement represented a step backward on labor standards.

I encourage this Committee to think differently on Doha because I worry that the world looks at us as being anti-multilateral, when they look at our reactions on climate change, on international criminal court, on Iraq. I believe that people are starting to think that the United States has lost its desire to work in a multilateral context.

I don't want the United States to be seen as the scapegoat for why something called the development round failed. I also know that for many people who have been skeptical on trade, they cannot vote for this unless there is somewhat of a downpayment.

I encourage the Administration to try to work with you on that downpayment, to see if they could make agreement on going forward with the Jordan model, on future free trade agreements, on strengthening the ILO, on getting more environmental protections into Doha. This is the type of downpayment that I think could be in exchange for a limited—a limited—TPA just for the Doha round so that we are not blamed for killing the agreement.

The last thing is simply to say that I know that many things I mentioned may be policies people disagree with. You can't have it both ways. If the passage of the Doha round is so important to global peace and global economy, every side has to be willing to make compromises.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Sperling follows:]

Prepared Statement of Gene B. Sperling,[1]
Senior Fellow, Center for American Progress, and
Director, Center for Universal Education, Council on Foreign Relations

Thank you, Chairman Rangel, Ranking Member McCrery, Congressman Levin and other Members of the Committee.

I would like to take this opportunity to both suggest why we need a new consensus on trade and globalization and what the steps are that we might begin to make to realize that consensus.

There is little question that our Nation has benefited enormously over its history from engaging in the free flow of ideas, goods, and services in the global economy. Yet, that same engagement has increasingly become a source of economic anxiety among working families who question whether global economic integration is designed to help the few or the many. There is real concern among typical Americans as to whether globalization and trade will raise all boats, or will lead to a race to the bottom.

One can see the expanded economic anxiety in several trends:

- **Wage Stagnation After a Period of Growth:** The typical family has not seen their income grow in inflation-adjusted terms during the recovery. After increasing 15% between 1993 and 2000, real median household income as calculated by the Census fell 2.7% between 2000 and 2005. Similarly, real wages as calculated by the Department of Labor have been flat for the majority of the recovery. From November 2001 through August 2006, average weekly earnings declined in real terms, and have now risen a mere 2.4% overall in 5 years.
- **Divide Between Wages and Productivity Growth:** While productivity and wages grew together during the 1990's, there has been a recent disconnect. Between March 2001 and September 2006, productivity grew at an annual 3.1% rate, while real average hourly earnings grew at an annual 0.5% rate through December, *one-sixth as fast*.
- **Up-scaling of Economic Anxiety, Spreading to White-Collar and Service Workers:** One of the most volatile economic issue of the last 5 years has been the rise of "tradeable services"—as Lori Kletzer and Brad Jenson of the Institute for International Economics have termed it—and the resulting offshoring of jobs traditionally done in the United States. Anxiety about offshoring has deepened as more and more types of jobs have been hit.
- **Even the College Educated Have Not Been Insulated:** The inflation adjusted earnings of college graduates have not risen during the recovery. Between 2001 and 2005, mean earnings for those with a bachelor's degree or more

[1] Many of the ideas reflected in this testimony are laid out in greater depth in Gene Sperling's *The Pro-Growth Progressive*, Simon & Schuster, 2005. Gene Sperling is also the Director of the Center for Universal Education at the Council on Foreign Relations.

fell 1% for men and were flat for women, according to data in the Current Population Survey, after significant increases in the 1990s.

- **Fear of Falling—The Pain of Downward Mobility:** While job loss is always painful, Americans increasingly fear that loss of a job will lead to a more permanent and significant fall in their standard of living. As anthropologist Katherine Newman has written, downward mobility is not just a loss of material comfort, but "an eviction from the American dream" that "calls into question the assumptions upon which lives have been predicated." There is evidence to support this anxiety. Yale economist Jacob Hacker has documented the rise of income volatility over the last several decades. For instance, he shows that for the portion of families that experience income declines (and excluding those families that find jobs at the same or better wages), falls are becoming deeper: In the 1970's, the median income decline was 25%, and now it is over 40%.[2] A recent study by Princeton Professor Henry Farber found that as a group, displaced workers faced a 17 percent decline in wages due to displacement between 2001 and 2003, more than double the 7.8 percent decline displaced workers experienced between 1997 and 1999.[3]

The fear of a polarized workforce—where you are okay at the top, or okay if you have a job that requires you to be physically in the United States, but more at risk if you have a middle class or working-poor job that can be digitized or done elsewhere—is unquestionably contributing to a polarized debate on trade and globalization. On one side are those who dismiss the threats of globalization and are entirely confident in the larger benefits it delivers; on the other side are those who feel the current trading and globalization system is so rigged against the typical worker that the United States should pull back completely from any trade liberalization efforts.

Neither of these perspectives would be in the best interest of the United States or the global economy, and therefore it seems important for a strong effort to find a new consensus—a new common ground—on globalization. I cannot claim to have the perfect roadmap but wish to suggest four areas where we should seek to move forward.

I. Willingness for Less Adversarial Debate

The current debate on trade often resembles divorce court: two bitter sides each marshal their best case for their position, and make almost no effort to acknowledge legitimate concerns or valid arguments of their opponent. I have described this before as the "trade-over-blame" versus the "discount pain" game, with some seeking to over-attribute all economic problems to trade, and others seeking to simply assert positive historical trends while refusing to acknowledge the dislocation that trade can cause—including the downward economic spiral of entire communities. Few of us can claim to be exempt from having contributed to this negative dialog. When I was National Economic Advisor, several members of the economic team did a press briefing on the 5th year anniversary of NAFTA. I regret to say that in our effort to counter critics, we fell into the same trap: We simply presented all the positive facts that existed, as opposed to giving a balanced assessment of what had been successful or had not worked in NAFTA.

We need to get past the point where advocates on either side feel that acknowledging pros and cons is a sign of weakness, rather than a sign of recognizing the complexity of the matter. Take the issue of imports in the United States. Those who favor trade speak only of the positive impact of imports—their role in boosting consumption, driving innovation and competition within U.S. industries, and enhancing productivity—without recognizing the potential negative impacts of imports on communities and jobs in particular regions. Those focused on the dislocation impacts, however, are hesitant to acknowledge that most Americans like—indeed crave and search out— lower prices for consumer goods, and measures that raise prices on needed consumer goods can operate like a regressive sales tax for those with the lowest incomes. Recognizing that trade barriers may raise prices for families, or that low-cost imports can cause real hardship to certain communities, does not prevent one from arguing for or against a trade agreement—it simply puts the costs and benefits in better perspective.

II. A Globalization and Trade Compact Consistent with Values

Our second goal in building a new consensus on trade should be for both sides to establish that while we in this country welcome dynamic markets just as much

[2] Jacob S. Hacker, "The Privatization of Risk and the Growing Economic Insecurity of Americans," *Social Science Research Council*, October, 2005.

[3] Henry Farber, "What Do We Know about Job Loss in the United States?" *Federal Reserve Bank of Chicago* 2Q: 13–28. 2005.

as anyone, we also commit to a type of competition that is *consistent* with American values; a competition that is designed to not only raise the tide, but to lift all boats here and abroad. While some believe that labor standards do not belong in trade agreements, they can play an important role in ensuring that increased trade is not coming at the expense of the positive forms of competition to which we aspire.

In a global economy that is already as integrated as ours is, we cannot pretend that jobs and production will not at times shift to locations where nations can offer lower costs of production, including lower costs of labor. However, it is one thing to see jobs shift abroad because a developing nation is at a lower stage of development and can offer lower labor costs as a competitive advantage. It is another thing to see jobs leave due to practices abroad that directly offend our values: child labor, imprisoning labor leaders, and sweatshop conditions.

The AFL–CIO made this point in testimony before Congress. As Thea Lee, Assistant Director for International Economics at the AFL–CIO, related regarding the AFL–CIO's 2004 China petition:

> "The AFL–CIO's petition did not challenge China's right to compete in the global economy on the basis of low wages. It is natural for a developing country with an excess supply of poorly educated rural workers to have low wages. . . . The AFL–CIO challenge was specifically targeted to the *incremental* cost advantage that comes from the brutal and undemocratic repression of workers' human rights. That increment was then and remains today illegitimate advantage under universal norms of human rights." [4]

To achieve a type of global competition that is consistent with American values, we should draw on the following tools:

1. Clear, Enforceable Labor Standards. Labor standards, similar to environmental standards, are a legitimate and compelling guarantor against a race to the bottom—they are our safeguard against an economic globalization that relies on unfair labor practices to achieve lower and more competitive prices. In particular, labor standards need three critical components to be effective; they need to (1) uphold the ILO core standards; (2) make labor provisions truly enforceable; (3) be used to incentivize change, and not just to punish.

- *The Jordan Model:* The labor standards in the U.S.-Jordan Free Trade Agreement should be the model for future bilateral and regional trade agreements. First of all, the U.S.-Jordan FTA was hallmark in that it included both an "enforce your own laws" provision, along with an explicit mention of the ILO core provisions. The FTA reads: *"1. The Parties reaffirm their obligations as members of the International Labor Organization ("ILO") and their commitments under the ILO Declaration on Fundamental Principles and Rights at Work and its Followup. The Parties shall strive to ensure that such labor principles and the internationally recognized labor rights set forth in paragraph 6 are recognized and protected by domestic law. . . . 4. A Party shall not fail to effectively enforce its labor laws, through a sustained or recurring course of action or inaction, in a manner affecting trade between the Parties, after the date of entry into force of this Agreement."* Second, the U.S.-Jordan FTA is a model agreement because it ensures that both the "enforce your own laws" and the "strive to improve your laws" provisions are enforceable with tough and meaningful sanctions. Some of the loss of support for trade agreements in recent years has been due to movement away from the Jordan model.

2. Promoting a Positive Partnerships and Incentives Approach, Not a Punitive Approach. Those of us who wish to have meaningful labor standards often stress the importance of having enforcement that is as effective for labor standards as for other areas of trade. Yet, it is important that in our legitimate desire for enforcement, we not give the impression that our approach to labor standards is a punitive one. My experience as National Economic Advisor showed me that however well-intentioned our push for labor standards was, it was easily capable of being viewed by poor nations as a heavy-handed U.S. intrusion on the sovereignty of a nation at a lower stage of economic development. It is important for us to make clear in our language and approach that our goal is not to impose our will on others, but to provide positive incentives and partnerships to help workers abroad rise together with us in the global economy.

[4] Thea Lee, "On Human Rights in China: Improving or Deteriorating Conditions." Testimony International Relations Subcommittee on Africa, Global Human Rights, and International Operations. April 19, 2006.

- *Labor Standards as Incentives:* The ideal approach should be to use labor standards in a positive way, to incentivize countries to improve workers' rights and working conditions—in order to gain greater access to U.S. markets. This was precisely the approach of the Clinton Administration with the Jordan FTA; in that case, the goal was to welcome more extensive trade with Jordan, but to condition such engagement on real efforts by Jordanians to improve and enforce their domestic labor codes. During the CAFTA negotiations, a willingness by the Administration to work with Congress on securing core labor standards in the agreement would have signaled to governments in Central America that a commitment to reform was central to increased access to the U.S. Unfortunately, the Administration moved backwards with CAFTA.
- *Positive Partnerships and Incentives: The Cambodia Model.* Perhaps the most powerful way to incent our trading partners to upgrade their domestic labor codes is to forge deeper partnerships, *whereby we link market access to labor standards improvements in an ongoing manner*. The U.S.-Cambodia textiles agreement is most instructive. In 1999, the Clinton Administration signed a 3 year trade pact with Cambodia that granted up to 14 percent annual increases in Cambodia's quota of garment imports to the U.S., in exchange for a commitment by Cambodia to work with the ILO to improve its labor standards. Within 2 years, Cambodia had welcomed and worked with trainers from the AFL–CIO and ILO, had passed a national minimum wage law, had unionized dozens of factories, and had been granted a 9 percent increase in its U.S. textile quota. Although the Cambodia pact expired at the end of 2004—when the Multi-fiber Agreement expired—the Cambodian government as well as garment factory owners decided it was in their interest to continue working with the ILO, and to position themselves as a place for socially responsible business.[5] Since 2005, the ILO reports that its factory inspections in Cambodia have quadrupled, and that the level of compliance within the factories has continued to improve.[6]

3. Adding New Tools. Despite the importance of core labor standards, there are other tools we should have in our toolkit on this matter. It is important to recognize that as Karen Tramontano of the Global Fairness Initiative has related, even strong labor standards will do little to help the millions of workers in the informal economy. Furthermore, some of the downward spiral for workers and farmers in poor nations engaging in trade comes from not just a lack of labor standards, but a lack of sound safety nets.

- *Stronger Monitoring System.* One effective tool that could be expanded is the use of an independent monitoring system to enhance the transparency of labor and environmental conditions abroad—in nations with and without specific trade agreements with the United States. This is especially important in subcontracting. Many multinationals monitor standards in their own factories, but do not monitor or understand the conditions of their multiple subcontractors.

Studies by economists—such as Richard Freeman and Kim Elliot of the Institute for International Economics and Michael Hiscox of Harvard University[7]—have shown that there is a sizable consumer market for labor friendly products in the U.S. Anecdotal evidence shows that reports of labor violations *do* make a difference for consumers, and consequently for producers—examples include New York Times' reporting of child labor in GAP factories in the late 90's, and Bloomberg News' report about the use of slave labor in the production of Brazilian charcoal last September. The Fair Labor Association, a voluntary association of businesses, labor rights groups, and NGOs, that was formed in 1997, operates an international network of monitoring watchdogs, and releases annual reports. Twenty brand-name companies, including Nike, Nordstrom, and Liz Claiborne, have signed onto the FLA. Student activists have also pushed their colleges to go even beyond the standards adopted by the FLA. While groups like the FLA are a step in the right direction, Federal funding would surely build their capacity. NGO watchdogs continue

[5] Sandra Polaski, "Combining Global and Local Forces: The Case for Labor Rights in Cambodia." *World Development*. May 2006.

[6] According to the ILO, between January 2005–November 2006, the number of factories included in the ILO monitoring program increased from 50 to 212 and the ILO reported compliance rates of above 80% on the five major metrics it uses to rate the factories. International Labor Organization, "17th Synthesis Report on Working Conditions in Cambodia's Garment Sector." November 31, 2006.

[7] Richard Freeman and Kimberly Elliot, *Can Labor Standards Improve Under Globalization?* Washington D.C., Institute for International Economics, 2003; Hiscox, Michael and Nicholas F.B. Smyth. "Is there consumer demand for improved labor standards?" Harvard University Department of Government, 2005.

to expose labor violations throughout international supply chains—the FLA's 2006 report alone found an average of 18 violations per audit.[8] Federal support to elevate the capacity and profile of domestic and international independent monitoring organizations would expose negative labor practices, and give consumers more power to express their values by voting with their dollars.

- *Safety-Net and Labor Rights Capacity Building.* Forming deep, capacity-building partnerships is another powerful tool the U.S. should use to move beyond inserting labor standards provisions in trade agreements, *and towards empowering countries to deliver*. Working with foreign governments to build broad safety nets will help our trade partners welcome responsible globalization, without fearing a backlash. In the Cambodian textile pact, the U.S. donated $2 million over 5 years to both Cambodia and the ILO, to provide Cambodia with the technical assistance needed to upscale its labor standards and to get the ILO monitoring program off the ground. The Department of Labor's International Labor Affairs Board currently has two capacity building programs that seek to help developing countries strengthen their labor protections—the anti-child labor program and the labor-rights promoting program—both of which could be significantly expanded.
- *Universal Quality Basic Education.* In my work as Director of the Center for Universal Education at the Council on Foreign Relations, and as Chair of the U.S. Global Campaign for Education, I have always argued that the investment with perhaps the strongest return in the developing world—and the strategy that would do most to win hearts and minds—is investing in quality basic education for all children, especially girls. The U.S. should follow the lead of U.K. Chancellor of the Exchequer Gordon Brown in making a major investment in countries with strong Education For All/Fast Track Initiative plans. One option would be the passage of the Education for All legislation proposed by Senator Hillary Clinton and Congresswoman Nita Lowey to help the United States take a leadership position in a global effort to provide a free, quality basic education for every child.

III. A Domestic Compact for U.S. Jobs and Worker Dignity

A third dimension of a new globalization consensus is securing a compact for workers in the United States—a compact that both fights for U.S. jobs, and that provides dignity for workers who lose out in the global economy. While there needs to be a major focus on strengthening our adjustment assistance for workers in an increasingly dynamic workforce, it is also clear that if that is all that is pushed by policymakers, many will feel there is a focus only on "burial insurance" or "better band-aids." It is crucial that a new domestic compact also include a strong agenda for job creation.

1. A Compact to Fight for U.S. Jobs. While I cannot list all of the elements that would go into a jobs compact at home, below are some of the elements.

- *Reduce the Burden of Health Care on Employers With Sound Universal Health Care:* Health care is perhaps the greatest additional cost that employers have to pay in the United States as opposed to other countries. Between 2000 and 2006, employers saw premiums for all employer-sponsored health insurance increase by 87%. In 2006 alone, the average *firm* contributed $3,615 for a single person's health plan and $8,508 for a family plan.[9] Meanwhile, our competitors in Europe and Japan are covered by universal health care that is not on the back of employers. We need a universal health care plan so that health care costs are not an impediment to companies adding permanent jobs or keeping their products price competitive.
- *Encouraging Outsourcing to Rural Areas:* The U.S. should by no means throw up its hands and accept that it will be out-competed based by jobs that can be done cheaply abroad. First of all, often wages are less of a component of overall costs than many people assume. Yet, even when wages are determinative, there are certainly areas in the United States—particularly rural areas—where costs may be low enough that we can compete. One report has found that average wages in rural areas are 30 to 40 percent lower than those in urban areas.[10] Providing broadband access and improvements in infrastructure to help communities build on their competitive advantages is a way that even when U.S. jobs

[8] Fair Labor Association, *2006 Annual Public Report*, September 2006.
[9] Kaiser Family Foundation, "Employer Health Benefits Survey," 2006.
[10] Doug Tsurouka, "Rural U.S. Seeks Place on IT Map," *Investor's Business Daily*, January 11, 2005.

are going to move to lower-cost areas, we can compete to keep them in poorer areas of the United States.

- *End Tax Deferral:* An additional ingredient of an active U.S. jobs compact is tax policy reform. We should, as Senator Kerry proposed, end the current system of tax deferral which allows companies to defer tax payments on foreign operating income when they set up operations in low-tax jurisdictions abroad, solely for the purpose of tax avoidance.
- *Create a Foundation for High Wage Jobs at Home:* A U.S. jobs compact must include a more aggressive effort to lay the foundations for *new* job creation at home, especially in high value added industries. Dimensions of this approach include increasing the Federal budget for research—as opposed to the recent flat-lining of NIH, a dramatic new commitment to research and innovation for alternative energy, helping regional governments and universities form clusters that attract cutting-edge jobs, and expanding initiatives such as the Manufacturing Extension Partnership to ensure our factories are using first class equipment with the highest capital productivity. And of course, strengthening our education system—especially intervening early to get more young people from disadvantaged areas motivated and equipped in math and sciences and interested in seeking college degrees—is key.
- *Take Enforcement Seriously:* In addition to pushing China to not manipulate its currency, we should ensure American workers that we expect adherence to trade agreements and the WTO rules to be a two-way street. In the 6 years from the WTO's creation in 1995 to 2000, the Clinton Administration brought 65 cases—an average of 11 per year. Since 2001, the Bush Administration has brought forth only 16 cases—an average of less than 3 per year.[11]

2. Dignity for Workers. Even if globalization is undertaken in a manner consistent with our values, and even if the U.S. is fighting hard to create jobs at home, it is inevitable that some Americans will lose out in the rapidly changing global economy. Adjustment assistance is not just about reemployment: it is about fighting for the economic dignity of Americans who have worked hard and played by the rules. Losing a job will always be difficult, but it does not have to be traumatic due to fear of losing health care, one's home, and taking quick and devastating falls. There are numerous adjustment assistance policies we could be moving forward with, that do not make the mistake of discouraging job searches and that still bolster our very weak system of adjustment assistance. Note that according to McKinsey Global Institute, the U.S. spends only 0.5% of GDP to help displaced workers, ranking us amongst the lowest for developed nations. The U.K. spends 0.9%, Germany 3.1%, and Denmark 3.7%, even though all of these nations have lower job turnover rates than the U.S.[12]

What would a system that ensures dignity for workers look like?[13]

- *Policies Should be Universal—Not Tied to Trade Agreements:* It is long past time to stop linking adjustment assistance to how one lost his or her job. Similarly situated families are just as hard hit whether they lose a job due to trade, outsourcing, technology, or a change in consumer trends—and in the current economy, it will be harder and harder to even distinguish the differences. All reforms should help all dislocated workers. The U.S. ties its most generous adjustment assistance package to trade-specific job loss, through Trade Adjustment Assistance (TAA). The U.S. is in fact an outlier in this regard—all other OECD countries make the package available to all dislocated workers. Moreover, even TAA is tailored so narrowly that it does not necessarily reach its target population; in 2003, TAA denied nearly half of all petitions for the program, and less than one-quarter of workers who were certified as eligible received income support under the program.[14] Extensive adjustment assistance packages should be available for *all* dislocated workers.
- *One-Stop Shopping, Awareness and Access:* New policies will do little to ease economic anxiety if they are not well-understood, widely known about, and easy to access. Our current adjustment assistance programs are complicated and impossible to navigate. Nearly everyone knows where to go to get a driver's li-

[11] http://www.wto.org/english/tratop__e/dispu__e/dispu__status__e.htm.

[12] Dianne Farrell, "U.S. Offshoring: Small Steps to Make it a Win-Win." Mckinsey Global Institute, March 2006.

[13] For further information on many of these proposals, see: Gene Sperling, *The Pro-Growth Progressive*; and Gene Sperling, "A Rising Tide Lifts All Boats," *Washington Post*, December 2005.

[14] Lael Brainard, et al. "Insuring America's Workers in a New Age of Offshoring." Brookings Institution, 2005.

cense, for instance, but no one knows where to go when they lose their job. Instead, there should be a single phone number, website, and series of one-stop shops throughout the country that any dislocated worker can visit upon job loss.

- *Health Care:* Perhaps the single most important ingredient to ensuring decent work, and a real safety for those who fall, *is a system of affordable, universal health insurance*. Harvard Professor Elizabeth Warren has shown that more than half of all personal bankruptcies are due to uninsured medical costs.[15]
- *Wage Insurance:* Wage insurance should move beyond its pilot status and be a more universal program that allows those who lose jobs to receive, for a period of time, 50% of their lost wages upon reemployment. While details and financing need to be explored it is critical to recognize one fact: Because wage insurance kicks in only when a person finds a new job, it cannot be accused of being the type of program that discourages job search, as some European models have been accused of.
- *Mortgage Insurance:* Mortgage insurance programs have been successfully piloted at the local level in numerous States to prevent individuals who lose their jobs—and cannot meet mortgage payments—from going into foreclosure. Specifically, North Carolina, West Virginia, and Massachusetts all have such programs. A Federal initiative, even one that empowered more State programs, could be a welcome addition to the safety net for dislocated workers.
- *Preemptive Policies:* A limitation of virtually all existing and proposed adjustment policies is that they kick in only after job loss or a community has started a downward spiral. Exploring *preemptive* policies to ease dislocation *before* job loss could go a long way in building the consensus for trade and globalization. I have suggested new Federal policies such as "Community Adjustment Compacts," which would be modeled on the Clinton Administration's Empowerment Zones and New Markets Tax Credits programs. Community Adjustment Compacts would provide tax incentives for business investment in communities vulnerable to trade, to stimulate economic revitalization and transition ahead of the game.
- *Flexible Education Accounts:* I have also suggested Federal preemptive retraining policies, and a new Flexible Education Account, to empower workers to transition to new jobs—again—before job loss. The Flexible Education Account would replace the Lifelong Learning Tax Credit with a 50% credit on $15,000 that could be used each decade. This policy would enable workers to get a lot of government help all at once—and perhaps in anticipation of a job change—rather than granting a small credit each and every year.
- *Universal 401K:* A matching credit for all working families for savings could ensure greater savings for Americans, and ensure that during times when capital is getting higher returns than wages, more Americans are benefiting from such investment returns and have cushions for downturns, as well as security for retirement.

IV. Moving Forward on Doha: Sending the Right Signals to the World

The fourth piece of a new consensus on trade and globalization involves sending the right signals to the world, regarding our commitment to a broad multilateral trading system that serves humanitarian and development goals.

1. Need for a Case-By-Case Approach. One of the most difficult issues the Congress and particularly the Democratic leadership will face in the coming months is how to deal with efforts to expand U.S. economic engagement, before the scope of a new consensus or compact regarding trade and globalization is implemented. One perspective is that even if there has been little progress on a broader new compact, it is still wise to support all trade liberalization efforts because of their general economic and political benefits. Another perspective is to put all trade liberalization on hold until there is a complete new global and domestic compact on globalization. I believe both of these perspectives are a mistake, and that it would be wiser to move forward in a case-by-case analysis.

On CAFTA, for example, while passage would have been beneficial to our relations with these neighboring nations, a no vote was a justifiable stance because it represented a step backwards on labor standards especially in light of some of the CAFTA countries' poor records on labor rights. On the other hand, Doha is not a regional deal, but rather represents the future of our multilateral trading system and its aim at least is to make the global trading system more responsive to developing nations. I think it would be a mistake for the Administration and congres-

[15] Elizabeth Warren, "Sick and Broke," *Washington Post*, Feb. 9, 2005.

sional majority to not be willing to both make compromises to allow for at least a temporary expansion of Trade Promotion Authority, limited to the Doha round.

2. Why We Should Care About the Doha Round. For a more detailed approach on why progressives should be concerned about the Doha Round, one should read Dan Tarullo's *The Case for Reviving the Doha Trade Round*. Yet, beyond the specific trade issues, I would encourage the Administration as well as progressives in Congress to consider the risks of allowing Doha to be accused of failing, due to failure of the U.S. to grant trade promotion authority to its negotiators.

- *Exacerbating the U.S. Image as Being Anti-Multilateral:* One of the most distressing aspects of recent years has been the decline of the image of the U.S. among even our traditional allies. The Administration's actions and attitudes toward Kyoto, the International Criminal Court, and our course in Iraq, have signaled to many that the U.S. lacks interest in working meaningfully in multilateral contexts. However unintentional, if Congress is seen as shutting down the Doha process, it will only exacerbate the perspective of the U.S. as supporting a "go it alone" mentality.
- *The Importance of International Rule of Law and Peaceful Resolutions of Economic Disputes.* Whatever legitimate problems one might have with the WTO's internal processes and rules, progressives should not overlook the importance of the WTO. No one should undervalue an international system that permits nations large and small, rich and poor, to resolve disputes through a multilateral process and the rule of law, as opposed to through military action or ad hoc retaliatory measures.
- *Allowing the U.S. to be Seen as a Scapegoat for the Failure to Advance a Poverty and Development Agenda.* One of the reasons that progressives and conservatives should be concerned about our perceived role in the Doha Round is that it has been explicitly dedicated to a global development agenda since 2001. Advocates from across the spectrum have related the power of liberalized multilateral trade. According to Oxfam: "Trade is one of the drivers of development. In recent decades, countries such as Vietnam, China, South Korea, Malaysia, Mauritius, Botswana, and Chile have used trade to generate unprecedented growth rates. . . . If Africa were to increase its share of world trade by 0.1 percent of world exports, the resulting $90 billion generated would be three times what the continent receives in aid and debt relief." This past November, Oxfam petitioned for the extension of the U.S. trade preference programs—the GSP and AGOA programs that Chairman Rangel was so instrumental in passing—touting the number of jobs that depend on trade in developing countries.[16] Indeed, as Oxfam themselves argued just last week, a Doha agreement in and of itself will not guarantee significant progress on development. Furthermore, the Doha Round may fail, regardless of the passage of Trade Promotion Authority. Nonetheless, if the U.S. is unwilling to at least temporarily extend a limited Trade Promotion Authority for Doha, the U.S.—however unfairly—could very likely emerge as the global scapegoat for why this round aimed at development failed.

3. The Responsibility Rests with the Administration to Make a Major Downpayment on a New Global Compact in Exchange for Limited Extension of TPA for Doha. While some will be ready to blame failure of the Doha Round specifically on the new congressional majority if TPA is not extended for the Doha Round, I believe such a blame game on Democrats would be unfounded—unless the Administration made a major downpayment on a new compact for globalization. Over the last 6 years, the Administration has largely ignored the concerns of Democrats on trade and the status or workers here and abroad. The Administration has undermined the role of unions, as documented by Chairman George Miller on July 13, 2006, has made legal changes that could deny 8 million workers the right to organize, has tried to zero out important elements of the Labor Department's international division, and has moved backwards, not forwards, on the enforcement of labor standards that has been traditionally critical to forging greater bipartisan support for trade liberalization.

If the Administration wishes to avoid the failure of the Doha Round—as well as the blame for such—they need to reach out and show a willingness to work with Chairman Rangel, Subcommittee Chair Levin, and Speaker Pelosi on a downpayment on a new compact on globalization. In light of the sensitivities witnessed in Seattle, and the late stage of the negotiations, progress on labor issues is not likely tenable in the Doha Round. Nor are the most important elements of a larger com-

[16] See Oxfam December 2005: "Blood on the Floor: How the Rich Countries Have Squeezed Development out of the WTO Doha Negotiations." See Oxfam, November 14, 2006 Press Release.

pact for workers—such as universal health care—likely to be doable in time for Doha. Yet, there are a considerable number of steps that the Administration could take as a downpayment, in exchange for extended TPA limited to the Doha Round. For example:

- *An Agreement on Labor Standards in U.S.-FTAs:* Even if there is not time to or inclination for Congress to pass a broader extension of TPA, the Administration could help gain support for limited TPA authority for the Doha Round by agreeing to use the Jordan model on labor standards for all future bilateral and regional agreements. The Administration could also call for annual reviews of how countries with whom we have FTAs are doing, regarding the ILO core labor standards.
- *Stronger Environmental Conditions in Doha:* While labor standards may be a nonstarter at this late stage of the Doha Round, many of those closely involved believe greater progress on environmental standards is possible.
- *A Major Commitment to Strengthen and Upgrade the Role and Enforcement Powers of the ILO:* The ILO's "teeth" in promoting workers' rights come primarily from publicizing member countries' violations of workers rights at its annual conventions. The U.S. could strengthen the power of the ILO through increasing its financial commitment, through giving greater clout and visibility to the findings of the ILO through USTR press statements and/or high-level meetings, and through using the ILO more extensively to monitor the implementation of U.S.-FTAs. The Administration could also require compliance to ILO standards by U.S. companies and affiliated subcontractors.
- *Labor Protection Capacity Building:* Doubling the budget of the International Labor Affairs Board at the DOL, or making trade-capacity building efforts more streamlined and effective, would be a good start at working with other nations to prevent a race to the bottom.
- *Encourage the Passage of the Minimum Wage with No Strings Attached:* It will not strengthen the Administration's hand in seeking an extension of TPA for Doha Round if the minimum wage bill is tied up in the Senate. The Administration could contribute to the downpayment by pushing for a stand-alone passage of the minimum wage increase to $7.25

4. The Need for Compromise: You Can't Have It Both Ways. Many in the Administration may, based on past positions, oppose many of the suggestions I have made for a downpayment on a new compact for globalization. Yet, one cannot at the same time argue that passage of the Doha Round is critical for global economic growth and development and then at the same time be unwilling to make serious efforts—including serious compromises—that could be necessary to achieving the bipartisan support necessary for a limited extension of TPA for the Doha Round.

Chairman RANGEL. Do you think it is possible to do a trade promotion authority with conditions as relates to some of the things that you had mentioned, limited to Doha but at the same time taking into consideration labor and environment?

Mr. SPERLING. Here is what I think. I think that the answer is yes, but I think one has to be realistic about what will be seen as constructive and what would be seen as blowing up the agreement.

I think it is unfortunate. At this late stage, if one insisted in the Doha Multilateral Round for the first time including labor standards directly in there, that would probably be seen as counterproductive and I think probably killing the agreement.

However, what I do think is that you could have a limited TPA for Doha and do that in agreement with the Administration pushing on environmental where I think you can make progress, and to doing the things they can do bilaterally—on strengthening the ILO, on encouraging the Jordan model on bilateral agreements, on passing the minimum wage without strings.

I think that that could be the type of limited downpayment that could justify a limited TPA so that at least we could see how the

Doha Round finishes and whether it finishes in a way that is worthy of being called a development round.

Chairman RANGEL. Thank you for your recommendation.

Chairman Meier, Chairman of the board and Chief Executive Officer of Libbey since the company went public in 1993. Since joining the company in 1970, Mr. Meier has served in various marketing positions, including a 5-year assignment with Durobor, South Africa. In 1990 Mr. Meier was named General Manager of Libbey and a Corporate Vice President of Owens-Illinois.

I want to thank you for taking time out to share your views with us. As I told the rest of the panel, I hope that you consider regrouping in an informal way to see whether we can attempt to get a bipartisan agreement of things we should look into in order to move forward with a different view of trade. So, I thank you for sharing your experience with us.

STATEMENT OF JOHN MEIER, CHIEF EXECUTIVE OFFICER, LIBBEY GLASS, INC., TOLEDO, OHIO

Mr. MEIER. Thank you, Mr. Chairman, Members of the Committee. It is indeed an honor to appear before you today to discuss our Nation's international trade agenda. I am John Meier, Chairman and Chief Executive Officer (CEO) of Libbey.

We are the world's second largest glassware manufacturer. We are headquartered and have manufacturing operations in Toledo, Ohio, in continuous operation there since 1888. In addition, we have facilities directly and through subsidiaries in Louisiana, New York, and Wisconsin. Last fall we expanded our distribution facilities in Shreveport, and were honored to have a representative from Ranking Member McCrery's office join us for the announcement. Libbey is a public company, traded on the New York Stock Exchange. We have 3,000 U.S. employees and about 4,000 international employees.

We are an international producer. In addition to our U.S. facilities, we have operations in Mexico, the Netherlands, Portugal, and now China. In addition, we export to over 100 countries.

Glassware is America's oldest industry, dating back to the Jamestown colony in Virginia. Our company is principally engaged in the manufacture of the kind of glassware, tumblers, stemware, mugs, household glass you would find in your kitchen cabinets at home or at your favorite restaurants and hotels all over the world.

In addition, we make and market ceramic plates, bowls, flatware, and other products. We are a world-class producer, but we face enormous competitive challenges from companies, often supported by their governments, operating all across the globe.

Mr. Chairman, I have submitted prepared testimony for the record, but as your advisory indicated, you had a number of key questions, and I will address those.

The philosophy that more trade is always better, no matter its terms and contents: I am here today not to argue the ideology of trade but the reality of trade. As the Chairman and CEO, I have to answer to the shareholders. I also have to answer to other stakeholders in Libbey—our customers, our workers, and our communities in which we operate.

I take those responsibilities seriously, and I am interested in results, as all of our stakeholders are at Libbey. I do not believe that simply the more trade there is, the better. The terms of trade, the conditions of trade, the content and quality of our trade flows matters. It is a clear and direct impact on this Nation's economic strength and our standard of living.

Glassware is the product of high capital investments, cutting-edge technology, and well-trained workers. It is added value that produces good jobs, family supporting jobs. The hourly workers at my company, union members, are paid decent wages and benefits, the kind of jobs that many Americans aspire to.

The reality of trade today is far different in that—what is described by theorists. Comparative advantage may exist for basic commodities, but in today's world where transportation speeds products to marketplace all over the globe, where capital flows freely to the place it can find and gain the highest return, where technology can be applied in virtually any environment, competition is not governed by theories and textbooks but by profits and national interests.

The benefits of globalization are they are being spread broadly. I am a corporate executive. I am not an economist. I will leave to the economists and the policymakers the debate about whether the benefits are being spread broadly enough. I will say our first priority must be to have a trade policy that creates growth, jobs, and equity.

During my career at Libbey, which now spans 37 years, every major domestic competitor that I have faced is either out of business, Chapter 11, or up for sale. Why would we allow foreign governments to get away with subsidizing producers, not enforcing their laws, while turning to the remaining producers here in the United States and saying, we need to make it easier for more imports to come to our markets?

Effectively, many of us would tell you we have an eight-lane highway coming into Peoria, only to face a dirt road back to Rio, Jakarta, or Istanbul. The unfair trade practices of other countries documented year-after-year in the United States Trade Representative's (USTR) annual National Trade Estimates Report and by government agencies puts my company and manufacturing concerns across the country at a disadvantage—subsidies for energy, gas, and other inputs; massive intellectual property violations that affects many products that my company makes as well; the continued ability of our trading partners to rebate their Value Added Tax (VAT) at the border on their exports and apply VAT on imports. It has outdated itself.

Some of the fiercest competitors enjoy dramatically lower labor rates. That is in part a function of their level of development. It is my job to find a way to compete against that, and I am fully prepared to do so.

The question of enforcement of labor rates is not a theoretical esoteric issue. I want other countries to enforce their laws across the board. Simple as that. I have been an advocate of free trade in theory. Unfortunately, in reality it doesn't always exist.

More important to me is the assurance of fair trade—support for further trade liberalization understandably weakens in light of continued foreign unfair trade practices and inadequate enforcement of our laws. I want to make sure that the laws that we have and the trade agreements we have entered into are enforced.

I want to know that our support for the multilateral system of WTO does not mean that we allow for rights and obligations to be imposed on us. I want our negotiators to pursue results-oriented trade agreements and with the benefits that they will yield.

Let me quickly address an important issue that always comes up, training and adjustment. I recognize that we live and work in a global economy, and technology can be shifted from country to country, and transportation and communication continues to—barriers continue to fall.

Our people are not as mobile. Sure, they may be willing to move from region to region as there are major shifts in regional and State economies. Even that, as we know, causes disruption in people's lives and their communities. Unfortunately, the theorists may treat people simply as assets, just like any other input in the process.

I don't view my workers that way. Every job matters. At the same time, every business leader faces the challenge of balancing requirements. In the face of these challenges, I have shut factories in Canada, in California, and now in Mexico. I don't relish those decisions. I don't buy the approach that training and adjustment is the answer for those affected in the U.S.A.

Those issues are part of the equation. All too often they are the primary approach offered by those who refuse to deal with the reality of today's global trading system and the tough competition that we face. I have workers who hope to be able to keep their jobs and work a lifetime in our facilities. They work hard. They play by the rules. Every 3 years, we negotiate with our unions.

Among the topics covered is pensions. It is a pension that gives them a set dollar amount based on years of service. Our ability to maintain this feature in the face of already fierce competition from imports is problematic.

If they lose their job, they may jeopardize their dream to a safe and secure retirement. All too often they go to a job that pays less and has fewer if any benefits. Pensions are cut drastically and retirement as they planned it is gone forever.

It is easy to say, get rid of pensions, corporate executives. Cut wages 30, 40 percent. That isn't reality, and frankly, it is not that simple. Of course as the leader of my company I bargain for a contract that treats my workers fairly but will allow my company to survive and prosper.

All we ask for is policies in trade that permit us to go forward in that hard bargaining. We can find a way. Trade policies that open the floodgates further takes that equation out of our hands and dooms many companies and industries with the stroke of a pen, and I find it unacceptable.

What have been some of the more important successes that you have asked for? I believe our negotiators, our policymakers, have been pursuing many of the right goals, and I believe that the creation of the WTO, with multilateral rules fairly negotiated and fairly enforced, was the right thing to do. I believe that seeking to gain China's entry into the WTO was the right thing. In execution, through acts of commission and omission, I believe our trade policy has not adequately advanced national interest.

In summary, what I do know is that I and many of my colleagues in business feel that the cards are somewhat stacked against us and that we are fighting an uphill battle. I want to find the level playing field that everyone talks about. I know that, given that chance, my company and others can compete with the best that anyone has to offer.

Mr. Chairman, Members of the Committee, like many other businessmen and women around the country, I have faith in the ingenuity and productivity of the people of my company. They make great products, but they do not leap tall buildings in a single bound, and they do not run faster than a speeding bullet. They are not Superman.

I simply want them to have a fair chance to compete. The American dream should be available to anyone who works hard and plays by the rules. We need a trading system that respects and rewards hard work and ensures our ability to fight a fair fight, not one that ties our hands behind our back while somewhat blindly worshiping at the altar of free trade.

Thank you.

[The prepared statement of Mr. Meier follows:]

Prepared Statement of John Meier, Chief Executive Officer, Libbey Glass, Inc., Toledo, Ohio

Mr. Chairman, Members of the Committee. It is indeed an honor to appear before you today to discuss our Nation's international trade agenda.

I am John Meier, Chairman and CEO of Libbey Inc., the world's second-largest glassware manufacturer. We are headquartered and have manufacturing operations in Toledo, Ohio. In addition, we have production facilities directly, or through our subsidiaries, in Louisiana, New York and Wisconsin. Last fall we expanded our distribution facilities in Shreveport, Louisiana and were honored to have a representative from Ranking Member McCrery's office join us for the public announcement. Libbey is a public company traded on the New York Stock Exchange with just under 3,000 U.S. employees.

Libbey is an international producer. In addition to our U.S. facilities, we have operations in Mexico, the Netherlands, Portugal and now China. In addition, we export to over 100 countries.

Glassware is America's oldest industry—dating back to the Jamestown colony in Virginia. Our company principally is engaged in the manufacture of the kind of glassware—tumblers, stemware, mugs, and household glass you would find in your kitchen cabinets at home or at your favorite restaurants, and hotels all over the world. In addition, we make and market ceramic plates, bowls, flatware, and other products. We are a world-class producer, but we face enormous competitive challenges from companies—often supported by their governments—operating all across the globe.

During my career with Libbey—which now spans 37 years—every major domestic competitor that I have faced is either out of business, in Chapter 11 or up for sale. Some of the more recognizable names: Corning Consumer Products, now under the name of World Kitchen, has gone through Chapter 11; Oneida, Chapter 11; Anchor Hocking, Chapter 11; Wheaton Glass, Chapter 7, shut down, and gone; Federal Glass, Chapter 7, shut down and gone; and Indiana Glass, up for sale. Talk about an industry facing challenge.

I'm here today not to argue the ideology of trade, but the *reality* of trade. As the Chairman and CEO, I have to answer to the shareholders. But I also have to answer to the other stakeholders in Libbey—our customers, the workers and the communities in which we operate. I take these responsibilities very seriously. I'm interested in results—as are all Libbey's stakeholders.

The reality of trade today is far different than that described by the theorists. Comparative advantage may exist for basic commodities, but in today's world where transportation speeds products to marketplaces all over the globe, where capital flows freely to the place where it can gain the highest return, where technology can be applied in virtually any environment, competition is not governed by theories in textbooks, but by profits and national interest.

I'm proud of the products the people who work for Libbey produce. Our hourly employees are members of the United Steelworkers, International Brotherhood of Electrical Workers and the Glass, Molders and Pottery Workers, with the vast majority being Steelworkers.

We produce high quality products and continually invest in new technology and equipment to remain ahead of our competition. Globally, as a percentage of sales, our capital expenditures have been an average of 7.7% per year between 2002 and 2006. Over this period that translates to $183 million we've invested in maintaining and enhancing our competitiveness. We've dramatically accelerated these expenditures: In the last 4 years we made capital improvements equal to the amount spent over the previous 9 years.

Glassware has been treated as an import-sensitive product for more than three decades. In essence, this means that imports of glassware have been subject to tariff rates to moderate their impact on domestic manufacturers like Libbey. NAFTA and the WTO Uruguay Round treated glass tableware and ceramic dinnerware used in hotels and restaurants, as import-sensitive products by making smaller tariff cuts and/or providing longer tariff phase-out periods than generally applied to other products, and even exempting certain product categories from any tariff reductions.

Nevertheless, Libbey, and other domestic producers, have faced an onslaught of imports into the U.S. market. We have seen our industry face the same problems that many domestic manufacturers have faced. Between 1975 and 2000, the industry has seen a 38% decline in the number of operations. During this same period, union membership in the industry declined by 47%. These trends continue.

In 1996, two of our major competitors—China and Turkey—accounted for 12% of the market in one important category of glassware. By 2006, this had skyrocketed to 53%! During this period, the compounded annual growth rate in these products from Turkey was 27.8% and from China was 23.2%. To say it another way, our trade policies have hardly been a hindrance to dramatic import growth.

Libbey is prepared to compete. We're investing in plant, equipment, technology and our people. And, while it has become the term of the day in political circles, to be honest, all we really want is a level playing field.

Why would we allow foreign governments to get away with subsidizing their producers and not enforcing their laws while turning to the remaining producers here in the U.S. and say: "We need to make it easier for more imports to flood our markets?" Effectively, many of us would tell you, we have an eight-lane highway coming into Peoria, only to face a dirt road back to Rio, Jakarta, or Istanbul.

The unfair trade practices of other countries—documented year-after-year in the USTR's annual National Trade Estimates Report and by other government agencies—puts my company, and manufacturing concerns all across this country, at a tremendous disadvantage: Subsidies for energy, natural gas and other inputs; massive intellectual property rights violations—and this doesn't just effect movies and music—but the products my company makes as well. The continued ability of many of our trading partners to rebate their VAT taxes at the border on their exports, and apply their VATs on imports, further adds to our problems. This last issue is clearly an outdated approach that should be abandoned.

Some of our fiercest competitors enjoy dramatically lower wage rates. That is, in part, a function of their level of development. It is my job to find a way to compete against that, and I'm fully prepared to do so. But the question of the enforcement of labor rights is not a theoretical or esoteric issue to producers like Libbey. I want other countries to enforce their laws all across the board as it has an impact on their cost structure and their ability to compete here and around the world.

I have always been an advocate of free trade—in theory. Unfortunately, in reality, it just doesn't exist. More important to me is the assurance of fair trade. And, support for further trade liberalization understandably weakens in light of continued foreign unfair trade practices and inadequate enforcement of our trade laws.

And in the face of this I have seen U.S.-taxpayer resources offered to help enhance the competitive posture of my competitors.

As I noted earlier, my company is an international producer. We import from and export various products to China to expand our product line here and to help build demand for our products in China. We have begun development of a facility in China to serve the dramatically growing China market.

I recognize that we live and work in a global economy. Transportation and communication barriers continue to fall. Capital is freely mobile. Technology can be shifted from country to country on a moments notice.

But, our people are not as mobile. Sure, they may be willing to move from region to region as there are major shifts in regional and State economies. Even that, as we know, causes major disruptions in people's lives, and in their communities. Unfortunately, the free trade theorists treat people simply as assets just like any other input in the production process.

I don't view my workers that way. Every job matters. Every business leader faces the challenge of balancing his requirements. And in the face of these challenges I have shut factories in Canada, California, and now Mexico. I do not relish those decisions. And I don't buy the approach that training and adjustment are the answer for those affected in the U.S.A. Yes, those issues are part of the equation. But, all too often, they are the primary approach offered by those who refuse to deal with the reality of today's global trading system and the tough competition we face.

I have workers who hope to be able to keep their jobs and work a lifetime in Libbey's facilities. They work hard and play by the rules. They deserve my support as well as that of their government. Every 3 years, we sign a contract with our union. Among the topics covered have been pensions. It is a pension that gives them a set dollar amount based on each year of service. Our ability to maintain this feature in the face of already fierce import competition is problematic. And if they lose their job, they may jeopardize their dream of a safe and secure retirement. All too often, the job they may have to go to pays less and may have fewer, if any, benefits. Their pensions are cut drastically, and their retirement, as they planned it is gone forever. It is easy to say get rid of pensions or cut wages 30–40%; but reality isn't that simple. Of course, as the CEO I have to bargain for a contract that treats my workers fairly but that will allow the company to survive and prosper. All we ask is for trade policies that permit us to go forward and do that hard bargaining. We can find a way. But trade policies that further open the floodgates take the equation out of our hands, and dooms many companies and industries with the stroke of a pen. That I find unacceptable.

Our first priority must be to have a trade policy that creates growth, jobs and equity. Leading with transition assistance sends the strong message that our policies are heading in the wrong direction. It sends a message that we are effectively ready to abandon companies and industries on a wholesale level. A part of the package, yes. A lead feature, hardly.

I've spent most of my life in manufacturing. I believe that a country, to be strong, needs to have a strong and vibrant manufacturing base. Sure, like any consumer, I want the opportunity to buy products from anywhere in the world at the cheapest possible price. But, I also know that the huge growth in imports is influenced by the national competitive strategies of our trading partners—subsidies, dumping, inadequate enforcement of laws.

Mr. Chairman, Members of the Committee. Like many other businessmen and women around this country, I have faith in the ingenuity and productivity of the people in my company. They make great products. But they do not leap tall buildings in a single bound, they do not run faster than a speeding bullet. They are not Superman. Idealism has its place; but so does reality. I simply want them to have a fair chance to compete. The American Dream should be available to anyone who works hard and plays by the rules. We need a trading system that respects and rewards hard work, and ensures our ability to fight a fair fight. Not one that ties our hands behind our backs, while blindly worshipping at the altar of free trade.

Thank you.

Chairman RANGEL. Thank you, Mr. Chairman. I not only want our businesses to have a level playing field, but I want them to have a fair advantage over other companies. So, we have a lot to work together on. I look forward to working with you.

The next witness is Harold McGraw, Chairman and CEO of The McGraw-Hill Companies and also the Chairman of the Business Roundtable and the Emergency Committee for American Trade. Since my transition, I have had long discussions with him. I want to thank you so much for the assistance and advice that you have given, but more importantly, your willingness to work with this Committee to see, with the Administration, whether we can come up with something that is a lot easier to work with than what we are wrestling with today. So, thank you again, Mr. McGraw.

STATEMENT OF HAROLD MCGRAW III, CHAIRMAN, PRESIDENT, AND CEO, THE MCGRAW–HILL COMPANIES, AND CHAIRMAN, BUSINESS ROUNDTABLE, AND CHAIRMAN, EMERGENCY COMMITTEE FOR AMERICAN TRADE, NEW YORK, NEW YORK

Mr. MCGRAW. Well, thank you and good morning, Mr. Chairman and Congressman McCrery and Members of the Committee. As the Chairman said, I am Harold McGraw. I am the Chairman and CEO of The McGraw-Hill Companies, and I am here on that behalf as well as being Chairman of the Roundtable and the Emergency Committee on American Trade.

We really, really welcome, Mr. Chairman, and applaud your bipartisan approach—and these are vital subjects, obviously, globalization and trade—because in many ways we are at a defining moment for America's future and its role in the world economy.

Globalization for sure transforms markets, industries, people, economies. The question for the United States is not whether to participate in global integration and the global economy, but how to compete, how to win, and how do we make the benefits of globalization fair and inclusive.

Currently the United States is the largest economy in the world. Going forward, as we all know, we are entitled to nothing. The world is changing rapidly. We either engage and deal with change or we fall behind.

This is about America's competitiveness and economic growth in a global economy. Trade, a critical component, is a subset of globalization. Pursuing a pro-trade agenda is a growth issue.

We also need to enhance U.S. competitiveness through changes in our domestic policies to ensure a competitive workforce, as well as competitive cost structures. My written statement provides some recommendations and some examples of the value of these pro-growth policies and the benefits of globalization.

In my remaining time, Mr. Chairman, I will address your questions.

First, trade is vital to the economic growth of our citizens and our economy. In fact, imports are essential to our standard of living and U.S. competitiveness. Without imports, many U.S. households would not be enjoying home computers, fresh fruit in the winter, or a morning cup of coffee.

Imports enable U.S. companies and their workers to compete in the global economy by ensuring access to competitively priced inputs and end products. As our domestic automobile companies recently explained before the International Trade Commission, imports are an important part in promoting their competitiveness overall.

Exports provide U.S. businesses with access to new and expanded markets they otherwise would not have without a global marketplace. They support 15 million American jobs, 10 percent of our workforce. Investment also has strengthened the United States.

Second, the benefits of globalization are being spread broadly, but we need changes in our trade policy. Consumers benefit from imports, which have led to improved variety, quality, and price of goods. U.S. productivity is supported significantly by global engagement, in part from companies' responses to competition such as innovation and investment in research and development and other areas. Workers in firms that are globally engaged receive wages and benefits that are 13 to 18 percent higher than employees in purely domestic firms.

More must be done. We must level that playing field for U.S. companies, farmers, and their workers through multilateral, regional, and bilateral agreements. We need to complete the Doha development agenda negotiations. We need to implement the Peru, Colombia, and Panama trade agreements. We need to move forward aggressively with negotiations with Korea and Malaysia.

We need to revitalize and make bipartisan that congressional/executive/trade relationship, including renewing trade promotion authority. We need to promote enforcement of commitments with China and other key economies. We need to eliminate these regressive tariffs and other U.S. barriers on products such as clothing, footwear, or sugar, which have a particularly negative effect on lower income consumers.

Finally, we need to ensure that those facing the costs of globalization are not left behind. The quickening pace of innovation and the level of globalization has increased worker displacement and the normal phenomenon of job turnover.

For instance, in any given 3-month period, we know that we gain 7 to 8 million jobs, at the same time that we eliminate 7 to 8 million old jobs. This is little consolation to workers who lose their jobs or undergo serious disruptions. The response cannot be to freeze the U.S. economy at any one stage.

We need to renew and significantly modernize the trade adjustment assistance program to effectively provide workers and farmers with new skills necessary to compete. These changes also will help spread globalization's benefits internationally, and together with capacity-building and technical assistance will help bring hundreds of millions out of poverty, particularly in Africa and the Middle East.

Finally, there are many, many successes fostered by trade, and we put those in our written statement, Mr. Chairman. Certainly the U.S. information technology industry is one of the most globally engaged of all U.S. industries. U.S. service firms are also among the most competitive in the world. The United States is the leading worldwide exporter of services, with over $380 billion in exports in 2005. Finally, there are just many, many examples of small- and medium-sized companies competing globally with great success.

Mr. Chairman, I applaud your push for bipartisanship, and I hope this means that we have a chance for a new beginning.

[The prepared statement of Mr. McGraw follows:]

Prepared Statement of Harold McGraw III, Chairman, President, and CEO, The McGraw-Hill Companies, and Chairman, Business Roundtable, and Chairman, Emergency Committee for American Trade, New York, New York

Mr. Chairman, Congressman McCrery, Members of the Committee. Good morning. My name is Terry McGraw, Chairman, President and CEO of The McGraw-Hill Companies.

I welcome the opportunity to appear before you today to address the vitally important and complex issues of trade and globalization not only on behalf of The McGraw-Hill Companies, but also as Chairman of the Emergency Committee for American Trade (ECAT) and Chairman of Business Roundtable.

The McGraw-Hill Companies is a global information services provider headquartered in New York. We employ 20,000 people in 280 offices in 40 countries worldwide. You know us best through the McGraw-Hill imprint in education, Standard & Poor's, J.D. Power and Associates and *Business Week*.

Both Business Roundtable and ECAT are associations of chief executives of major American companies with global operations who represent all principal sectors of the U.S. economy. Business Roundtable and ECAT companies are significant participants in the U.S. and global economy.

We are at a critical moment for the future of the United States and its role in the world economy. Globalization transforms markets, industries, people and economies:

- We face the rise of powerful global economic rivals, some of whom were minor competitors a decade ago, competing beyond national boundaries.
- We face economic integration and competition on a global scale.
- We face global competitors who are moving forward with their own domestic competitiveness initiatives and actively negotiating free trade and investment agreements to eliminate barriers that adversely impact their trade.
- We face a rapidly evolving international business climate driven by technological innovation and a surge in world energy prices.

Whether the United States should pursue a pro-trade agenda is not a partisan issue. It is a growth issue. Therefore, the question for the United States is not *whether* to participate in global integration and the global economy, but *how* to compete, how to win in it, and how we make the benefits fair and inclusive.

International trade and investment policies are among the key policies to meet the challenge of globalization. However, standing alone, they are not sufficient to ensure U.S. international success and the broad enjoyment of globalization's benefits. We will need to enhance U.S. competitiveness more broadly in order to lay the foundation for the success of our businesses, workers, and farmers in the global economy. We need a competitive workforce (which requires, among other things, a new focus on science, technology, engineering and math education), a competitive cost structure (which requires, among other things, health care reform), and other policies that promote innovation and leadership. Solutions must involve the wide cross section of this country—business leaders, Congress, the Administration, workers, farmers, consumers and communities—and a broad, sustained bipartisan effort to advance our national interest. In short, this hearing could not be more timely.

My testimony will examine the opportunities and challenges presented by increasingly integrated economies throughout the world and how we believe trade and investment policy, as well as domestic policies, can best and broadly promote economic growth and rising living standards here and abroad.

The Importance of Trade and Investment for All Sectors of the U.S. Economy

As recognized by the Chairman in noticing this hearing, "trade and globalization present opportunities and challenges." We agree.

Overall, trade and investment liberalization has provided strong benefits for the United States, its farmers, manufacturers, service providers, workers and consumers. While oftentimes so widely dispersed that it is difficult to recognize, these benefits provide a strong case for continuing the path of trade liberalization that the United States started more than 70 years ago. Nevertheless, improvements should certainly be explored to ensure even greater benefits for the United States. Before discussing ways to improve and expand these benefits, I think it is important to focus first on the benefits the United States is currently enjoying from trade and investment.

The Benefits of Exports

As the world's largest exporter of goods and services, the United States enjoys substantial benefits from the rules-based trading system and the lowering of tariff and non-tariff barriers worldwide. The more than $900 trillion in goods exports and $380 billion in services exports, based on 2005 figures, represent impressive productivity and opportunities here in the United States.

- Ten percent of all U.S. jobs (approximately 15 million jobs) depend on exports.
- Jobs that depend on exports pay 13 to 18 percent more than the average wage.

These benefits go to large and small companies. For example, Pacific Plastics & Engineering, a small specialty plastics manufacturer started in 1989 in Soquel, California, is not only succeeding in the U.S. market but in the Indian market as well. While the company has invested in India, it has also doubled its workforce in the

United States to over 100. The flexibility to export products and access production abroad has enabled the company to maintain competitive prices and better serve customers in both India and the United States.

While we face steep competition from companies abroad, the United States' world-class farmers, manufacturers and service providers have continued to succeed. U.S. manufacturing exports have increased 82 percent since the end of the Uruguay Round that created the World Trade Organization in 1995. U.S. services exports have doubled since 1994. One in every three U.S. farm acres is planted for export, and 27 percent of farm profits accrue from exports.

The potential liberalization in agriculture, manufacturing and services that is the objective of the Doha Development Agenda negotiations provides the potential of enormous benefits, particularly when nearly 96 percent of the world's consumers live outside the United States. We strongly support the work of our negotiators in seeking a breakthrough in those talks that will promote new and concrete market access in all key sectors, including agriculture, manufacturing and services.

The importance of exports to the U.S. economy makes bilateral, sub-regional and regional trade agreements that open markets a vital piece in the strategy of moving forward on a beneficial trade policy. U.S. trade with existing FTA partners has proven to be a significant benefit to the U.S. economy, accounting for approximately $925 billion, or nearly 36 percent, of total U.S. trade and 45 percent of U.S. exports. U.S. goods exports to each of its major FTA partners have increased significantly after the FTA was first implemented. Consider the following growth in U.S. goods exports:

- U.S. goods exports to the NAFTA countries more than doubled between 1993 and 2005, from $142 billion to $332 billion, growing faster than U.S. exports to the rest of the world.
- U.S. goods exports to Chile almost doubled between 2003 and 2005, increasing from $2.7 billion to $5.2 billion in just 2 years.
- U.S. goods exports to Singapore increased by nearly 25 percent, from $16.6 billion in 2003 to $20.7 billion in 2005.
- U.S. goods exports to Australia increased 10.5 percent, from $14.3 billion in 2004 to $15.8 billion in 2005.

Overall, U.S. exports to FTA partners have grown 20 percent faster than U.S. exports globally. Similarly, U.S. services exports to our FTA partners have expanded at high rates.

The Benefits of Imports

The benefits of imports to the U.S. economy are widely enjoyed, but not always recognized.

- Imports increase the variety and availability of products accessible to consumers throughout the United States, providing Americans with improved choices, such as seasonal fruits and vegetables now increasingly available all year, a wider variety of consumer products, and access to products not produced in significant quantities in the United States, such as our morning cup of coffee.
- U.S. consumers and the economy as a whole also benefit from the lower prices and, therefore, greater purchasing power, that increased international competition promotes. This has enabled, for example, 73.4 percent of households to own a personal computer.
- Imports support millions of American jobs in the transportation, wholesale distribution, retail, marketing and other sectors, while also supporting American manufacturing jobs by allowing use of lower-priced inputs.
- For many companies, imports of key inputs improve their competitiveness in the global economy. Conversely, testimony by the major U.S. automakers in the recent sunset reviews of certain steel antidumping and countervailing duty tariffs emphasized how higher tariffs hurt U.S. competitiveness overseas. Similarly, restrictions on sugar imports have undermined the competitiveness of many confectionery and processed food manufacturers in the United States.
- The impact of imports on prices also plays an important role in dampening inflationary pressures and, in turn, keeping interest rates low.

U.S. trade policy and the role of imports is an area of particular importance as the Committee considers how to broaden the benefits of globalization. At present, U.S. tariffs are highly regressive. That is, they place a higher burden on lower-income individuals by maintaining some of the highest tariffs on staple products required by all consumers, such as clothing and footwear. As analyzed by last year's *Economic Report of the President*, overall U.S. tariffs are very low—about 1.4 percent, while tariffs on staple consumer products are over 30 percent. Furthermore, tariffs on items more commonly purchased by lower-income individuals, such as lower-priced sneakers, are oftentimes higher than tariffs on items bought by higher-income individuals. As the Committee considers how U.S. citizens can more broadly share in the benefits of trade, we strongly urge that work continue, as it has in free trade agreements with Central America and the Dominican Republic, to lower highly regressive U.S. tariffs. In other areas, tariffs and barriers to imports of input products, such as sugar, undermine the competitiveness of our manufacturers of further processed goods.

The Benefits of Investment

Investment, both within and outside the United States, is also an important driver of economic growth and productivity. U.S. foreign direct investment outflows generate substantial U.S. exports; indeed, the largest market for U.S. exports is foreign-based subsidiaries of U.S. companies. As examined in depth in ECAT's *Global Investments, American Returns* (*GIAR*) (1998) and the *1999 Update*, as well as other major studies, foreign direct investment of American companies has *complemented*, rather than substituted for, economic activity in the United States in areas determinative of productivity, such as research and development and capital investments. In addition, over 70 percent of the total income earned by the foreign affiliates of U.S. firms is repatriated. This in turn has promoted economic growth and a higher standard of living in the United States.

At the same time, the foreign affiliates of American firms are an important market for American companies with global operations, accounting for over 40 percent of U.S. exports. As Business Roundtable's March 2004 paper *Securing Growth and Jobs: Improving U.S. Prosperity in a Worldwide Economy* showed, "outsourcing" is considerably more complex than generally depicted, and when global sourcing is analyzed in detail, we see a net positive for the United States.

Some numbers tell the story of the important role investment plays in supporting U.S. jobs and growing the U.S. economy:

- Exports of goods by U.S. companies to their foreign affiliates totaled $157 billion in 2003, accounting for nearly one-quarter of all U.S. goods exports.
- Approximately two-thirds of U.S. exports are made by U.S. companies with investments overseas.
- Every dollar of outward foreign direct investment is associated with $2 in U.S. exports.
- U.S. companies' foreign affiliates remitted more than $250 billion in income to the United States in 2005 alone. Total sales of U.S. affiliates abroad exceed $2.2 trillion annually.
- For every one job that U.S. companies created in their foreign affiliates, they created nearly two U.S. jobs.
- Foreign businesses invest in the United States, employing over 5 million Americans.

Like other benefits, these benefits go to companies of all sizes. For example, Behlen Manufacturing, a mid-size company located in Columbus, Nebraska, designs and produces metal buildings, grain storage and drying systems and hydraulic presses. The company sells its products in over 70 foreign countries. With a factory in China, it has been able to both export more from the United States and develop new business opportunities in the world's fastest-growing large economy. Revenues in China increased 12 percent in 2006, and foreign sales now represent a key portion of the company's overall revenue growth.

Other Benefits From Global Integration

Trade and investment liberalization also have worked together to play a vital role in fostering the growth and use of information technology products and services that, in turn, promote productivity and competitiveness of U.S. business entities throughout every sector of the economy as explained in ECAT's 2003 study, *Mainstay IV: Technology, Trade and Investment: The Public Opinion Disconnect*. This and other studies have documented the openness of the information technology sector, which has been increasingly characterized by low tariffs, substantial investment abroad and global product networks. This global integration has helped promote the success of the U.S. high-tech sector, which in turn has helped spur increased labor productivity, a key measure of a country's overall standard of living.

Proposals to Ensure U.S. Economic Growth in a Global Economy

Open trade and investment within a rules-based system have thus served the U.S. well, and the evidence of their benefits is well-established. How do we ensure that our businesses, workers, farmers and consumers continue to enjoy these benefits in the face of new global challenges, and how do we ensure that these benefits are broadly enjoyed, both within the United States and around the world? I would like to put forth eight proposals that I think will put us more clearly on this course. Many of these ideas are set forth in the materials of both Business Roundtable and ECAT, including Business Roundtable's September 2006 report, *Expanding Economic Growth Through Trade and Investment: A Blueprint for U.S. Leadership in the 21st Century*, and ECAT's comprehensive look at trade and investment policy, the *ECAT 2006 Agenda*.

1. Lay the Groundwork for American Competitiveness Through Domestic Policy

U.S. competitiveness in the global economy requires scientific and technological capabilities that keep U.S. companies at the forefront of innovation and make U.S. workers the first choice for companies seeking a skilled and productive workforce. Appropriate government programs should ensure that all American workers have the skills they need to compete and prosper in a rapidly evolving economic environment.

The increasing pace of innovation and level of globalization have increased the problem of worker displacement and the normal phenomenon of job turnover. We know that this process creates far more jobs than it eliminates. For instance, in the third quarter of 2005, the economy created 8.1 million new jobs while eliminating 7.4 million old jobs. But this is little consolation to workers who lose their jobs and undergo serious disruptions. The response cannot be to freeze the U.S. economy at any one stage. Government policy should instead aim to facilitate these structural transitions, to facilitate job creation and growth, while at the same time easing the short-term pain accompanying transition. We look forward to working with this Committee as it works to renew and, where appropriate, modernize the Trade Adjustment Assistance program that expires on September 30, 2007, so that it can help workers meet the challenges of the 21st century.

At the same time, many companies, including Business Roundtable and ECAT members, have developed their own worker retraining programs to help address the concerns about dislocations caused by technological developments, trade, and other forces. These companies have focused on continued education and intensive retraining through the use of community colleges, the Internet, and other education resources. These programs, in conjunction with government efforts, represent an important facet of worker readjustment and training efforts.

Other critical steps that we need to take include the following:

- Strengthen American leadership in research and development and innovation.
- Improve education, particularly in science, technology, engineering and math, to build a competitive workforce.
- Revise the U.S. international tax rules to make our companies more competitive.
- Address America's energy challenge.
- Eliminate disincentives to U.S. trade and investment.

2. Support U.S. Negotiators in Achieving a Breakthrough in the Doha Development Agenda (DDA) Negotiations

The successful conclusion of the DDA negotiations has the greatest potential to increase benefits for the widest number of consumers, farmers and businesses in the United States. With the world's largest and most open economy, the United States has much to gain from these negotiations. The completed agreements could dramatically change agricultural trade, eliminating export subsidies and creating enormous new market opportunities for U.S. farmers. Adoption of U.S. proposals would result in the elimination of all tariffs by 2015 and eliminate many key tariff barriers, providing enormous opportunities for U.S. manufacturers and service providers. Depending upon the final outcome, some estimates predict that the DDA could provide a net increase in annual incomes of $2,500 for a typical American family of four; lift 500 million people out of poverty; and help promote an improved standard of living at home and abroad.

As I discussed earlier, the more that the United States can do to eliminate its own regressive tariffs and barriers in this context, such as on apparel, footwear and sugar, the more it can promote effectively benefits of trade liberalization throughout the U.S. economy.

3. Level the Playing Field by Supporting the FTAs with Peru, Colombia, Panama, Korea and Malaysia and Russia's Entry into the WTO

The United States signed two comprehensive, high-standard bilateral trade agreements in 2006 that will require congressional review and approval in 2007: the United States-Peru Trade Promotion Agreement and the United States-Colombia

Trade Promotion Agreement. The agreements will open market opportunities in agriculture, manufacturing and services for U.S. companies and their workers, will promote continued economic reform within Peru and Colombia and will help foster improved ties and broader interests in our own hemisphere. Approval of these agreements when they are sent to Congress will further expand the benefits for the U.S. economy, as well as for the economies of these two trading partners. We strongly support their approval by the U.S. Congress.

U.S. officials have also negotiated a trade agreement between the United States and Panama, which will provide many of the same benefits. This agreement also provides unique economic opportunities for U.S. manufacturers and service providers, given Panama's approval late last year of a multi-billion plan to expand the Panama Canal. We look forward to the United States-Panama Trade Promotion Agreement being submitted to the Congress and strongly support congressional approval.

It is also important to support U.S. negotiators as they seek high-standard, comprehensive and commercially meaningful trade agreements with Korea (our seventh largest trading partner) and Malaysia (our tenth largest trading partner).

In addition, Russia is seeking to join the WTO, having completed a strong bilateral agreement on accession with the United States last November. More work needs to be done at the multilateral level, as well as in meeting the commitments Russia made in its bilateral agreement with the United States. When Russia has taken the needed steps, however, we believe that it is strongly in the interest of the United States to support Russia's accession to the WTO and to provide permanent normal trade relations—PNTR—as was done last Congress for Vietnam, to ensure that the United States gets the full benefit of Russia's market opening and its WTO commitments.

4. Revitalize the Congressional-Executive Relationship on Trade Negotiations

The cornerstone of any successful U.S. international economic policy needs to be a strong congressional-executive relationship on trade policy. There is no higher priority in this Congress than to revitalize that relationship. One aspect is renewal of Trade Promotion Authority (TPA), a vital tool for continued American international economic leadership. The Administration and Congress should work together to craft an enduring solution to TPA renewal that gives both branches, on a bipartisan basis, the tools necessary to provide global leadership in developing international trade and investment policies and guiding negotiating objectives.

The current congressional-executive trade negotiating framework, commonly known as Trade Promotion Authority—TPA—or by its earlier name—fast track—will expire on July 1, 2007. TPA establishes negotiating authority for global, bilateral and regional trade negotiations, consultation requirements and congressional procedures guaranteeing an up-or-down vote, without amendments in a time certain for agreements meeting the requirements of TPA. TPA serves several purposes, including setting forth Congress' overall and principal negotiating objectives; procedures for Presidential consultation with Congress; and procedures for congressional consideration of legislation to implement a trade agreement.

TPA is critical to: (1) enhance U.S. leadership on trade and the President's ability to conclude negotiations with foreign trading partners; (2) facilitate Congress' consideration and implementation of trade agreements; and (3) provide for greater Administration-congressional consultations on issues where both the President and the Congress have overlapping constitutional prerogatives.

If TPA is not renewed, America's ability to negotiate important bilateral, regional and multilateral agreements will be severely compromised. Our ability to open global markets to our industrial goods, agricultural products and services will be diminished, and we will risk losing market share to our global competitors. We will also lose an important tool to anchor U.S. strategic influence around the world.

Between 1994 and 2002, when the President did not have this authority, the United States fell dangerously behind in negotiating FTAs and investment agreements, causing U.S. businesses and farmers to lose market share in Latin America, Africa, and Asia and leadership mantles in these key regions. Since TPA was renewed in 2002, the United States has kept pace with foreign competitors and helped level the playing field for U.S. farmers, companies and their workers.

Today, with the Doha Round in serious question, with unfinished negotiations with key countries in Asia, Africa, and Latin America, and the pressing need for new initiatives highlighted in this testimony, the need for TPA has never been greater.

5. Maximize the Effectiveness of U.S. FTAs

Trade agreements help ensure that U.S. firms, workers and farmers can compete most effectively with their competitors around the world. Without FTAs, U.S. exporters face trade discrimination. For instance, prior to the U.S.-Chile FTA, U.S. exporters faced an across-the-board 11 percent tariff, while Canadian exporters—by virtue of the Canada-Chile FTA—could sell to Chile duty-free.

Congress and the Administration have an opportunity to set a new path, including consideration of FTAs with some of our largest markets, such as the EU and Japan. Given the high stakes in these trading relationships, policymakers should test the conventional wisdom that has ruled out such FTAs and explore pragmatic and effective ways to move forward. Indeed, a U.S.-Japan FTA, endorsed in a joint statement earlier this month by Business Roundtable and Japan's Keidanren, would bring further together the two largest single-country economies in the world with more than $250 billion in bilateral trade.

We also need to ensure that we are tapping the full benefits of our existing FTAs and that they best serve the needs of the U.S. economy. The United States now has a series of FTAs around the world with rules that are not always consistent across agreements. We should forge those FTAs into a coherent system, to harmonize disparate trading rules and link them together—building more formidable trading networks in both scope and membership. The EU has taken such an approach with respect to rules of origin, which define what goods are eligible for preferential treatment under an FTA. The results have increased trade among EU FTA partners by 22 percent.

6. Close the Gaps on Investment and Tax Protection

To succeed in a global economy, U.S. companies must be able to conduct business around the world in an open and equitable environment. Key investment and tax instruments should be expanded to other countries to reach this objective:

Bilateral investment treaties and the investment chapters of our FTAs are critical in protecting U.S. investment against unfair government action that undermines U.S. competitiveness. These instruments can facilitate, protect and increase foreign direct investment and trade. Despite the major stakes involved, U.S. businesses often lack the protections that their European or other counterparts enjoy around the world. The United States has negotiated only 47 BITs. Germany alone has negotiated nearly three times that number. The U.S. shortfall includes some key emerging markets, including China, India, and Indonesia, which have entered into more narrow BITs with many countries, including many countries in Europe. A priority for our future agenda should be narrowing this gap and negotiating meaningful BITs with key markets.

Similarly, tax treaties provide clear ground rules that govern tax matters relating to trade and investment. They protect traders and investors from double taxation of the same income. And they ensure that U.S. investors do not suffer discrimination in the application of foreign tax laws. The United States has an extensive array of tax treaties; but some key markets are missing, and we should continue to press for tax treaties with those markets.

7. Bring the Benefits of Trade and Investment to the World's Poor

This is both a moral imperative and a geopolitical necessity.

Free trade has already shown that it can be the world's most effective anti-poverty program. It has lifted from poverty hundreds of millions of people in Brazil, Mexico, India, South Korea, China and others in the 20th century. It has had a terrific impact on so many lives once consigned to the shadows of the modern world. But it has so far failed to lift hundreds of millions more—people who struggle to survive on 2 dollars a day or less.

U.S. leadership is necessary to integrate the people of the least developed nations into the global economy. We can and should expand our capacity-building programs and reinvigorate appropriate preference programs, along with our broader trade agenda, to help further address these important issues. We can help fill the resource gap that prevents the poorest countries from realizing their potential growth, such as promoting capacity, from physical infrastructure (*e.g.*, seaports and paved roads) to regulatory infrastructure.

8. Continue to Strengthen U.S. International Competitiveness

Finally, as I have set out in my testimony today, we hope this Committee and the Congress will move forward with new trade and investment and competitiveness initiatives to expand U.S. economic growth. However, while enacting and implementing new policies is important, avoiding policy missteps is critical as well. As in the Hippocratic Oath, the most important step U.S. policymakers can take is to avoid unintended harm to the U.S. economy by resisting ideas that may appear to be useful but that may actually have an adverse impact.

Whether we like it or not, the forces of globalization cannot be stopped at the water's edge. Retreating from the worldwide economy to save U.S. jobs would be ignoring not only the lessons of economic change but also the lessons of history. The economic worries of the 1980s—the idea that Japan was replacing the United States as the world's technological leader, the loss of U.S. manufacturing jobs, the growing U.S. trade deficit, and the surge of foreign investment in the United States—sparked numerous proposals to limit on imports and inward and outward investment. The debate today echoes many of the grim predictions that were voiced then.

To its credit, the Congress resisted the many counterproductive ideas then on the table for trade and investment restrictions. Instead, the Congress enacted the Omnibus Trade and Competitiveness Act of 1988 to authorize new trade negotiations and to promote more education, training, technology development and protection of intellectual property. Within 5 years, U.S. companies reestablished their competitiveness, and the U.S. economy, after a brief recession in 1991, created more than 20 million jobs, and produced one of the longest periods of economic expansion in U.S. history.

I do not mean to suggest that the economic picture now is completely rosy. The rate of job creation and wage growth in the United States should be higher. As the source of most job creation, the business community is keenly aware of the employment situation and of our role in training employees and fostering career opportunities. That is why Business Roundtable and ECAT advocate an optimal mix of governmental policies that will be most supportive of higher economic growth and job creation.

We all need to remember the lesson that Japan learned in the 1990s: When you build walls to protect your own companies and workers, in the long run you end up hurting them. Japan went into a recession more than a decade ago from which it has only recently begun to emerge.

As this Committee considers changes to U.S. trade laws, especially U.S. trade remedy laws, we urge you to take into consideration the broader implications of globalization for U.S. companies that are increasingly globally integrated and on U.S. consumers who rely on imports to improve their standard of living. With the changes in the global economy, the simple trade-remedy paradigm of a domestic industry trying to protect itself from unfair trade imports with no other ramifications on the larger economy is rarer and rarer. Increasingly, cases are brought by one U.S. industry that have very negative impacts on other U.S. industries. The recent testimony of the U.S. automakers before the U.S. International Trade Commission in favor of terminating tariffs on imports of steel was based on the competitive needs of a key U.S. industry that was being disadvantaged unfairly by the application of these rules. In other cases, petitioning companies are seeking to block imports from one country to enhance, not necessarily their production in the United States, but their own ability to import from a third country. And no longer is the United States the chief user of these laws; China, India, Mexico and other countries have increasingly been using these types of laws to limit U.S. imports into their markets. I urge the Committee to consider these broad implications carefully as it considers changes to these rules.

Proposals to regulate U.S. foreign investment and investment in the United States by foreign companies also need careful consideration. As I pointed out earlier in my testimony, foreign investment, like trade, has been, and will continue to be, an important catalyst for U.S. economic growth.

And finally, the challenges of China trade should be dealt with on their own terms and not as a stand-in for broader anxieties about globalization. There have been important successes in the U.S.-China relationship, including the enormous U.S. export growth. At the same time, major challenges remain. The Administration, Congress, and the private sector should continue to work together on effective steps to improve access to China's market and adherence to WTO commitments while preserving what is good in the relationship. China trade is too important—in terms of both the real challenges and substantial benefits—to get wrong.

Thank you again, Mr. Chairman, Congressman McCrery, Members of the Committee. I appreciate this opportunity to express my views, and those of Business Roundtable and ECAT, about key trade issues for the 110th Congress. I welcome your questions.

Chairman RANGEL. Thank you, Mr. Chairman.

The last witness on this panel is Dr. Lawrence Mishel, who is the President of the Economic Policy Institute. I thank you for coming and bringing a different view to the serious question of globalization. Thank you for sharing your views with us.

STATEMENT OF LAWRENCE MISHEL, PH.D., PRESIDENT, ECONOMIC POLICY INSTITUTE

Dr. MISHEL. Thank you very much, Mr. Chairman. Let me just jump right into the questions you posed.

First, is more trade better regardless of its terms? First, the benefits of trade. Now, economists believe in transactions among consenting adults. I am an economist, and I believe that trade should be given the benefit of the doubt that it provides benefits.

A big question is: Benefits for whom, and whether it is important to put the pedal to the metal of trade liberalization to make us better off. I don't believe that further liberalization has bountiful gains for the American people. We are a very open economy. It is not as if the issue is: Will we have trade or do we not?

Let me also be the skunk at the party, I am sorry to say, to talk about the real costs of globalization and what is really happening out there to people's jobs and wages. As you know, Mr. Chairman, the typical working family now makes less money than it did 6 years ago. The productivity of this economy has been tremendous in the last 5- or 6-year period, but people's wages are really just a little bit higher. That is for high school workers and for college-educated workers. People are profoundly upset about the economic circumstances, and I think we have seen that in the last election.

So, the question is: How do we address the needs of the American people? The question for this Committee would then be: Does further trade liberalization advance that goal of addressing the needs of the American people, or are there other, higher priorities that we need to seek?

Let me outline the costs of globalization because I think it is usually not talked about. Even economists who deal with this are usually chastised by their fellow colleagues for addressing the costs. You cannot have a conversation with the American people without addressing the things that they see all around them and they experience, the things they hear from their employers, who tell them, you cannot have higher wages or I am going to move your jobs offshore. It is not a matter of economic studies. It is a matter of what people understand sitting around their kitchen table.

The costs of globalization are broad, they are widespread, they are pervasive, and they are large. First and foremost, we see the people who are displaced by trade who have to find other jobs, frequently for less money. That is just a small part of the costs of globalization.

A second cost is the fact that we are now competing with nations across the world. Their increased capacity, our increased competition, lowers the prices of our traded goods. That in turn lowers the wages of the people who are producing those tradeable goods.

Third, employers across the board tend to use the threat of globalization, the need to be competitive, to lower wages. I didn't see anybody challenge the Delphi company when they said, you can no longer earn the wages you have and now can only earn $10 an hour. They say, well, that's not true. Globalization really doesn't have those bad effects. In fact, they are really tremendous effects.

Fourth, investment flows overseas, increasing capacity there, helping them improve productivity, and costing us jobs here.

Perhaps most important, the jobs that we no longer have in manufacturing and in the tradeable goods sector means that those people who worked in those sectors are now competing with workers elsewhere, and the young workers can't get those jobs.

That means, as every economist who studies trade knows, that the costs of trade are the lower wages of all the basically non-college-educated workforce in this country, which is about three-fourths of the workforce. It is not about a small group of dislocated workers. It is about the lower wages of the vast majority.

Those who claim we have big benefits from trade, you can't get big benefits without breaking the engaging. You can't say that there are big benefits without acknowledging that there are substantial costs. We need to look at the costs for the vast majority, not just the costs for the economy as if we are just one consumer and one worker.

We think we need a new approach to globalization. I think the first and foremost starts with what we call a strategic pause. No more trade agreements. Let's get things right in the United States before we press further down this road.

We need to address people's needs for health care. We need to address people's needs for pension. We need to find a way to reconnect the wages and wage growth of people to the growth of the economy and productivity. We need the minimum wage. We need people to be able to have a right to organize a union.

How are people going to accept further liberalization when they are so anxious in their everyday life? It is not all because of globalization. If globalizers don't take into account that the context that your trade policies are operating in are a very anxious group of people who vote, then it would be a mistake.

We need to deal with exchange rate policy, first and foremost. We need targeted investments in energy, education, and new technologies. We need to restore the bargaining power of American workers. We need affordable and accessible health care and pension reform.

We need to freeze programs that encourage importing skilled immigrants rather than allowing Americans to be able to be trained for those jobs. We need to renegotiate a social contract for NAFTA to allow for greater aid flows to Mexico and greater policy autonomy and worker and social protections for all three signatory countries. We need to think about the global architecture for globalization.

We cannot address the costs of globalization with a few middle class tax cuts here and there, nor can we do it with some programs of adjustment, even ones that are generous and high-minded as things like wage insurance.

The issue is not how to take care of a few people that are dislocated and are going to suffer, who we need to take care of. The issue is how are we going to address the people's economic needs and what role trade can do to damage them further, or will we have policies that are going to lift everybody together.

Thank you very much.
[The prepared statement of Dr. Mishel follows:]

**Prepared Statement of Lawrence Mishel, Ph.D.,
President, Economic Policy Institute**

Thank you, Mr. Chairman and Members of the Committee, for inviting me to testify today. I am submitting as written testimony a paper Jeff Faux wrote for EPI's Agenda for Shared Prosperity that addresses the problems globalization poses for America's working families and a set of policy solutions for managing globalization in their interest.

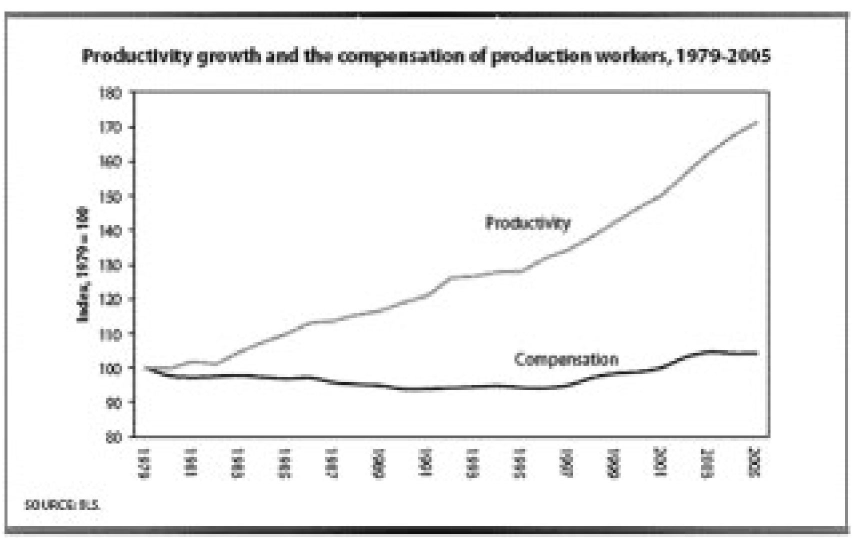
My oral remarks will respond to the questions you posed in the hearing notice.

More Trade Is Not the Answer

First, is more trade better, regardless of its terms? Not for all Americans, and often not even for most. For working Americans, the effects of the enormous growth in foreign trade have been mostly negative, resulting in the loss of good-paying manufacturing jobs, significant downward pressure on wages, and increased inequality. The doubling of trade as a share of our economy over the last 25 years has been accompanied by a massive trade deficit, directly displacing several million jobs. Most of these jobs were in the manufacturing sector, which included millions of union jobs that paid better-than-average wages. In just the 5 years from 2000 to 2005, more than 3 million manufacturing jobs disappeared. We estimate that at least one-third of that decline was caused by the rise in the manufactured goods trade deficit.

U.S. multinational corporations are engaged on both sides of our international trade. About 50% of all U.S.-owned manufacturing production is now located in foreign countries, and a significant part of our manufacturing job loss has been the result of U.S. firms exporting back to the U.S. or producing abroad what they once produced here.

Although the effect of trade on U.S. wages has been less obvious than factory closings or the disappearance of entire industries, trade's effect on wages has been even more significant and widespread. Despite enormous productivity gains and a steady growth in the gross domestic product, the wages and benefits of nonsupervisory workers—80% of the workforce—have been essentially stagnant for the last quarter century. What makes this especially troubling is the fact that, in the past 25 years, the economy has expanded steadily and a better-educated workforce has become far more productive but without sharing in the Nation's economic growth. From 1980 to 2005, productivity in the U.S. economy grew 71%, while the real compensation of nonsupervisory workers grew only 4%. The gap in the tradable manufacturing sector is even greater: productivity rose 131%, while compensation of nonsupervisors grew only 7%. Real median hourly wages for male workers were lower in 2005 than they were in 1973.



This enormous and still-growing gap between the growth in productivity and that of median (or production worker) compensation baffles many economists, but the contribution of trade and globalization to this stagnation is straightforward and predicted by mainstream economic theory. There are many ways in which globalization has created downward pressure on U.S. wages:

- First, the loss of manufacturing jobs to imports leads to wage losses for the displaced workers, many of whom never regain their former wage levels, even when they find reemployment.
- Second, growing world production capacity lowers the price for traded goods, and because pay is tied to the value of the goods produced, the pay of workers competing to make those goods is reduced.
- Third, the threat of direct foreign competition is used by employers to resist wage increases or to bargain for concessions from their employees.
- Fourth, the flow of investment in plant and equipment and technology overseas raises foreign productivity in sectors that used to be U.S. export strengths, resulting in declining terms of trade and hence declining real income growth.
- Fifth, as trade drives workers out of manufacturing into lower-paying service jobs, the new supply of workers competing for service jobs lowers the wages of similarly skilled service workers.

The cumulative downward pressure on wages and benefits is the most significant economic impact of increased trade on America's families.

Neither the Costs Nor the Benefits of Globalization Are Being Widely Shared

In answer to your second question about whether the effects of trade are being fairly shared, the answer again is clearly, no. That trade will make the distribution of income worse is embedded in fundamental economic logic. When American workers are thrown into competition with production originating from low-wage nations, both those workers employed directly in import-competing sectors and all workers economy-wide who have similar skills and credentials will have their wages squeezed. In fact, at the same time as trade flows with low-wage nations have increased, the distribution of income and wealth in the U.S. has grown more and more unequal. Between 1979 and 2004, the richest fifth of American households saw their share of pre-tax income rise by 8 percentage points (from 46% to 54%). The other 80% of American households saw their income shares decline. At the *very* top of the income scale, the changes are even more dramatic: The richest 1% alone saw their income share rise by 7 percentage points (from 9% to 16%) over this same period, meaning that even the income gain of the richest 20% was actually skewed overwhelmingly toward the very richest of the rich.

While it is hard to quantify the precise contribution of trade to this huge and growing inequality, a large number of studies in the early 1990s made an attempt. The resulting estimates are spread widely but most indicated that trade could account for 10% to 30% of the total rise in inequality between (roughly) 1979 and 1995. The commonly made observation that "most" of the rise in inequality was generated by factors other than trade is often emphasized to allay anxieties about globalization. This is true but not very comforting: 10–30% of a very large number is still a large number. As my colleague Josh Bivens puts it, if I threw myself into a chasm that was only a fifth as deep as the Grand Canyon, I would still be dead.

Framed either in terms of dollars per household or scaled against other economic benchmarks that loom large in the public debate, the results are less comforting. If, for example, trade caused 10–30% of the 25-percentage-point change in the ratio of median-to-average wages over the last 25 years, this translates into wages for the median worker that are 2.2% to 6.6% lower relative to a counterfactual of no increase in trade. Given data on hours worked and wages, this translates into a reduction in annual earnings of $1,000 to $3,000 for the median household by 2005.

The volume of U.S. trade conducted with lower-wage trading partners is the key to assessing how much trade impedes U.S. wage growth. Since 1995, trade with lower-wage countries has more than doubled—scaled against total GDP—implying that the effect of trade on wages may be twice as large as what the earlier literature estimated. In short, trade has likely cost the median household between $2,000 and $6,000 in annual earnings by 2005. Note that $2,000 is roughly the amount of the average annual Federal income tax paid by households in the middle of income distribution.

To be clear, increased trade does bring benefits, most obviously in terms of reduced prices for traded goods. Two things need to be noted, however. First, the costs described above to American workers are net of any benefits accruing to these workers from lower-priced imports. Second, the scale of these benefits are routinely over-estimated, often by a lot. As an example, EPI economist Josh Bivens has examined a literature review published by the Institute for International Economics (IIE) that was cited in a recent paper by the Hamilton Project. This IIE review estimated that the benefits to the U.S. economy of trade liberalization stood between $800 billion to $1.5 trillion in 2004 (roughly 8% of total U.S. GDP). Bivens points out that this estimate is larger *by an order of magnitude* than what is predicted by standard trade models. The studies reviewed by IIE, and which provide the foundation for the enormous figure they cite, are generally high-quality. It should be noted, however, that these various studies identify numerous different channels through which trade could conceivably boost incomes, *some contradictory*, and not a single one of these argues for a figure anywhere close to the interpretation in IIE's literature review. In fact, one of the studies most heavily cited by IIE actually finds that trade liberalization has added *absolutely nothing* in benefits to the U.S. economy since 1982, making the IIE conclusion even more puzzling.

If nonsupervisory workers (80% of the labor force) had benefited from globalization, their real wages should have increased over the past three decades. Wage suppression should have been offset by lower prices paid for the goods bought by workers. But real wages of these workers have stagnated, as we have seen. Despite what you hear from many economists, cheap shoes and clothes from WalMart have failed to compensate workers for the costs of globalization (see Atkinson 2002 and Gresser 2006).

There are, of course, industries that benefit from trade, including much of agriculture, various extractive industries, and even some manufacturers. U.S. manufactured exports have increased rapidly since the dollar began to fall in 2002 (8.5% per year through 2005). Exports have grown fastest (in dollar values) in sophisticated and high-tech manufacturing industries such as aerospace and parts, pharmaceutical and medical products, agricultural, construction and other general purpose machinery, and motor vehicles and parts.[1] However, manufactured imports were 83% larger than exports in 2002, and imports have grown even faster than exports (12.9% per year). As a result, the U.S. trade deficit expanded in every single major manufacturing industry in this period. Exports would have had to grow 83% faster than imports (23.7% per year) just to keep the manufacturing trade deficit from growing.

A New Approach to Globalization

The specific changes we recommend for dealing with trade begin with what my colleague Jeff Faux has called "a strategic pause"—halting negotiation and approval of trade agreements until Congress and the President agree on a strategy to cut the trade deficit, increase U.S. competitiveness, prevent further erosion of wages, and provide an effective safety net for Americans. This strategic pause is critical because the more we trade under present conditions, the larger the current account and trade deficits grow and thus the more damage we do to working families.

Elements of such a strategy should include:

- Convening a "Plaza II" conference with major trading partners, including China, to manage a gradual depreciation of the dollar, particularly against those nations that actively manage the value of their currency for competitive gain in the U.S. market.
- Targeted investments in energy, education, and new technologies aimed at expanding U.S. production.
- Restoring the bargaining power of American workers who have been undercut by globalization, through increasing (and indexing) the minimum wage and undertaking labor law reform that closes the enormous gap between workers' desires to join unions and their ability to do so.
- Enactment of universal, affordable health care and pension reform that delivers retirement security to all Americans, not just the wealthiest 20%.
- Freezing programs that encourage importing skilled immigrants rather than training Americans for higher skilled jobs.
- Renegotiating a social contract for NAFTA, allowing for greater aid flows to Mexico and greater policy autonomy and worker and social protections for all three signatories.
- Using U.S. influence in the International Monetary Fund, World Bank, and other global agencies to promote interests of workers, both in the U.S. and abroad.

Once the policies are in place to make U.S. exports and domestic industries more competitive and to ensure that the benefits of economic growth are broadly shared,

[1] Source: USITC "Trade Data Web," *http://dataweb.usitc.gov/*.

trade deals ought to be pursued under new rules that better protect the interests of workers both here in the U.S. and abroad, and which promote stability in the international financial system. Trade agreements that get “fast track” protection must have:

- Enforceable labor rights and environmental standards, with the same priority status as investor rights;
- No restrictions on U.S. or state governments from favoring domestic producers in economic development policies; and
- Inclusion of protections against currency manipulation.

It should go without saying that compensation programs focused only on job losers, let alone a small subset of them, are an insufficient response to the damage caused by current trade and globalization policies. That damage is widespread throughout the labor force, and a program that makes payments only to certain workers who find a job after being displaced by imports could never be adequate, even if it were a supplement to current programs such as TAA and were carefully structured to avoid encouraging workers to take jobs beneath their level of skill and experience.

The measure of our Nation’s trade policies, and for all of our economic policies, must be whether they improve the standard of living of the vast majority of Americans who work for a living. Our current policies have failed that test. It’s past time for a change.

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Chairman RANGEL. Thank you. I am new at this job, and I am 76 years old. So, all this business about pausing and stopping and waiting and—if you were my lawyer, I would ask, can you put this on fast forward? I don’t think too many people would see you as the skunk at a picnic. You are just a—we wish you weren’t there.

I think that the panel is saying in some form what you have said. So, we can’t wait. If we don’t give trade promotion authority, we have to have a good reason for not giving it. I am depending on a lot of you on this panel to share with the Administration that this is a positive first step, or as Gene Sperling said, we want to get out of divorce court into a reconciliation.

If it doesn’t work, all it means is that we tried. I am convinced that Mr. McCrery and I are reading from the same page, even though we have different philosophical beliefs. At the end of the day, we don’t believe that trade and globalization is in our hands. We believe that we have a responsibility to do the best we can to form a policy that we can better agree on because as long as we are in divorce court, there are no winners in this thing.

So, I hope that each of you might take the time out after hearing each other to send a paper to us to see whether it would warrant regrouping and asking you to use your good offices as you talk with people at the Roundtable, at the Chamber, in the Administration, to let them know that it is embarrassing that we are lauded for just talking to each other. That is how bad it has been.

I agree with you it is a good first step, and I yield to the Ranking Member.

Mr. MCCRERY. Thank you, Mr. Chairman. In fact, Mr. Chairman, I would say that this hearing today signifies that we are now officially out of divorce court and have moved into counseling. I welcome that.

The problems that our country faces because of globalization are real. We shouldn't deny that on either side of the political line. We should come together to try to find ways to address that and make it better.

The question, though, one question, is: What do we do with trade in the meantime? Dr. Mishel, you have suggested a pause. Mr. Sperling talked a little bit about a pause. I don't think his pause was on the same level as your pause, Dr. Mishel.

Let me just ask you a couple questions about where we would go during that pause because you seem to indicate that trade and getting goods into this country that are less expensive to the consumer are—that is not a good thing; that somehow we need to protect American jobs.

I am just wondering if that is your point, and if so, how would you do that? Would you erect higher tariffs on imports to ensure that we can continue manufacturing those items here in the United States? Or would you construct non-tariff barriers that would simply keep out imports?

Dr. MISHEL. Well, thank you very much for the question. I am not for either one of those solutions. I am not saying that it is not a benefit to have imports. I am saying we have a trade deficit which is extraordinarily large. We haven't even dealt with the vulnerabilities of the macro-economy to that circumstance.

I am talking about the fact that in the current global trading system, there is nothing that keeps—we have broad access to technologies and imports from around the world. It is not—to me, it is not a big problem in this country to have further liberalization or further access to trade. We are the most open economy the world knows. So, we have ready access to that.

The question is——

Mr. MCCRERY. You are not suggesting that we change that posture?

Dr. MISHEL. I am saying that we have gone down a road. We are now vulnerable because we have an incredible trade deficit, current account deficit; that we have an American people that are ailing in their economics, in their basic family budgets; that we need to think about what do we do to address their basic needs before we think about further trade globalization. The American people don't need that, and people who want to do that——

Mr. MCCRERY. If, Dr. Mishel—let me just interrupt.

Dr. MISHEL. Wait, wait.

Mr. MCCRERY. No. It is my time. Let me just interrupt because I want to get to the point here.

If our very open market here—you don't want to close that. You don't want to change that. Then let's try to boil down the focus to trade here, not currency exchange rates and all that stuff that might affect the macro-situation, which I agree with you we need to address.

With respect to trade, the narrow focus of trade, if we have the most open economy for trade, then it seems to me that these bilateral or multilateral trade agreements that we are entering into don't do us much damage, and in fact tend to equalize or level the playing field because in most part, we are taking down tariff rates and non-tariff barriers in other countries so our manufacturers, our service providers, can compete in those other countries.

Is that not the case?

Dr. MISHEL. It is just hard for me to see that in order to generate the growth that I think good economic policy needs to generate for the typical American, that pursuing things like CAFTA has much to do with that, that pursuing many of these trade deals has much to do with bettering the lives of the typical working family in this country. I think it is——

Mr. MCCRERY. Okay. If you come up with something, let us know, on the trade front particularly, that we could improve. Let's get to——

Dr. MISHEL. Can I just respond to one thing you said?

Mr. MCCRERY. No. Let me—because I am about to run out and I don't want to go past my time. I want to give everybody a chance. I just ran out of my time.

Chairman RANGEL. Go right ahead.

Mr. MCCRERY. Mr. Meier, you said—and I think Dr. Mishel agreed a little bit—that trade adjustment assistance is not the answer. So, I would be interested in hearing from you, not today but maybe if you want to get us something in writing.

What do you think the answer is to help workers who lose their jobs because of globalization?

Mr. MEIER. One thing——

Mr. MCCRERY. Chairman Rangel and I have been talking about, and I have been talking with the Administration about, changing trade adjustment assistance to globalization adjustment assistance so we cast a wider net. It is not directly related to trade, but we try to help workers generally in our economy who are dislocated because of globalization, whether it is trade or not.

So, if that is not the answer, then we can stop those efforts. Don't—because I have run out of time. Mr. Sperling, I would be interested in your thoughts on that as well because you seemed to indicate that you thought we should broaden that net of assistance to workers. So, that would be great if you could help us out with that.

I have a lot of other interesting questions, but I will pass. Thank you, Mr. Chairman.

Chairman RANGEL. Thank you.

Before I recognize Mr. Levin, who is the Subcommittee Chairman, I seriously hope since all of you have a large degree—there is a threat even for the doctor who called himself a skunk—all of you are reading from the same page.

I submit you almost owe it to your country to help us to keep this thing together by coming up with something that business says, hey, it wasn't on my immediate agenda, but it makes a lot of sense.

After you do that, we then would like to meet without the mikes, and sit and talk and see whether we can give the Administration an offer they can't refuse in a bipartisan way.

Mr. Levin.

Mr. LEVIN. Thank you, Mr. Chairman. You and I and Mr. McCrery and others, Mr. Herger, joined in this that the best way to try to restore bipartisanship that is eroded is—maybe it is ironical—taking the lid off our differences, bringing them to the surface. This is the first step in that.

My own view is that what we need to do is not in a sense pause, but really the opposite. That is to try to actively straighten out our trade policies and our trade programs, and do it right away. That relates to Peru, Colombia, Panama. My own judgment is it means to renegotiate certain provisions, which is doable within the TPA time.

I want to concentrate, if I might, Mr. McGraw, on you because in a sense, your testimony comes across as kind of a passive approach to trade. Kind of let it roll and maybe have some kind of a Free Trade Agreement (FTA).

Let me ask you about Korea. Korea has immense barriers against U.S. industrial products, automotive and otherwise. We are negotiating a Korea FTA. Should we insist in those negotiations that they tear down those walls? If you could give me kind of a quick answer because I want to——

Mr. MCGRAW. Yes. The first thing is I am sorry if it came across as passive. There is nothing more passionate on my agenda than the globalization in trade and getting it right.

On the Korean free trade agreement, absolutely. One of the things that opening up a new market—and the whole purpose of a trade agreement—is to bring down walls and make it more competitive for both partners. There has to be a relationship in that part.

So, I do think that with Korea, we do have an opportunity to be able to explain very clearly why—in terms of manufactured goods, why it is very important to have serious——

Mr. LEVIN. Okay. Good. We are going to count on the Roundtable because we are having discussions with the Administration about having that as a major premise, and some measurement. Let me go on. I didn't say you weren't passionate. I said it was kind of passive. Let me pick out a few examples.

You say, "With the changes in the global economy, the simple trade remedy paradigm of a domestic industry trying to protect itself from unfair trade imports with no other ramifications on the large company is rarer and rarer."

Using an example—I don't want to take that example. Just to—it comes across as saying, when it comes to unfair trade imports, we should not be—industries that are affected by them should not have an activist, aggressive effort. Is that what you mean?

Mr. MCGRAW. No. I think that the whole comment when you are starting to talk about the benefits of imports is focusing once again on having very clear rules and enforcing those rules.

So, no, I don't think in any way that would be laissez faire in any sense.

Mr. LEVIN. Okay. Good. Now let me read another. "The economic worries of the '80s—the idea that Japan was replacing the United States as the world's technological leader, the loss of U.S. manufacturing jobs, the growing U.S. trade deficit, and the surge of foreign investment in the United States—sparked numerous proposals to limit imports and investment. The debate today echoes many of the grim productions that were voiced then."

Now, look. We have had a—I don't know if that accurately describes the '80s. I was somewhat involved. Look, we have had a tremendous loss of U.S. manufacturing jobs. True?

Mr. MCGRAW. True.

Mr. LEVIN. So, in that sense, if there is a worry of the '80s, it is a worry of 2007. Right?

Mr. MCGRAW. It is.

Mr. LEVIN. Okay. The growing U.S. trade deficit, we were worried about that in the '80s. It is multiple times that today. Right?

Mr. MCGRAW. Right. Eighty-five percent of our trade deficit comes from countries where we don't have trade agreements.

Mr. LEVIN. Well, we have a trade agreement through the WTO with China, with Japan. We have obligations of China that were negotiated in Permanent Normal Trade Relations. That is a trade—a multilateral agreement is a trade agreement. Right?

Mr. MCGRAW. Well, that was for accession to WTO. That is correct. That makes it binding in terms of WTO rules. Right.

Mr. LEVIN. So, we should actively enforce those provisions.

Mr. MCGRAW. Well, the WTO should actively enforce the accession agreement.

Mr. LEVIN. No. We are the ones who have to file the complaint. Right?

Mr. MCGRAW. Correct.

Mr. LEVIN. Okay. My time is up. I just—and I wanted to quote one other thing, about the lesson of Japan. You say, "When Japan went into a recession more than a decade ago from which it is only beginning to emerge," that when they build "walls to protect your own companies and workers, in the long run you end up hurting them."

I think you would have to acknowledge that in the short run, Japan's industrial policies had some advantages in terms of their development, did it not?

Mr. MCGRAW. Any blanket statement has its implications. Closing borders and going protectionist and any kind of isolationist move is only going to hurt businesses. Japan is a good example. India is another.

Mr. LEVIN. In the long run. I am not talking about isolationism or protectionism. I am talking about government policies. I thank you.

Chairman RANGEL. Let me notice for the Committee that our dear friend and colleague, Mr. McDermott, lost his 97-year-old mother over the weekend. We pray for him.

I would like to recognize Mr. Herger, the Ranking Member of the Trade Subcommittee.

Mr. HERGER. Thank you, Mr. Chairman.

The topic of trade and globalization is critically important to our Nation. It is appropriate that we devote a hearing to it, especially given the Members' interest in trade during our earlier hearings we held last week.

In the testimony today, there was a great deal said about the growth opportunities from trade. In particular, some of you mentioned that many well-paying jobs are created in export-oriented industries.

As you know, in California we have an enormous export sector that supports a vibrant economy. All the sector employs more than 730,000 individuals and ships $117 billion in manufactured goods in the world. My own district is one of the richest agricultural areas in the country, and depends on exports of high-quality products.

At the same time, we need to focus on the value of imports in the trade debate. Often the fact that we import is heavily criticized. However, imports are a positive force in our economy, allowing our manufacturers access to less expensive inputs, driving down costs for us as consumers, and keeping inflation in check. To me, this means that we must maintain a balance in our trade policy that allows us to import as well as export.

Mr. McGraw, would you mind commenting or would you like to comment on that?

Mr. MCGRAW. I think you are absolutely right. The benefits of exporting and the benefits of importing are very clear. It makes us more competitive. It allows us to gain different advantages and therefore new jobs in our marketplace.

We talked about 15 million American jobs are associated with exporting. On the import side, once again, the benefits to our competitiveness is quite strong.

I think the issue that we face in terms of American competitiveness is the fact that the pool for low-skilled work in the United States a couple decades ago was very defined. Therefore, we could pay higher wages for some of that work.

What we have seen with the globalization initiative is that the pool for that low-skilled work has multiplied, and therefore it has put downward pressure on some of those wages, and therefore has created some of the inequality that we have seen.

The domestic policy side to support the rise of those imports has to be focused on domestic policy issues that make our workforce more competitive. That is simply in terms of education reforms in technology, computing, math, science, and those kinds of initiatives, as well as one of the comments that was made here about cost pressures like health care where we spend $4,900 per person compared to $2,800 per person in Germany, $2,100 in Japan.

So, again, it makes us more competitive but it forces us to rethink some of our domestic policies to combat that competitive threat.

Mr. HERGER. Thank you. Mr. Aldonas, do you have any comments?

Mr. ALDONAS. Thank you, Mr. Herger. Yes, imports get a bad rap. We export so we can import. The goal really is to move in a direction where we are producing what we do best. It is like the old line about Michael Jordan doesn't mow his own lawn. He focused on playing basketball. He got somebody else to mow the lawn as a practical matter.

That is what trade really is about. It is about that specialization, and we need the imports to do it. I am reminded of Ricardo's example, his famous one, where he said England should specialize in cloth, Portugal should specialize in wine, and they should trade. Oftentimes when I hear the debate about trade, I think people got it wrong. They are telling the Portuguese to produce wine and go naked. Right? Export but don't import.

In fact, we want the benefits of the imports in the system. What we really need to focus on, though, is that there are tools that we have to provide to our workers in this economy. Most of those tools don't lie in the trade area. It is our adjustment policy. It is education. It is what we do with tax policy. That is what we have.

We are now facing a demographic challenge where we need every worker to be productive. We are going to have more retirees, fewer workers. The challenge for us to raise our standard of living, we need everybody as a part of that process.

That is why I applaud the focus of the hearing because we need to be pulling everybody along if we are going to continue to raise our standard of living. Imports help by lowering the cost of accomplishing that task.

Mr. HERGER. I thank both of you. I thank each of you for your comments. I think what you concluded with is exactly right on target, Mr. Aldonas.

Again, I want to thank Chairman Rangel for this hearing and the fact that if nothing else, hopefully we are beginning to have a dialog between these forces that have been at loggerheads that really should be going hand-in-hand to help each other and help our economy and help our workers and those who are hurting in this.

There is many that are gaining, many that are prospering. Together we can do it. Thank you, Mr. Chairman.

Chairman RANGEL. Thank you.

Mr. Aldonas, we also during this period have to find out what language means. When you say it is not in the trade area, it emphasizes that our U.S. Trade Representative represents business. She represents the United States of America. Now, if she has to bring on the Secretary of Education and the Secretary of Commerce, whatever it is that is good for America, then that is what she represents. We can agree on that language.

Mr. ALDONAS. Couldn't agree with you more.

Chairman RANGEL. Great. It is good to be Chairman. Mr. Lewis.

Mr. LEWIS OF GEORGIA. Well, thank you very much, Mr. Chairman.

Mr. Chairman, thank you very much for holding this hearing. I think it is one of the best that we have had on trade in many, many years, I know since I have been on this Committee. I am grateful to you for calling us together for this unbelievable hearing.

I want to thank each Member of the panel for being here. If we listen to Mr. Meier, and I think we may be out of the divorce court and we are moving toward mediation and reconciliation. I was very moved by what you had to say. You sound more like a labor leader than a business leader. I hope I am not getting you in any trouble. If it is trouble, it is good trouble. It is okay.

Would you like to say more, Mr. Meier, about your testimony?

Mr. MEIER. Sure. Thank you, Congressman Lewis.

No, I am not a labor leader, but I respect the values that they bring and I respect the rights of their people. Where my position on globalization and trade in the United States of America comes down, as with many things in life, moderation versus opening the floodgates sometimes is called for and very much in order.

During the Uruguay Round, as tariffs were modified—and I recognize they will be—and they moved. We respected that and we needed to adjust to it. Where I get concerned representing a small industry, with all due respect, in reading about the Doha Round, much notoriety about agriculture, agriculture, agriculture. It deserves to be heard.

Our industry only employs a little over 15,000 people. My concern at the midnight hour: Will the needs of an industry such as ours, and others, be swept by when I hear discussions of a Swiss formula and a rather rapid implementation of duty elimination?

In due course we will get there. I just don't believe at this time, with the deficits and everything else that we have talked about in this room, that it is a hell-bent for election, let's go in that direction—not that anyone has said that.

I do reflect back on the past negotiations and the way in which our negotiators have found a way to, in a very, I am sure, involved scenario look at the total interest of many and all industries, not to the exclusion of a few smaller ones, which I in this testimony would represent.

Mr. LEWIS OF GEORGIA. Thank you.

Mr. Sperling, I agree with you that when it comes to trade, we need a revolution of values at home and abroad. That is something core, core values.

Could you go into some detail and elaborate? What do you really mean when it comes to core values in trade?

Mr. SPERLING. What I mean is that competition, economic competition in any form, always entails some pain and upheaval. If it was just U.S. companies competing against each other, some win out. Some people lose jobs. Technology changes jobs. We try to structure that in a way that we think is overall a positive sum.

We outlawed child labor. That was not an acceptable form of competition. Jailing workers, union leaders, is not an acceptable form of competition for getting price advantage.

I think that the trick for us is to have those same values when we go globally. Now, if you try to impose on Africa that they be at the exact same stage we have, that they have a $7 minimum wage or something, that would be unfair. They are not at that stage of development. That would not be realistic.

The basic values that are, I think, in the core ILO standards, in our human rights standards on child labor, these are things all countries have agreed on. So, the reason why labor standards are important is it says that when you are competing, yes, we cannot protect you from all the dislocations in the global economy. There may be somebody who can do something as well as we can for cheaper, and we can't protect everybody against that. That is a price advantage that is part of global competition.

If that price advantage is coming from destroying your environment or sweatshops or child labor or from not letting countries have decent labor laws, then that is the type of values that are inconsistent with our values. It is a price advantage by exploiting people in ways we are against.

So, what labor standards say is that when we are opening trade, we are not putting our values on the sideline when we are expanding trade in that——

Mr. LEWIS OF GEORGIA. I am going to run out of time here. I want to try to get another question in here.

There is a perception that our trade policy is hurting hundreds and thousands and millions of our people here at home, and that people are falling farther and farther behind, and the gap, the economic gap, the wage gap, is widened.

How can you destroy or remove that perception? Is trade good in itself?

Mr. SPERLING. First of all, I think a lot of the statistics that Larry Mishel mentioned are ones I agree with. It is not just lower income, non-college-educated people that have not been doing well. There has been enormous wage stagnation, and it has happened at a time with high productivity.

So, I think when people are talking about anxiety and difficulties for average workers in the economy, I agree with them. I think the question is: How do you go forward? My disagreement is that I think that the way we have to go forward is we have to—it can't just be a trade policy.

It has to be, as I said, about first putting the type of values we want in our trade agreements, and then having a strong compact at home that is showing we are not only committed to the kind of globalization adjustment that Congressman McCrery was talking about, which I support, but also that you really are fighting to protect the jobs you can, to create the new jobs that you can, so that you really are saying to American workers, I can't make China and India go away. We can't make all the difficulties involved in global competition go away.

We are waking up every day to make sure you have universal health care. We are waking up to make sure that the Tax Code doesn't discourage job location here, that we are investing in innovation and resources. If I can say, when you say, is trade good in and of itself, no. I think it does depend. That is what I was saying. If trade is based on price competitiveness by people using child labor or things offensive, then I would say no, that is not good.

I do want to make one point. We have talked just about economics here. Congressman McCrery, I am not for a pause of any kind. What I was for was case-by-case, like you do in any policy, as Dan said. In any policy you look at the pros and cons.

I felt on CAFTA that that didn't step forward enough on our labor standards. I didn't feel it was so important that we had to vote yes, even though I think it would have helped our relations. On China to WTO, I just could not be more offended by some of their labor practices. They are offensive. We should be pressuring them.

I had to ask myself, and President Clinton had to ask himself, will we have a safer world 30 years from now for our kids if we bring China in or keep them out? It was a case-by-case. In that case, the foreign policy arguments, I think, were important.

What I just wanted to say in terms of the Doha Round is that I think it is different because the whole world is trying to put together an agreement. Those of us who are progressive, who should care about having disputes resolved by the rule of law, not military force; those of us who believe that we can resolve things in a multilateral way, who don't like the fact that the United States has an image these days of being more unilateral—we should not allow ourselves to become the scapegoat, particularly when the aspiration, whether it succeeds or not, is to help countries like Africa and poor people elsewhere.

So, I do think we have to look at the signals we send. I fear if we send the signal that we are just putting everything on pause, the signal to the rest of the world will be that America is going alone. I just don't think at this stage in our image in the world, that is what we should be portraying.

That is why I encourage the idea of a limited TPA for Doha where the Administration comes through with a limited downpayment on some of these things. They can't pass universal health care tomorrow. They can't do everything you want.

If they could make enough of a limited effort to justify a limited trade promotion authority, that could be the first step in showing that we are listening to each other and we are making steps, making some progress, perhaps slowly, but progress together.

Mr. LEWIS OF GEORGIA. Thank you, Mr. Chairman, for being so patient and allowing the witness to go on.

Chairman RANGEL. Mr. Camp.

Mr. CAMP. Thank you, Mr. Chairman. I also want to thank the panel for their testimony.

Dr. Tarullo mentioned in his written statement—he sort of outlined some of the factors of globalization—the revolution in information technology; the rise of other economies, particularly in Asia—and said that these trends would proceed regardless of whether the United States ever signed another trade agreement.

Is that something you agree with, Mr. Aldonas and Mr. Sperling? I would like to hear your comments if you agree with that precept.

Mr. ALDONAS. Absolutely. The fact of the matter is that technology is changing—our economy, actually, relative to a lot of others in the world is not as open in terms of percentages.

What that means is we just have this huge market that is generating competition and innovation on a daily basis. We would see those technological changes, frankly, even if the market wasn't open to the rest of the world, and we would continue to have to participate, grapple with that, try and educate our people to live in that world.

We are better off actually being in an open environment where we can get the benefit from the world economy under those circumstances. It is something that we are going to face.

The other point is I think we are going to see the rise of other countries. It is inevitable. They are acquiring our skills. They now have the chance to compete. That means we have to put in place policies that are gearing to make sure we stay apace.

Mr. CAMP. Thank you. Mr. Sperling, would these trends continue whether or not we entered into another trade agreement?

Mr. SPERLING. Well, I think that we often do underestimate technology, both its good and its dislocative impacts. The travel agents who have lost jobs—and many have—have lost jobs due to the Internet, not due to international trade. The same with ATMs and bank tellers, et cetera.

So, I do believe that technology would largely go forward. It is the case that when we have more expanded globalization, I think you get more of the good and probably more of the difficulties. The good comes from the competitiveness that happens when our companies have to compete globally and have to face that competition and that innovation and the pressure. They are more likely to be on the cutting edge.

Yet on the other hand, one of the issues we do see is that it is the connection of technology and globalization that is causing lots of dislocation regardless of the trade. It is my experience that a lot of the anxiety in the economy right now is kind of white collar anxiety due to outsourcing and offshoring to India and other places.

That doesn't really have much to do with your trade agreements. That has to do with globalization and technology. That is to me why in terms of globalization I wouldn't even try to determine whether a person lost their job because of domestic technology or globalization or trade. I think it is going to be too difficult to tell in the future.

If two families are next door to each other, they got three kids, they are the same, they each lost their job, instead of figuring out what was the cause of it, I think we should figure out how we can best help them.

Mr. CAMP. Well, I think both of you have made that comment. I would agree with delinking trade adjustment assistance, as it is described in trade, because a lot of times that is an artificial distinction. So, there is a lot of agreement on some of these concepts that I have heard from the panel that I frankly didn't expect to hear today.

Then Mr. Aldonas, you made a comment and I would like to hear a little bit more about that, if you could elaborate on that. If we could open our health care market to foreign competition, that that would be something we should do. Could you elaborate on what you meant by that?

Mr. ALDONAS. Yes. One of the ironies is when you look at the Massachusetts proposal and the California proposal, the mandates for health insurance, is it is focusing on the downstream market for health insurance. It is not talking about lowering the cost of health care in this country, and I am skeptical that it actually will.

What we really need to do is open up the services market in ways that would drive the cost down. At this point, what you could do is you could provide public health clinics in this country by relying on telemedicine that would reach a broad spectrum of people that go without health care at this point at a much lower cost if we were willing to think in those terms.

The reason I say it is really to be provocative. We need to think about trade as a tool to accomplish the goals we all want to achieve in our society. That is the way we should do it. We should see it in that context.

Mr. CAMP. All right. Thank you very much. Thank you, Mr. Chairman.

Chairman RANGEL. Mr. Neal.

Mr. NEAL. Thank you very much, Mr. Chairman.

Mr. McGraw, in your testimony you offered the classic textbook analysis. There is very little to dispute based upon what you suggested. Let me just cite an example, however, of where the textbook really didn't work very well.

I am sure you are familiar with that mom and pop operation called Danaher Tool. In Springfield, about 3 years ago, they announced that they were going to close that operation.

Many people in the audience, as well as Members of the Committee, are familiar with the Easco Hand Tool Company, which made the Sears ratchet, arguably the best in the world. Year after year, as a very young man, I used to go to these award ceremonies where Easco would kind of thank but present to Sears and others the annual award that they received by the U.S. Chamber of Commerce based upon the best hand tool in the world.

Well, they decided, Danaher, to close that plant in Springfield, and they said it wasn't competitive. Now, it might raise the rhetorical question of, how could it not be competitive? It was operating every single day of the week with three shifts, more than 300 employees, with an average wage of about $14 an hour and decent health care benefits. Many Vietnam veterans and Korean veterans who had come through there.

The corresponding truth here is that they have done their part. They have really done their part in an honorable fashion. Now they find that through no fault of their own, that a plant that was operating 7 days and 7 nights a week with three shifts is going to close because it is not competitive at $14 an hour.

Where do we go from there, Mr. McGraw?

Mr. MCGRAW. Congressman, first of all, I am not as familiar with it, but I have the gist of the analogy there. In all markets, they are going to face change. The business has a responsibility to its stakeholders to grow, and find ways to be able to be efficient in being able to do that.

There are times when your efficiency is not going to be competitive to be able to survive. Therefore, you are going to have to be able to do things to improve upon that. The whole question of outsourcing or the whole question of movement of various plants to different areas, I can give you two examples, one in Ireland and one in Dubuque, Iowa.

We had a situation in Ireland where we had created an Information Technology (IT) order fulfillment center because we could use our technology facilities in the States during down periods, and it was very efficient. The Irish government was terrific to work with in terms of the training and in terms of the benefits that we were able to achieve in doing that.

Over a 15-year period—and it was a very difficult decision—we had to close that plant because they just became very, very overpriced and inefficient relative to the competitive pressures to be able to do it elsewhere in a different way.

In Dubuque, we had a situation where—Dubuque has been going through a revival over, I guess, the last 12 years or so. It has been a very economically disadvantaged city. The elders took upon themselves to really renew and revive Dubuque, and they did it through an initiative called the Port of Dubuque Development Center.

In doing so, we opened the first major facility in Dubuque. We did so not because there was Dubuque versus something else; because of the environment, the area, what it meant to our workers and to raise families, and because it had all of that positive behind it.

So, change is always going to take place, and you have to be very sensitive to all the people. Now, the comments about trade adjustment assistance, I think that we have a lot of work to do, and I look forward to working with the Committee on seeing if we can strengthen the framework, first of all. I would also say to you that a good example is what companies do when you have displaced workers. That becomes very important.

For example, United Technologies, they move plants all the time. What they will do to anybody displaced for any trade-related or any globalized initiative is they will offer 4 years of college paid by them on any subject they want. If you have a college degree, they will pay for a graduate degree in any subject you want. They will also have other kinds of out-service.

We do the same thing. J.P. Morgan Chase does the same thing. So, you have to be competitive to the markets and competitive to where you want to be, but you also have to find very meaningful ways to help the displaced worker.

Mr. NEAL. Just a brief followup, Mr. Chairman.

Frequently, business leaders—and understandably so—will point to the Irish economy and they will discuss marginal tax rates, corporate tax rates. There is also very little corresponding emphasis given to the fact that no country in Europe has done better with agricultural subsidies than the economy. That is another very important issue to zero in on.

I appreciate the response that you gave about the whole question of retraining, and I am grateful. Mr. McCrery and Mr. Rangel have both spoken at the need to refocus attention on that issue.

The truth is that those 300 workers, they are really not going to move to Dubuque and they are really not going to move to Iowa. They are going to stay where they are, and what retraining for them has come to mean is lower wage. Thank you.

Chairman RANGEL. We will try to treat that down like Baghdad and we get on with it.

Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman, and thank you to all of you for your testimony.

Actually, before I ask a question of all of you, let me—Mr. Aldonas said something at least in your testimony that I thought was—I agree with, to a degree. In your statement, you say, “In the world of trade policy, imports get a bad rap.” I think you said that in response to some questions that were asked of you.

We tend to think of exports as good and imports as bad. I think you are right. We have this knee-jerk reaction that unless we are doing the selling, it is not good. That doesn’t take into account what is going on all around us. Sometimes it is better for us to buy something than try to make it ourselves at a much higher cost.

Let me give you an analogy here. If we are in a boxing ring and we are boxing with our trading partners because they are our competitors, if we are following the rules that say you can’t hit below the belt but they are not, then we are going to have a tough time winning that boxing match if they are constantly hitting below the belt. At least I know I would have a tough time staying up.

China today—maybe things have changed; the statistic I have is probably a year old—in its industrial heartland pays its industrial workers about 65 cents an hour. What is left of our industry, our industrial heartland pays—our industry pays workers in America today about 20, $22 an hour, which by the way is still probably one-fourth of what everyone at that panel makes today and probably about a fourth of what we make today. Actually, for some of you, it is probably a lot less than a fourth of what you get paid. So, 20, $22 an hour is still not going to make you rich, but it lets you live and feed your family.

Maybe China is playing by the rules in that boxing match when it has its industrial workers earning 60 to 65 cents an hour to produce steel or some other product, and then sends it over here to compete against steel made by Americans who are making 20, 22, $25 an hour. Maybe that is a really high wage there.

If it is not, and if that wage is constrained artificially by other things—compulsive labor, no institution to enforce their labor laws—then that is bad trade policy, to allow those types of imports to come into this country.

So, my question to you all now would be this: Does anyone here believe that we should allow a country that uses extensive child labor to send a product produced by children here to this country to compete against products in America that would be produced by American workers? If you do, just raise your hand.

[No response.]

Mr. BECERRA. Okay. Does anyone on this panel believe that we should allow a foreigner to compete with American products if that foreigner produces those goods using slave labor?

[No response.]

Mr. BECERRA. Okay. Nobody is raising their hand. Does anyone on this panel believe that we should allow products to come in under a free trade agreement if that foreign competitor is discriminating against its workforce to produce its product? Say it tells a woman, it is fine for you to sew that garment so long as you are not pregnant; but the moment we find out you are pregnant, you are out of here. Is it fair to have a company or a country that allows its producers to discriminate within its workforce trade with us?

[No response.]

Mr. BECERRA. Okay. Is it fair for us to have a trade policy with a country that prohibits its workforce to associate and to say, hey, we want to as workers talk to each other, see if we could improve our living conditions with our employer? If a country prohibits its workforce from being able to associate freely, would that be a basis to allow that country to have a free trade agreement with us? If you believe so, raise your hand.

[No response.]

Mr. BECERRA. Okay. No one is raising their hand. Now, final question: If a country had laws that prohibited or, in effect, prevented workers from deciding to collectively bargain with their employer if they choose to—not that they have to, but if they choose to come together and say, hey, we want to negotiate our wages with you based on all of us here at your company, not just individually; if a country prevented a workforce from being able to collectively bargain, should we have a trade agreement with that country? If you believe we should, raise your hand.

[No response.]

Mr. BECERRA. Okay. I saw no hands go up on the five areas that I asked—child labor, forced labor, discrimination, collectively bargaining, and association of workforce.

So, if you don't object to that, I am going to assume—and this is a final question, and maybe a yes or no since my time is now expired—should we include within any negotiated agreement with any country that wishes to have a free trade agreement with us a condition that says that you must abide by those five basic standards when you talk about your workforce? You can't discriminate, you can't use slave labor, you can't use child labor, you must allow people to collectively bargain if they choose to, and you must allow them to associate? Any problem in including those five conditions in a trade agreement?

I didn't hear a yes or no. I am going to assume if you believe it is a no, we should not include those, if you could just raise your hand.

[No response.]

Mr. BECERRA. Okay. Thank you.

Mr. MCGRAW. Congressman, can I make one comment?

Mr. BECERRA. Mr. Chairman, I don't know if—yes, Mr. McGraw?

Mr. MCGRAW. We all wish that people would adhere to the kinds of values that we possess all the time. We would like other people's behaviors to be the most honorable. That is not reality, and that is not the real world.

When you talk about China, China is now the third—on purchasing power parity, the third largest country in the world. It is somebody that we have to deal with, and we have to make sure that we are doing everything we possibly can to encourage better behavior.

So, trying to force China, through isolation, to change something that we know exists isn't the answer. We have to do more to help provide the leadership to encourage better behavior.

Mr. BECERRA. Mr. Chairman, if I could just inquire of Mr. McGraw.

Are you saying, Mr. McGraw, that knowing that China is not abiding by all of these standards, that we should allow them to continue to trade with us? Or are you saying we should try to encourage them to change their behavior?

Mr. MCGRAW. We want to try and encourage better behavior.

Mr. BECERRA. Okay. So, are you saying you would like to be in the boxing ring with China allowed to hit below the belt against America?

Mr. MCGRAW. Well, the issue, Congressman, is we are in the ring with China.

Chairman RANGEL. Mr. Johnson.

Mr. JOHNSON. Thank you, Mr. Chairman. I appreciate this hearing.

I would like to, Mr. McGraw, ask you: We know our services account for over 80 percent of the U.S. economy. Of course, the United States has a services surplus with the world because of our highly competitive firms. People fear that foreign firms can outcompete us there as well, and high-paying service jobs will leave the United States.

It seems to me that this fear is unjustified if we continue to produce more educated and trained workers to maintain our edge. I would like to know if you think we are truly at the mercy of countries with lower-paid workers, or is our destiny in our own hands in creating the best educated workforce to operate competitive firms in a business-friendly environment? Does this need to be part of our trade relations?

Mr. MCGRAW. Yes, I do. I do believe that, Congressman. I think that the comment about the U.S. information technology industry is a good one. We do have and enjoy some of the most wonderful skilled capabilities, and we can demonstrate that around the world.

That doesn't make us the only one. We are having that kind of competition elsewhere. I come back to the domestic policy side again. We have in this country, from an education standpoint, lost a lot of our technical skills. We have not pushed for a lot of the science, engineering, applied mathematics capabilities. Therefore, India today has more engineers than ourselves by far.

One of the problems that we have is that, one, we have to promote better practice so that we do have those technical skills. If you flip the switch right now, it is going to take 15, 20 years to get back to that level of capability that we once enjoyed that helped give us the technology and helped give us the productivity gains that we enjoy.

We need to do things like H–1B visas. We have to double, triple that capability. We need to encourage that technical assistance to be here such that we can then be able to again maintain that kind of competitiveness.

So, I think there is a lot of domestic issues that we need to do to support that continued strength that we have there, but we are not——

Mr. JOHNSON. Those H–1B visas, though, bring foreign guys in here and we train, some of them——

Mr. MCGRAW. Hopefully they stay.

Mr. JOHNSON [continuing]. And they go back home.

Mr. MCGRAW. Some will. Hopefully some will stay and work. There are more Chinese students, talented Chinese students, in the U.K. today than there are in the United States.

Mr. JOHNSON. Well, what does that portend?

Mr. MCGRAW. Well, I think that to your comment about leadership in the IT field in particular, I think what you are going to see is more and more IT firms going offshore and developing those kinds of plants and capabilities because they are going to have more access to the skilled talent.

Mr. JOHNSON. So, Microsoft can do it right next time instead of taking 5 years?

Mr. MCGRAW. Around the world.

Mr. JOHNSON. I would like to pose a question to anybody that wants to answer it. If we have a situation in which U.S. tariffs are practically zero and where one of our trading partners has tariffs of 12 percent or higher, aren't we better off signing a trade agreement that makes the trading partner lower its tariffs? Isn't that precisely the situation we had in the CAFTA debate, in which the United States provided unilateral tariffs to CAFTA while they were able to maintain tariffs against our products? Is that good or bad for us? Yes, sir?

Mr. ALDONAS. It is good.

Mr. JOHNSON. It is good?

Mr. ALDONAS. Absolutely.

Mr. JOHNSON. Okay. So, you recommend getting rid of the Africa Growth and Opportunity Act, the Caribbean Basin Initiative, the Andean Trade Preference Act, and the generalized system of preferences? Those provide unilateral duty cuts.

Mr. ALDONAS. I don't, but I think we are far better off if we engage, for example, with our trading partners in Africa in a true trading relationship. In some respects, when we use those preferences and they are simply exporting to us, think about it. They are isolating themselves from a lot of the other trends in the world.

We want them in our supply chain if they are going to succeed in the world, but that means we have to have an open trading relationship on both sides. So, they are actually better served by negotiating a free trade arrangement rather than relying simply on the preferences.

There are areas where they can facilitate their ability to get into the global economy if in fact they are lowering the cost to put those tools in the hands of people in Mali, for example. One of the debates we have about trade is whether or not we should be changing our cotton programs for the benefit of cotton farmers in Mali.

I will tell you honestly, if all we did was change our cotton programs, the cotton farmer in Mali would not benefit. There is one buyer. It is a Swiss company. The middleman takes all the economic rents. What the cotton farmer needs is a cell phone, more information, and the ability to find another buyer. Reducing the cost of putting a cell phone in that individual's hand, which means trade liberalization, would actually do a lot for bringing Mali into the supply chain that would put the cotton in the shirt on my back.

That is the way we need to start thinking about trade, both in terms of our interest as well as our friends in the developing world.

Mr. JOHNSON. I appreciate that answer. Thank you.

Mr. SPERLING. I——

Mr. JOHNSON. Excuse me.

Mr. SPERLING. I am sorry.

Mr. JOHNSON. If the Chairman will allow you to answer.

Mr. SPERLING. Oh, okay.

Mr. JOHNSON. Okay. Go ahead.

Mr. SPERLING. Again, you talk about the Africa growth initiative that Chairman Rangel I know worked very hard on, and an extension, and many of you did.

It really—beyond the economics, and the economics are important, and I do think it has the potential to help alleviate poverty there if it is done right. We should continually monitor and not assume that it is just automatically going to be good. We should look.

Again, I think that—agree that exchange also has positive value. I am always struck by what it meant just to people in Africa that the United States made that engagement. It is a meaningful—it is something meaningful. It affects how people look at us and our concern for a world that has broad growth.

I would have liked to have also said the same thing with CAFTA, but I guess where I would just disagree is that I do think to the degree in reasonable ways that we can use our leverage of being engaged in our market as an incentive to raise core labor standards, we should—and there are countries there that had very, very bad histories of how they treated workers.

I would have loved to have supported that. I wish we had just used our leverage a little bit more to have encouraged some of those countries to do more so that I think that a lot more people on this Committee on both sides would have felt comfortable voting yes.

Mr. JOHNSON. Thank you, sir. Thank you, Mr. Chairman.

Chairman RANGEL. Mr. Tanner.

Mr. TANNER. Thank you. Thank you, Mr. Chairman, and I want to thank you and Mr. McCrery. This is a breath of fresh air. It is the first time in 6 years that I know of that we can come in here and have an exchange of ideas as Americans trying to solve a common problem that we face as a country rather than as a political party.

It is really, I think, exciting to be able to have a panel as distinguished as you all are to come in here and give us ideas that the country so desperately needs. I want to thank you for your patience. I will be very short.

I, as you know, believe engagement is better than non-engagement. I think that we have a chance now to begin to assuage, hopefully, some of the programs that have gone along with and are attendant to a top-down approach to trade in that we did not have the—we were not able to reach a consensus in this Committee or in the Congress on some of the trade agreements that we have been voting on.

I think we can get a consensus. One of the problems, one of the sticking points to get that consensus from this Committee, which I believe will transfer itself to the floor of the House, is the question of enforcement.

I would welcome your—any of your ideas on how we can give the Members of this Committee and the Members of Congress some confidence in the enforcement mechanism so that we can in some instances sell the product to our constituents, which after all is something that is—trade is so easily demagogued.

I know I and others want to engage, and we think it is better—and sometimes I do, anyway—but we need some help on how to craft the deal where enforcement has more meaning to the citizens that we represent than maybe it has in the past. Does that make sense?

Dr. TARULLO. Yes, Congressman.

Mr. TANNER. I welcome any comment.

Dr. TARULLO. Congressman, you have raised an issue which hadn't been raised to this point, which I think bears some emphasis.

It pays people in the government more to conclude an agreement than to enforce one. You conclude it. You get on at least the front page of the business section, and sometimes, depending on the agreement, the front page of the whole paper. Then you go on to something else, and your boss goes on to something else, and the agreement does not get monitored and enforced.

There has been a lot of talk over the last 5 or 10 years about a better monitoring mechanism. I don't know whether there is a better monitoring mechanism, but it sure hasn't shown up in the results. There was a dramatic dropoff over the last 6 years in initiation of cases in the WTO on behalf of U.S. exporters by the United States Government. I don't understand it. I honestly don't understand why that has happened.

In terms of going forward on enforcement, the Chairman was asking earlier about how you craft a trade promotion authority extension, how you craft agreement over a particular trade agreement that comes before you. I think you are never going to be able to put everything on paper because it is always so forward-looking.

What we need here is a level of trust, which I think by implication every Member of this Committee has suggested maybe hasn't been existent over recent years, so that you are skeptical of what is going to happen once you give authority, and thus you are less inclined to extend it.

So, although I can't suggest a micro-managed approach for you, Congressman, I guess if I were in your shoes, I would want Ambassador Schwab and her deputies up here explaining their monitoring and enforcement program to you; explaining how they filter cases; explaining how they make strategic decisions on what they are going to do; and making some form of commitment to keep your staffs, both sets of staffs, apprised of how they are moving forward.

In game theory, people say you have to go step-by-step. One side makes a nice gesture. The other side reciprocates. Then you can go to the next step. That is what I would suggest here.

Mr. ALDONAS. Congressman Tanner, if I could, I have been responsible for those enforcement programs at the Commerce Department. I have to admit I was frustrated for two reasons: One, the relatively unwillingness and sort of the risk-averse nature of the folks that litigate our cases to take on tough issues, issues that really did break some china. I say that advisedly.

The other thing is that I was frustrated by the fact that a lot of American businesses don't come forward to present cases because they are concerned about market access. Well, my view has always been that is why people in the executive branch bear the responsibility of trying to develop these cases on their own.

That is what I was saying earlier. If you think about what we did in the civil rights era with an awful lot of litigation, it wasn't because there was some individual who was going to come and present the case. It was because we had lawyers at the Justice Department who were going to try and aggressively prosecute certain behaviors. It was consistent with our values.

Let me give you an example which I know will break some china. China still has a Hoku system which binds labor to specific enterprises. That reduces the cost of that labor because they could go elsewhere and find a higher wage. That is a subsidy.

What I would do is challenge the Administration to say, how are you going to take that on? Even if you lose that case in the WTO, what you are highlighting is one of the inadequacies of the rules. Wholly apart from negotiating labor rights, as Mr. Becerra was talking about, I think we have the tools to act more aggressively on these problems now, and we should do it.

It is not going to be American companies that are going to step up to do that. That really is the responsibility of the Administration.

Mr. SPERLING. Just one fact to support what Dan Tarullo had said. In the 6 years between 1995 and 2000, the Administration at that time brought 65 cases, an average of 11 per year. Since 2001, there have been only six cases brought, less than an average of three a year.

Part of the response to Congressman Becerra, I think, in terms of China was that one of the good things about maybe sometimes even having someone part of—whether we have a free trade agreement with them, having them part of the WTO, is that it does allow you to try to go after their poor practices, not in an ad hoc way but through a legal process.

I think one of the things that was too bad, I thought, was the American Federation of Labor–Congress of Industrial Organizations (AFL–CIO) brought a 301 case on March 16, 2004 with very compelling arguments of the labor abuses. Now, this was the AFL–CIO trying to go through the legal process.

I understand the Administration may have felt that actually putting sanctions on China may have been too divisive in light of all of our other foreign policy issues, but had we just accepted it, had they just accepted that and gone through the investigations, I think that is the kind of pressure you need to do to send the signals that we are not just going to sit back and, just because we have agreed to take you in without the kind of labor standards that we think fit our values, that we are going to at least apply constant pressure and shine a spotlight against those kind of abusive practices, including the one Grant just mentioned.

Chairman RANGEL. Mr. Doggett.

Mr. DOGGETT. Thank you, Mr. Chairman. Thanks to all of our witnesses. I think your testimony has been enlightening, and I think the queries that we have made indicate there really is an interest in a bipartisan agreement in developing a broader consensus to promote trade.

Though I heard the term "fresh air" mentioned a number of times, and about clearing the air, one thing as I reviewed your written testimony earlier that I found omitted from it is any reference to the environment. That is not surprising because the environment has been largely omitted from any discussion in this Committee for the last many years, and largely omitted, of course, in any meaningful way—other than the ludicrous provisions that were included in CAFTA and some other provisions concerning the environment—from any trade agreements that were presented.

Mr. Sperling, I know that in response to a question that the Chairman asked earlier, you indicated that you think that there could be some room for improvement on the environment in Doha.

I wondered if you might elaborate on what else might be done in that area, in your opinion.

Mr. SPERLING. Well, first of all, one can certainly seek to put environmental standards within the free trade agreements that we do. The question that I had looked at is at this late stage in Doha, what could still be done that, as I said, could be more of a down-payment on a compact that would justify you giving them some additional time to try to negotiate it.

I actually—I have to, I guess, protect my sources. I went to some people internationally who were very, very knowledgeable about the state of play. I said, is there any way to try to bring more labor standards, which has never been done before, into the Doha Round? They said, I know it is well intentioned, but India, Brazil, it would just blow it up. That would be tantamount to blowing it up.

I said, what about environmental standards? They said, that is different. That is different. I think that if there was a push, there could be some willingness to make some progress. That was why I put that at the end of my testimony.

Again, I have to protect my source, but to say that it is a very knowledgeable person internationally, and a person heavily engaged and who wants an agreement and was willing to say they thought this was an area that the Administration could perhaps get some last-minute gains on.

Mr. DOGGETT. One of the areas that I have offered amendments in a couple of the recent trade agreements that this Committee has considered is in the area of multilateral environmental agreements, and specifically the convention on trade and endangered species.

Do those offer potential not only with reference to Doha but with reference to future trade agreements? Those would be agreements that the countries have already really signed onto and said they wanted to enforce, like the convention on trade and endangered species.

Dr. TARULLO. Congressman, you have identified a lingering problem, not just with the environment but with some other areas as well, where there are multilateral agreements that allow in some cases for restrictive activities by countries in order to enforce the terms of those agreements, which might be argued to be contraventions of a WTO obligation.

I think there has been a consensus—at least among academics, which is maybe why nothing has happened—but a consensus among academics for some time now that we need to clear that up. We need to acknowledge that the WTO should not even be considering sanctioning countries for taking action which is not only approved of, but in some cases required, under a multilateral environmental agreement.

That kind of discrete issue, I think, is probably the sort of thing that Gene has in mind in talking about something that can be done without disrupting what we hope are the end stages of the negotiations.

Mr. ALDONAS. Congressman, if I could add, I think that is absolutely right. Frankly, it is also true of an agreement on slave labor. You might be surprised to know that there is a labor exception inside the WTO. Labor is already there. It happens to be prison labor, and it is driven by competitive issues rather than values.

I have always puzzled over why we don't have a simple exception inside the WTO for blocking goods that are made with slave labor. That doesn't seem like a stretch in the kind of civilized society we want to see in the world. That is where I do think, whether it is that or on the environment, where we have reached that kind of multilateral agreement. We should be able to move forward.

I would say one other thing. I also think—and this is a very sensitive topic tradewise—we have rules, negotiations that are very sensitive because people are worried about making changes in the dumping laws, the countervailing duty laws, things that we would use.

Those negotiations hold the greatest hope to actually accomplish some good on the environment—eliminating fish subsidies, eliminating the over-forestation. All of that relates to subsidies that we can address inside the system. It comes home to roost in a very difficult area of the negotiations.

Mr. DOGGETT. Well, I am all for addressing them there. I think there are concerns as to whether that is sufficient to address either what Congressman Becerra referred to or what I am referring to in the environment. Particularly that is a concern in Peru and Colombia with logging, the amount of illegal logging that is going on.

A number of us have expressed our concern about Ambassador Schwab, as we have our strong feeling that considering multilateral environmental agreements needs to be an important aspect of new trade agreements and really ought to be considered in renegotiation of some of the agreements that we have out there now.

With climate change finally being recognized 7 years late by President Bush, we need to be aware that the destruction of some natural resources that could occur through and be encouraged by increased trade is counterproductive.

I believe, Dr. Mishel, that your paper that you had attached did make reference to environmental standards that we often hear talk about labor and environmental standards. It is not surprising that most of the emphasis gets on labor because there are so many people that have been impacted and continue to be impacted. I think it is very important that we include the environmental side in this discussion as well.

Thank you, Mr. Chairman.

Chairman RANGEL. Mr. English.

Mr. ENGLISH. Thank you, Mr. Chairman, and thank you very much for sponsoring this excellent and very balanced discussion.

Mr. Sperling, I appreciate your coming back before the Committee. As always, you have given eloquent testimony, so eloquent that I am almost persuaded to believe that the Clinton Administration would have affirmatively accepted the AFL–CIO's complaint against China. I can't quite bring myself to that point, but certainly I believe you are sincere in raising the point.

On the question of core labor standards, Mr. Sperling, I think you have raised a very important point because I think there clearly has to be an interaction between our trade agreements and insisting on some sort of common standard. You reference, of course, the ILO.

I note that the United States is not a signatory to all of the ILO core labor standards. I wonder if that is going to be—with your interest in multilateralism, which I support to some degree, is the ILO going to be the source of these standards? If so, should we be held to being sanctioned if we don't meet all of the ILO standards ourselves? What would be your comment?

Mr. SPERLING. Well, when we, for example, were pushing for the Section 182, which was the ILO standard that we did agree to on the most abusive forms of child labor, we did have to look at some of our own laws. Some of them were touchy, I have to say, because some of them had to deal with fairly young people working in agriculture situations.

I do think that when you are part of this, you have to at least look at your own situation as well. Yes, one of the problems, of course, you always have when you are pushing another country on their labor standards is they come back to you and start saying, not everything is so terrific in your country as well.

Mr. ENGLISH. Sure. So, should they be able to sanction us if, for example, we don't allow management employees to automatically join a union? Should we be sanctionable if, for example, we don't allow a right to strike to some public employees?

Mr. SPERLING. I would not know which would be at the level of sanctions. I do think that when you are agreeing to global standards, when you are signing an agreement, when you are part of the WTO, you obviously have to live by those rules.

My guess is that we in the United States do not have things that would be at the level of being sanctioned. I do think that—what I do want to say about labor standards is sometimes I think we want them to be enforced so much, and we want to make sure that there are not—intellectual property is treated as a first-class issue, and labor standards is treated as a second-class issue——

Mr. ENGLISH. Sure.

Mr. SPERLING [continuing]. That the message we give is that we want to be somehow punitive to developing countries instead of, I think, trying to have that as a backdrop but then figure out the ways that we can work together.

Mr. ENGLISH. I accept your point on messaging. I guess my point is that when you get into the details and potentially unintended consequences, it is far more complicated than the rhetoric suggests.

Now, Mr. Aldonas, I am very grateful to you for your testimony, and also for the fact that as Under Secretary, you were part of the Organization for Economic Cooperation and Development (OECD) negotiations. As past Chairman of the steel caucus, I want to thank you for your efforts, albeit not successful, in bringing the parties to the table to try to come up with a way of rationalizing our overcapacity in steel globally.

Since the OECD negotiation broke down, China has dramatically, and on a scale we have never seen in the history of the world, increased their capacity to produce steel.

One, does this cause you concern?

Two, recognizing your criticism, which I don't fully share, of this Administration's attempts to provide a steel policy, do you see this as a basis for future problems that we should be anticipating today?

Finally, what does this say, given Mr. McGraw's testimony, somewhat critical of our domestic trade remedy laws—what does this say about the need for us to consider strengthening our domestic trade remedy laws and updating them to recognize the new global realities? Mr. Aldonas.

Mr. ALDONAS. I do think we actually have to take a look at the remedies and update them to live with the new global realities. I think that also means we have to be concerned about the knock-on effects.

To your basic point, Congressman, I think you are absolutely right about what is going on in China. In terms of the steel capacity, there are two fundamental things. One is you can get a loan that you don't have to repay from a State-owned bank to finance the addition of capacity. You can get more subsidies at the provincial level to keep that in place. The guys who installed the old capacity don't have to repay their loan, they can keep that old capacity in place. Even though it is environmentally unsound, it adds capacity.

We don't need much of a downturn in the Chinese economy for all that steel to slip into the world economy. I think that we need to do—rather than waiting for that moment, we need to be aggressive with the tools that we have inside the WTO, particularly the subsidies agreement, to underscore for the Chinese that these distortions are going to create problems for us.

I would rather see us act aggressively now on that front than wait until our industry suffers, frankly. I also think it is healthier to even be using the trade rules that we have, whether it is countervailing duties or anti-dumping, as a way of trying to attack problems and solve them.

It is a little bit like using the anti-dumping agreement in cement to try and encourage an agreement that would clean up a lot of unfair trade practices rather than simply leaving it in place. That is the sort of flexibility that I wish we had under the dumping laws, to try and encourage changes in behavior rather than simply leaving the duties in place.

Those are the kind of updates we need to be thinking about as we go forward. The issue of steel in China, I am just waiting to see what is going to happen because frankly, they are adding more capacity than we have capacity in this country. It is going to happen.

Mr. ENGLISH. We are all waiting, Mr. Aldonas. I thank you, Mr. Chairman.

Chairman RANGEL. Ms. Tubbs Jones.

Ms. TUBBS JONES. Mr. Chairman, thank you very much, and thank you for your leadership in giving us an opportunity to have a hearing such as this.

Most everybody knows I come from Ohio, and in Ohio we had significant job loss between 2000 and 2005, in the city of Cleveland alone, about 60,000 jobs. In one of my cities within my congressional district, I currently have a 13.6 unemployment rate. That 4 percent national stuff, I don't know where that came from.

What I want to focus in on, and I don't know because I was out of the room earlier, if anybody has talked about trade adjustment assistance and how do we in the course of our discussion about trade see that people in Ohio, other than the people who have companies that are involved in export business—but the people working on the street don't want to hear anything about trade because they can't seem to understand how it is going to help them improve their lot.

I want to start with Mr. Sperling, and then anyone else who wants to answer the question. Take me back to Ohio and tell me what I can say to my constituents about how we make trade work for American workers in States like Ohio.

Mr. SPERLING. I think probably the single toughest thing for anybody is to have to talk about this kind of larger concept when you are dealing with people who are suffering, feeling anxiety, and most importantly, when you get a kind of downward spiral in a community where it is very difficult, having had plant closures, et cetera, to get the economic activity. I think it is the single most difficult thing.

I think there are a couple things I would say. One, and I put this out as an idea, Mr. Chairman, is that everything that we talk about in adjustment is after you have already lost your job. We don't give many of you any ideas when you feel the threat coming.

Perhaps we need to think more about what kind of preemptive policies we can have so when a community is under threat, we don't just say, well, wait until you have lost your job, or wait until this trade agreement—trade enforcement happens, and then maybe we will have some assistance afterward.

Perhaps we have to find ways of providing more assistance, more of the kind of empowerment zone approach that Chairman Rangel has worked on, to communities that are being—that are on the verge of the downward spiral so that we can stop before then.

I think that on the adjustment side—we have talked about this some, and I think one of the good suggestions that has been made by the two leaders here is that you need to broaden it beyond trade so that everybody is helped.

I also think, look, there is probably not 8,000 people in the United States of America who, if they lost a job, even know exactly where to go or what the difference between dislocated worker training is and NAFTA FTA and FTA. How are you going to affect people's anxiety? People don't even know where to go. The benefits are staggered a little.

I think we have to have a one-stop system. I think it has to have broader help, from helping people not lose their house to wage insurance to, most importantly, universal health insurance. I think that would do a lot to help people, at least in this difficult situation. That is one.

Two, as I said, more preemptive policies. Three—you know this as well as I do—your folks don't want to hear just about what you are going to say once they have lost a job. You need a real active, strong strategy that shows that you are fighting to create jobs and preserve jobs in nonprotectionist ways.

I think if you don't have that active component, I am not sure people are going to listen to just what you are going to do for them after they lose their job.

Ms. TUBBS JONES. Who else is anxious to help me out?

Mr. MEIER. I will.

Ms. TUBBS JONES. Mr. Meier, Ohio.

Mr. MEIER. I live in Ohio. We have those same issues.

Ms. TUBBS JONES. About 90 miles from me.

Mr. MEIER. Right. We have those same issues in northwest Ohio.

My comments earlier relative to assistance, it is part of the equation. It is not the entirety of the answer. Let me walk you through a typical employee at my company.

Ms. TUBBS JONES. Okay. Now, wait a minute. I may not have enough time to walk through a typical employee, so you want to make it quick.

Mr. MEIER. It will take 30 seconds.

Ms. TUBBS JONES. Go ahead.

Mr. MEIER. It will take seconds.

Ms. TUBBS JONES. All right.

Mr. MEIER. Twenty years with the company, he loses his job. What pension he thought he was building has quickly evaporated on him. He will not immediately replace that no matter where he goes or how he is retrained.

That is what they worry about. That is really what they are worrying about. I think to the extent that the Committee, and as we all interface and continue to hear each other's opinions going forward, can be proactive in making sure that, as Congress has in the past viewed certain industries as being import-sensitive, and history records that, that perhaps we identify those pockets of the country and those industries where, as we negotiate the WTO Doha Round, our negotiators are increasingly sensitive of what are the total aspects and attributes to give some of these companies a chance.

I am not a proponent of no duty elimination. Duties will be reduced. We recognize that. We can negotiate with our labor counterparts on our business issues, but we cannot negotiate when unilaterally things befall us.

Ms. TUBBS JONES. Mr. Meier, thank you. I am out of time, and I will tell Marcy Kaptur that you said hello. Mr. Chairman, thank you.

Mr. MEIER. Thank you.

Chairman RANGEL. Mr. Weller.

Mr. WELLER. Thank you, Mr. Chairman, and thank you for convening this hearing today.

Economically, the State of Illinois where I come from is an old State. Been around a long time. The communities I represent, Joliet and others, are communities that look at how they can grow their economy. They face the challenges of high energy costs that we have in America compared to the rest of the world.

They also recognize that 4 percent of the globe's population is represented by the people of the United States. We are 300 million people. If we are going to grow our economy, we have to figure out a way to create jobs here at home and sell products overseas.

I have been one of those who has been disappointed that we have been unable to make progress on the multilateral level over the last decade. At the same time, I believe we have made progress on the bilateral level with some pretty good trade agreements.

In Illinois, one out of six manufacturing workers is totally dependent on exports. Forty-two percent of the agricultural revenues of the State of Illinois result from exports. So, clearly, exports are really the future for the part of Illinois that I represent.

November of this year, exports are at a record high, $125 billion for that month. So, clearly, we have benefited from expanded trade opportunities, from the reduced trade barriers, as a result of the bilateral agreements.

I listen to some of my colleagues. They talk about the need for trade to be a two-way street. I think of the Dominican Republic-Central American Free Trade Agreement we voted on this past year, where essentially, prior to the Dominican Republic-Central American Free Trade Agreement (DR–CAFTA), trade was a one-way street with those countries.

With great bipartisan fanfare, we created the Caribbean Basin Initiative back in the 1980s to keep the Communists out of Central America. It worked. Those countries had the opportunity to penetrate our market and sell to our market with essentially no tariff barriers on their manufacturing goods, no tariff barriers on their agricultural products.

Products made in Joliet, Illinois faced tariff barriers. Agricultural products in Illinois face barriers up to 40 percent. Caterpillar, my biggest manufacturer, which is a company which is a prime example of a U.S. company that very aggressively has pursued the opportunities that these agreements have resulted in, faced a 12 percent tariff on a bulldozer made in Joliet, Illinois. So, clearly DR–CAFTA eliminated a one-way trade and made it a two-way so that Illinois workers benefited from the opportunity to sell in those markets.

Peru is one of the trade agreements we have before us. Peru, Colombia, the other Andean countries, they enjoy the Andean trade preferences that have passed with bipartisan support, unconditionally, which operate essentially in the same way as the Caribbean Basin Initiative. Their products enter the United States essentially duty-free, but our products suffer high tariffs both in agriculture and manufactured goods.

In Decatur, Illinois and Joliet, Illinois, the big mining trucks, those gigantic vehicles that cost about a million dollars that are used for mining in Peru, suffer a $120,000 tariff because of the current tariff structure. It is almost to Caterpillar's advantage to make that product in Peru and then sell it to the United States because it wouldn't face that tariff barrier when they brought that manufactured good here to this market.

So, clearly, as we look at the bilateral agreements that are before this Congress, the Peru trade agreement is similar to DR–CAFTA in that it eliminates the one-way benefits because it essentially eliminates all the tariff barriers. That $120,000 tariff on that mining truck is gone, which means that U.S.-made, Illinois-made construction equipment will be competitive with the Japanese and our Asian competition. We benefit from that.

Now, Mr. McGraw, some on the left have argued that we need a strategic pause in trade, that we should just essentially shut down any effort to expand additional trade agreements, that we no longer pursue reducing these trade barriers that are suffered by U.S. manufacturers and U.S. farmers.

What are the consequences if agreements like Peru, which would open up a new market for Caterpillar workers—who happen to be machinists and United Auto Workers members in my district, 6,000 of them—what would be the consequences for U.S. manufacturers and U.S. farmers and producers if we initiated this so-called strategic pause to shut down expanded trade efforts?

Mr. MCGRAW. Well, Congressman, I think there is no such thing as a pause in economic development. The world will continue to grow. It will continue to change. It will continue to be challenged. You are either dealing with it or you are not dealing with it.

We deal with various countries. They all are in varying degrees of development. There are times when a country is in such dire shape that it is pure aid that is required to help support their infrastructure in order for them to get started. Maybe it is capacity-building and technical assistance to be able to do that, to help them get to a position where they can start to become more competitive.

We can start to talk about preference agreements. Therefore, we will have preference agreements. We will have aid agreements. We will have all sorts of things, depending upon that country's development. We have come to a time with Peru where it is time to pass a free trade agreement to make sure that the benefits that they enjoy are also the benefits that we enjoy as well.

So, I believe that the time in their development has come that a free trade agreement makes a great deal of sense.

Mr. WELLER. Thank you, Mr. Chairman. I see the red light is on. So, I appreciate your generous allotment of time. Thank you.

Chairman RANGEL. Mr. Larson.

Mr. LARSON. Thank you, Mr. Chairman. Let me join with the other Members in expressing the sentiments to you and Mr. McCrery for the panelists that you have assembled today. It has been very encouraging listening to what they have to say.

Let me further thank Mr. McGraw as well for recognizing United Technologies Corporation and George David, one of the most enlightened CEOs in America, and for the educational training that they provide. Let me commend you and your company as well for that most desirous of programs for our workforce.

Let me further add with respect to globalization, I appreciated Mr. Aldonas' comment that in your testimony, you define what it is not in saying that it is clearly not a verb. It is a noun. It is not this all-encompassing, overwhelming tide. It is a series of consequences. It is the consequences that I would like to get to and address.

First and foremost, with respect to a lot of the issues that have been discussed, we talk in terms of tools and education and assistance and adjustment and retraining. Those ring pretty hollow at Augie & Ray's in East Hartford. People are interested in a job.

How would the panel feel about having a permanent infrastructure system in the United States like a permanent Works Progress Administration or a civilian conservation corps where there was always a guarantee of jobs to keep the circular flow of goods and services in this country and keeping benefits intact, number one, similar to something I believe Mr. Rangel proposed, like where you could couple both education, by making sure our school systems were constantly upgraded and technologically fit in a manner in which they could compete in a global economy.

Second, in some of your testimony, Mr. Tarullo and Mr. Sperling, of course, with regard to the social compact, I believe an infrastructure program would be part of a social compact with the people. I believe Mr. Tarullo says it is broken or near broken, or the public feels that it is broken. Mr. Sperling provides some insight and some clear objectives as to how to get there.

The point being this: A, do you feel that it is—that the system is broken? B, if it is, what is this new compact, or do we need a new basic agreement with people fundamentally so that their health care, their education, and their ability to have a job is something that they can count on? That would encompass, of course, a number of the issues with regard to pension security that you have raised in this discussion as well.

To get there, assuming that a lot of you are going to be in agreement with that, how would you pay for it? Should the United States, should the country, be looking at—and particularly, should the Roundtable be looking at, in this era of globalization, global transactions that currently don't come into our domain and revenue that doesn't come into the United States that could go toward it? Should we be considered value-added taxes? Should we be looking at transactions in order to accomplish some of the end goals of health care, education, and jobs?

Dr. TARULLO. Congressman, let me take just a little piece of that question because I know Gene is eloquent on the larger issue of the social compact. I just want to address very quickly your infrastructure point.

That has fallen off the table a bit when people give us the litany of what we need to do in order to enhance productivity. I think it needs to be back on the table. There are two kinds of infrastructure at issue.

One, of course, is dissemination of broadband technologies, some of the modern IT technologies, where we still need work in getting them to all parts of the country and accessible to all people so that they can participate in the increased productivity from those technologies.

Old-style infrastructure—bridges, roads, seaports, airport capacities, the things that actually allow us to get goods and services and people in and out of the country——

Mr. LARSON. It is also tied into our national security.

Dr. TARULLO. They are tied to the national security and to our national productivity. Any of us who lives on the east coast certainly knows that in our major cities, a lot of the infrastructure is in serious need of upgrading, and in some cases full replacement.

So, I think it surely would provide good jobs. However, it would provide good jobs in pursuit of enhancing productivity for everyone in the country.

Mr. SPERLING. Well, I have too much to say on this so I will try not to say as much.

I just would say that I do think that people have a sense, and should have a sense if they work hard, if they get educated, that there is a degree of economic security they have in their lives. I think that is being shaken right now, and globalization is part of it.

A lot of the remedies are at our disposal. I believe if people felt that they had health care regardless, even when they lost their job, that they—wage insurance is a way to provide some of the protection for the falls, that there was the kind of unified, simple training system that I think the Chairman and Congressman McCrery are talking about—what that affects? It affects dignity. It affects the dignity of people not feeling that their economic dignity is threatened by losing jobs. That is an important part of the compact.

What you are suggesting on the jobs and infrastructure, I don't know exactly what the mix is. I think there has to be something a lot more active. I think people have to think that we are less passive, whether it is encouraging—there are probably a lot of twofers, like energy innovation, where we can do a lot to both help us have an alternative energy future and create jobs.

Then the final thing I just want to say, not going into every element, is just like we can't have the yes or no on trade/not trade, I think we have to be careful about not having the yes or no on spending/not spending.

Some of the things we are talking about would cost more money. They are done in the purpose of encouraging an open, global economic innovation economy. You have bankruptcy—do you know what bankruptcy laws do in our country? It lets someone know they can go out and be an entrepreneur and they can try to create a job, and if they fail, they are not going to debt prison. So, they are willing to take more risks.

When you provide a broader safety net and more opportunities to create jobs and people to have pensions, that is not like just government spending. That is providing the foundation for people to take more risk and to accept an economy that might be more innovation-oriented and more dynamic.

Mr. LARSON. Thank you, Mr. Chairman.

Chairman RANGEL. Mr. Lewis.

Mr. LEWIS OF KENTUCKY. Thank you, Mr. Chairman.

I would like to go back. Mr. Neal had a statement and a question for Mr. McGraw earlier. He was telling about a community within his district, that a company shut down and no hope. Workers couldn't move, and so there they were, stuck.

That hasn't been the case in the district that I serve. There is a small community, Campbellsville, that the town is probably a population of 10,000. The county is something like 22,000. From the fall of 1997 until the summer of 1998, Fruit of the Loom permanently laid off its entire Taylor County workforce. As a result, approximately 3,200 people in a county of 22,000, as I just mentioned, were unemployed.

The layoffs had a ripple effect throughout the region, and unemployment hit 30 percent. It looked pretty devastating. Due to the efforts of an active and focused economic development team, the university that was truly part of the community and aid through trade adjustment assistance, Taylor County created 13 new companies to that community within a period of something like 2 or 3 years.

They didn't look at their glass as being half empty. They looked at it as being half full. They had 3,200 workers who had gotten up every day for years and gone to work and provided a benefit for Fruit of the Loom. The new employment opportunities came from growing local companies, large private companies, a Fortune 500 company, the area's first Japanese facility, and the first Brazilian investment in Kentucky. Insourcing. They didn't just look across the country. They looked across the entire globe for help.

The comeback there is just truly amazing. Through the trade adjustment assistance, and our Ranking Member, Mr. Herger, came down and visited a couple years ago that community and saw first-hand what they had been able to achieve.

My question to Mr. McGraw and maybe anyone else who would want to answer: How common is that, for communities to—and by the way, Campbellsville, the infrastructure there is certainly challenged. There are no four-lane highways into Campbellsville. The highway system is pretty limited.

So, they were kind of in a tough situation. They were able to succeed, and no one had to move. They brought new companies in. So, I am just asking, how common would that be across the country? That is what we are told about trade, that we may lose some unskilled, low-paying jobs, but the opportunities for new, higher-skilled, higher-paying jobs will come along. So, how common is it?

Mr. MCGRAW. Well, you are talking about leadership, Congressman. It sounds like a very good example of how it can work and work very well. It has to do with what the Chairman is talking about, too, in terms of bipartisanship. When business and the local community work together, when the State governments and the municipalities work together and find ways to get things done, they can make progress.

In your very example and the example that I used about Dubuque, Iowa—the problem in Dubuque, now that they have built it up and they are very excited about attracting other businesses to come there, is that they have virtually zero unemployment.

So, what we have done with them, as part of a process because in building this building, we are going to need more employees to grow and develop, we have worked with the University of Dubuque. We are getting them to get more aggressive in being able to attract people from Chicago and elsewhere to come there. We can give the intern jobs, and we can give all of that.

So, it is a sense of community, that everybody is involved and it is coordinated to be able to get things done. It can work.

Mr. LEWIS OF KENTUCKY. Yes. By the way, Kentucky is the fourth largest automobile-producing State now in the union. A lot of those jobs are insourced jobs. We have 10,000 jobs provided by Toyota, and the component parts industry is tremendous throughout the State and throughout the district.

So, we have brought a lot more jobs in than we have lost through outsourcing. So, for Kentucky, this thing is working.

Mr. MCGRAW. Congressman, I would also say—to your point, too, Gene—is that where you have practices and policies that encourage innovation and creativity and risk-taking, where you have certain support networks like research and development tax credits and the like, you are putting people in a position to be able to succeed.

Mr. LEWIS OF KENTUCKY. Yes. Thank you.

Chairman RANGEL. Mr. Pascrell.

Mr. PASCRELL. Thank you, Mr. Chairman. I appreciated the testimony that we have heard from our witnesses. I hear less of a plea for fair trade. More what I am hearing is honest trade, which I think is an important distinction.

I appreciate the framework moving forward for trade promotion authority, that there appears to be a broad willingness to make some adjustments. I personally just was stunned that President Bush rejected the appeal that some of us made to him personally to not sign a trade promotion authority bill that didn't have 250 votes.

If he would have been willing to say, don't give me a 218 piece of partisan goofiness, we wouldn't be having part of this discussion today, I believe. Deeply disappointing to me, but I feel, with the leadership of our Chair and Ranking Member and the spirit that you are hearing on the Committee, that maybe we can move back from that mindless partisanship in trade.

I am personally interested in some things that we may be able to do, and your reaction. We have focused a lot on manufacturing jobs. People are concerned about the loss of manufacturing jobs. I certainly am in my State.

My impression is that manufacturing jobs are in decline everywhere in the world, that China has lost significant manufacturing jobs as they started to modernize some of the State-owned industries. We are starting to see modern technological advances, as I visited developing countries around the world, where yes, they are having more manufacturing jobs, but they are displacing things in older industries.

So, I am wondering if there are a couple of things we might be able to focus on to jump-start. One, the reference that has been made here to the Doha Round. You have mentioned—I think each of you referenced some of the problems we have with our antiquated agricultural policies, where we are penalizing American consumers, taxpayers, and apropos my friend Mr. Doggett's comment, the environment because of really agricultural policies that may have worked for the 1940s but no longer work today for the majority of American farmers.

Is it possible that we might be able to take some unilateral action to try and move forward on this when we have a farm bill that is up for reauthorization, that the majority of the benefits now flow to a handful of States. Something like 80 percent of the benefits flow to 22 congressional districts, with the distortions and the hypocrisy.

I am curious if any of the panel has some thoughts about maybe jumping on the farm bill that we will be working on now and trying to weave this into something where the United States might exercise a little leadership that benefits everybody.

Dr. TARULLO. Congressman, I don't purport to be an expert on all details of agricultural policy. I have learned enough to know how complicated it is.

I do have a trade perspective on your question, which is the following: If, as appears likely, we are going to be making changes in our agricultural policies, both to ensure that benefits are actually flowing to family farmers and to deal with some of the environmental issues that you alluded to, it seems to me that we would do best if we could get something for those changes—that is, to get some other countries to change some of their policies at the same time.

That is why many of us have hoped that there was a way to move the farm bill and Doha in parallel so that they could build off one another. That is imperiled right now, of course, with the problems in Doha and the farm bill coming down the line.

So, it may be you will be thrown back on the course of action you asked about. I think it would be best, it would be preferable, if we could wrap those things together. If you are going to make some changes, let's negotiate for Europe and others to make some changes at the same time.

Mr. ALDONAS. Could I add something to that? I think you are exactly right. We need to untie our hands at the negotiating table. They are tied right now by agricultural policies that pay people to produce things as a model of rural economic development.

We would be far better trying to go with a distributed network that Dan was talking about to provide different sorts of economic opportunities in rural America than simply continuing to pay people to produce commodities. Let's remember, communities are the most sensitive and the most risky things to invest your life in because of the vicissitudes of weather, energy prices, all the other things that go with it.

Most of the people where I am from in Minnesota don't expect that the next generation is going to stay on the farm. In fact, what we need to be thinking about is how we achieve that because we really would untie our hands in terms of the broader trade effort.

I want to—I am sorry if I——

Mr. PASCRELL. Well, I see my time has expired. Let me just say—I don't want to impose on the patience of the Chairman, and there are other Members here—I would welcome, if there are any thoughts that any of you may have to toss over the transom. This would be something that I would find a great help.

Mr. Chairman, I noted the reference to infrastructure. I am hopeful that our Committee at some point, using its vast jurisdiction, can look at the opportunities to do a little bit of investment in infrastructure to help provide some other elements of this grand bargain that would both improve the flow of international trade and provide high-value, family-wage jobs that might have some income security for communities across the country.

Thank you, sir.

Chairman RANGEL. Mr. Brady.

Mr. BRADY. Thank you, Chairman, for holding this important hearing. I come from Texas, the largest exporting State in the Nation, and NAFTA has created enough new manufacturing jobs to fill every seat in the Astrodome twice over. We have seen nearly 1 billion dollars of clean air and water projects along our border we would never have seen without that trade agreement.

It seems to me the principle of free trade is this: If Americans build a better mousetrap, we ought to be able to sell it anywhere in the world without discrimination. If someone else builds a better mousetrap, we ought to be able to buy it for our families and for our businesses.

The choices we have from that principle is one of the reasons that families in America have, I think so much greater purchasing power, enough that the average family goes to the grocery store once a month for free in this country because of the savings of trade—cheaper telephones, cheaper groceries, cheaper television sets, all that goes with it.

I think our problem is how inconsistent we apply trade policy in this Congress. For example, labor and environment are truly important issues we need to resolve, yet in one way, in trade preferences, like the Caribbean Basin Initiative and the African Growth and Opportunity Act, labor environmental standards are nowhere to be found.

Yet when we open two-way trade and say it is our time to sell to other countries, to other markets, all of a sudden we erect every barrier that we can imagine. It seems to me that we ought to be able to find a third way, a common ground, standards on those issues, and apply them consistently across our trade agreements.

We give a lot of lip service to fair trade, but in my view—I have not been in Congress as long as Chairman Rangel and other senior Members here, but what I have learned is when someone claims they are for fair trade, what they mean is it is fair for their wallet and no one else's, fair for their communities and not yours.

It seems to me that when you have special interests in Washington who basically use fair trade as a veneer to limit what our families can buy or dictate what they have to pay, that we lose.

I think our fair trade focus should be on vigorous enforcement of fair trade rules, the things we come together on, as diverse as this panel is, on what we agree are fair rules, and then we don't cede an inch on enforcing them.

Finally, we talk about trade deficit and encouraging U.S. manufacturing jobs. Just last week in the House we voted to essentially remove American energy workers from the Tax Code and tax them as foreign workers and foreign companies. We actually discouraged American investment in the American energy industry, and claim that to be important to America's energy security. It makes no sense from a trade perspective, a jobs perspective, or an investment perspective.

It seems to me, and I will finish with this, the prime issue facing Congress—and Chairman, the reason you called this hearing—is what are we going to do as a Congress to extend TPA? Will we pursue it or not?

I heard Mr. Sperling, very respected, talk about a suggestion that we do a limited TPA for Doha and not for the rest. It seems to me just the opposite is the better solution.

Doha is the least productive of our trade pursuits. Our individual agreements have been extremely productive. Our exports are doubling in many of those markets. Those which we have trade agreements in represent a small part of the world economy, 7 percent, but they are half of all of our sales overseas, incredibly productive.

It seems to me that rather than a buy losers/sell winners strategy on trade, it ought to be the investment advice: Don't put all our eggs into the Doha basket, but continue to diversify. Pursue that and diversify the winning ones that are actually helping day-by-day strategically in sales for Americans today.

So, the question I have for the panel, and I have almost run out of time, as usual, is that at a time when our American companies go out to compete overseas, three times the world is tilted against us in the rules. The trade agreements we face, three times the world are tilted against us. We don't have that level playing field.

How does unilaterally dropping our negotiating power help create a more level playing field for American companies? How is ceding the trade field by not pursuing an aggressive TPA, how does that open more markets and create fair rules? In other words, how does walking off the field help us win the game?

I open it up to any panelist to respond.

Dr. TARULLO. Congressman, I certainly wouldn't advise——

Chairman RANGEL. While the gentleman's time has expired, since you started to respond, I will yield to you for a response.

Dr. TARULLO. Thank you, Mr. Chairman. Just very briefly, then, Congressman, I don't think most of us have any interest in walking off the field. Personally, I think what we need is a strategy. You want to be on the field. You want to have a strategy.

The selection of whom you negotiate with, the selection of what you negotiate, what the terms of those negotiations are and, finally, the assurance that at the end of the day the benefits that we garner are going to be spread fairly across everyone in America, I think those are the considerations that go into a good strategy.

So, I at least would agree with you. We don't want to be just standing on the sidelines. I think we want to have a pretty good sense of what we are doing.

Chairman RANGEL. Thank you.

Mr. Pascrell.

Mr. PASCRELL. Thank you, Mr. Chairman. Mr. Chairman, thank you for the breath of fresh air on this subject. Particularly I want to thank all of those who have come here to be presenters today.

You are addressing a broken branch of government. If we read carefully Article 1, Section 8, under the war powers and under commerce, who has that responsibility, you are looking at them. If you look back at what has happened over the past—not only in this Administration but in the past Administration, to a lesser degree, we have given up our will to in any manner, shape, or form shape our trade agreements with other countries.

I think that this is dangerous. I think it creates a clear and present danger to two things, and that is the global strategy that we need in order to bring about a better chance at world peace; and second, our own homeland security.

So, this is a very critical issue, as you well know. I am concerned about why folks sent me down to Washington. They sent me there 10 years ago so that I could fulfill the obligations of the Constitution of the United States. I raise my hand every 2 years to do that.

Do you think that under the commerce powers given to the legislature of our forefathers and with the support of the Federalist Papers, do you think that we have—Mr. Mishel, do you think that we have incorporated and complemented and worked to make sure that we have fulfilled those constitutional obligations? Particularly in the area today of commerce, and specifically now trade. Very short answer, please.

Dr. MISHEL. No. I think it is important for the representatives of the American people to shape the way that we are globalizing, and rather than to give up your rights to in fact provide a serious input into what is going on.

The measure of our success is not exports unless we also take into account imports. That is like reporting Yankees 9 and another team, we don't even report their score. Imports are far larger than our exports, and we need to recognize that we have dug ourselves a very deep hole.

Mr. PASCRELL. Gene, are you—where did Gene go? Okay.

Mr. Tarullo, do you believe that this has been a docile Congress over the last 10 years, particularly with regard to trade and globalization? Or do you think that the Congress has met its obligations?

Dr. TARULLO. Congressman, one thing I have learned in my time in Washington is not to characterize Congress as a whole. I think you can only characterize output. What I see today is an interest on the part of all of you to try to come together and reach an agreement among yourselves and then, importantly, with the Administration on how to go forward.

I return to what I said in an earlier response. There has to be trust between the Congress and the Administration. I don't think that has existed. I don't think I am telling any secrets out of school to say I know it hasn't existed between the Democrats in Congress and the Administration on this and many other issues.

I think now, with last November's elections, with the President's indication that he is interested in working in a bipartisan fashion, with the Chairman and the Ranking Member setting the tone that they have, now is the time to put aside what may or may not have happened in the past—for you to figure out what kind of trade agreements you want and you are willing to vote through, to communicate that to the Administration, and for them to have the good faith to proceed with whatever authority you give them to negotiate those agreements.

Mr. PASCRELL. What I have heard so far, Mr. McGraw, today concerns me to this degree. You have all spoken about what we should do when people are displaced out of their jobs. Mr. Sperling addressed the issue, well, maybe we should anticipate some things happening.

That has been the whole problem. We are talking about whether we can get assistance to the people who have been displaced or laid off. We are talking about people 40, 50 years of age who have a very specific frame of life, a standard of living. Then they lose 25, 30 percent of their income capabilities, and we have serious problems not only in cities but in many suburban areas around the country where you have manufacturers.

We have no manufacturing policy in this country. We have none. We keep on fighting over the—re-fighting and revisiting Hamilton v. Jefferson. That battle was settled. We decided we are going to have a multifaceted economy even though we are losing jobs today.

Mr. McGraw, what do we do before the situation happens? What do we do before folks are displaced in order to bolster that infrastructure we call manufacturing? We have lost that infrastructure, and God forbid if a danger, a real danger, comes to this Nation, I don't know who is going to produce our armor.

How would you respond to that?

Mr. MCGRAW. Well, Congressman, market factors and competitive thrusts and all of those kind of things are going to take place on a business. A business doesn't get into trouble overnight. A business has to anticipate what it is about and what it is doing and how it goes about doing it.

If you are on top of that, then you are obviously developing preventative kinds of measures, especially through education, to make sure that people are developing those kinds of skills.

One of the things that I was talking about in terms of business best practices is that we make sure our employees are obviously going into education programs and the like, and are continuing to develop those kinds of skills.

Mr. PASCRELL. Thank you. Mr. Chairman, can I just have half a second?

Chairman RANGEL. You can have it.

Mr. PASCRELL. Okay. Mr. Meier, I grieve, and I am in sorrow when I hear your situation because I have a situation right outside of my district. A Marcal Paper Company, which has attempted in every manner, shape, or form to live by environmental rules, labor rules, the whole thing, can't keep up with the competition. One of the largest paper companies in the United States of America. I know exactly what you are talking about, and the frustration on those workers.

Mr. Chairman, this is something we need to address as a full body here because it increases the number of people who cannot hold onto their homes, who lose their job security, their retirement security which follows. It is at the heartbeat.

What has happened to manufacturing in this country is sinful and immoral. I think we need to do something about it. You have friends here, and we need to do something about it together. I thank you for your story today.

Thank you, Mr. Chairman.

Chairman RANGEL. Mr. Ryan.

Mr. RYAN. First of all, I want to thank the Chairman for holding this hearing. I think this is a great opportunity for all of us to expand our dialog on trade issues and to find a way to move together on a bipartisan basis.

This has been a very enlightening conversation with all the different panelists we have had. As the Chairman knows, I have enjoyed working with him on these issues, and I am pleased we have made great progress while working together, especially on the labor front. Perhaps that is a window of opportunity to move forward with.

In fact, during the last session of Congress—I just wanted to point out a couple points before I get to my question—we worked together quite extensively on trade agreements that we completed in the Middle East region. For example, with the Chairman's help, we passed the free trade agreement through the House with Bahrain that included numerous commitments to strengthen Bahrain's labor laws.

In addition to strengthening their labor compliance regime and better educating workers on their rights, Bahrain committed to introduce education in its parliament to accomplish these five things: provide mandatory reinstatement for workers dismissed for trade union activities; introduce strong penalties for anti-union discrimination; make a public statement regarding procedures for strikes, and engage in consultations should those procedures be amended; allow more than one federation; and allow more than one union per enterprise.

Bahrain has followed through with all of these commitments. Not only did they introduce but they passed four of the five laws I just mentioned. In fact, the only reason that not all of these five laws were passed was the fifth one was actually opposed by Bahrain's labor unions.

So, now these unions are sitting down at the negotiating table trying to work things out. That is significant progress. So, we have shown in the past, just a year ago, that we have been able to come together as Republicans and Democrats around the issue of labor to get something done and to make a difference and to get a free trade agreement. We did this because we had TPA.

As for Oman, we also worked together to help move forward on their labor laws. In conjunction with the FTA, they ratified two ILO conventions, a United Nations protocol, and committed to making eight reforms to its labor laws to meet the concerns that the Democrats on this Committee had raised.

So, today Oman has made substantial progress that we can unequivocally say has made great progress on labor. So, I am very hopeful that this progress can continue. However, if we do not pass extension of TPA, which expires in June, we are not going to be able to have similar successes like we had today.

So, we need to work together on this. We need to find a way that we can pass TPA with labor standards that will provide a template for continuing to make progress with our future trading partners like we did in Oman, like we did in Bahrain.

There are just a few questions I have and a couple of points that I think we are going to have to consider. We are going to have to have a talk about this in this Committee. That is, we need to be careful.

Yes?

Chairman RANGEL. When you are talking about "we," who are you talking about on the Republican side, so that I can get my thinking more clear. Who are the "we" that was cooperating with the minority? If that worked, I would like to continue that. I can't for the life of me, with the exception of you——

Mr. RYAN. I was going to say, you and I had a lot of—we talked dozens of times about these agreements. I am a Republican.

Chairman RANGEL. I yield back.

Mr. RYAN. Okay. USTR as well, obviously, was deeply involved in dialog with you.

Chairman RANGEL. I never really wanted to look at her as a Republican. Yes, you can continue.

Mr. RYAN. Okay. Thank you. Reclaiming the little time I have.

Chairman RANGEL. I will give you back the time you lost.

Mr. RYAN. Thank you, Chairman.

The concern is this: If we don't properly craft this, we may properly leave, subject to dispute resolution and trade sanctions, our own labor laws. So, we have to watch out how we do this so that we don't get a backfire on the way we structure our TPA. It would be a bad situation that would undermine the reason we enter into trade agreements, which is to help American workers and business.

In addition, we need to be careful not to adopt a model that would dissuade potential trading partners from negotiating with us in the first place. If we demand too much, we end up with nothing, not even the improvements in labor laws like we had from these agreements I just mentioned.

Worse yet, we may have all of our potential trading partners turn to China for an FTA that is going to be a lot easier to get than turning to us. So, we are in competition with other economic superpowers to get good trade agreements for us. So, we have to find a way to get that fine line.

So, with that, I think we have an ability, between Mr. McCrery and yourself and the great relationship we are starting, with the past that we have had with some Republicans on this side of the aisle with the Chairman, to get——

Chairman RANGEL. "Some" means more than one.

Mr. RYAN. "Some" means more than one. Well, sure.

Chairman RANGEL. Who is the other person?

Mr. RYAN. I will get back to you on that.

[Laughter.]

Mr. RYAN. The point is, we can't overplay our hand because if we overplay our hand on the way we write TPA, no one will want to have an agreement with us. We may put our own laws up for dispute settlement. We may put our own laws up for possible sanctions.

So, Mr. Aldonas, I will start with you because you just are fresh from government experience, and then anybody else who wants to chime in. Where is that sweet spot? Where is that area that we can get TPA so that we can have a functioning TPA without putting our own laws up for possible sanctions and so that we can encourage other countries to negotiate with us?

Mr. ALDONAS. I think it lies in whether or not our policies, including our labor policies, are artificially distorting investment and trading decisions.

If in fact what we are using is our labor laws to try and encourage our exports, or we are using our labor laws to track investment, isn't that something we would be—is that something we would be concerned about having in the dock? In other words, if it were focused on in terms of other people's labor practices, is the fact that their practices may distort the decision to invest, the decision to trade?

I think you actually find a pretty good line there because it is also something that is susceptible to the normal kind of trade analysis that we do. We have tools that we can use to come to grips with that.

So, in some respects, while I want us to achieve standards, and if we have multilateral agreements, I could see us saying that ought to be part of the picture in any trade agreement that we negotiate. I also know that in this area, when we are talking bilaterally, I think the single most important thing to be thinking about is whether or not what somebody has done with those practices, environmental or labor, in fact is distorting that investment and trade decision. I think that is a standard we could live with at the end of the day.

Mr. RYAN. Thank you.

Dr. TARULLO. Congressman, if I could, just a couple of thoughts on that. One, I think it is important to note that the list of five standards people often cite is a list that was derived from the Generalized System of Preferences legislation, which in turn was the product of some considerable thought.

My second point is we don't—at least I certainly have never advocated, and I don't think the Chair has, either, putting ILO conventions into our bilateral agreements. I think the point that has been made on a number of occasions is these five labor standards are internationally recognized, meaning we didn't just make them up on our own. They are out there. They have some legitimacy.

The third point I would make is the way that the provisions that people have supported are worded, we talk about a failure systematically to enforce. We talk about a pattern of non-enforcement. We are not just sort of zeroing in every time there is a little problem.

I certainly think the United States should be more than happy to affirm that we do enforce our labor laws. We do enforce our laws. We enforce our labor standards. I don't think we should be worried—I hope we don't have to be worried—about a failure, a pattern of non-enforcement, to gain some sort of trade advantage.

Dr. MISHEL. May I just make two quick points, following up? One, let us never forget that we are the largest economy. People need to export to us. We have lots of leverage in all our dealings with other countries.

Second, we do have a problem of some labor standards and how they operate in this country. Just last year there was a labor law decision that removed collective bargaining rights from 8 million workers such as nurses. If a nurse can direct an LPN to do something with a bedpan, she now no longer will have access to be able to be represented by a union.

That is, I think, contrary to some very basic standards. I don't see why we shouldn't be subject to those internationally.

Chairman RANGEL. Let me publicly thank the gentleman for the cooperative spirit we did work last year, and I look forward to working further with him.

Mr. Davis. Thank you for your patience.

Mr. DAVIS. Thank you, Mr. Chairman, and gentlemen. I think in the Chair's exchange with Mr. Ryan, the Chair was identifying the famous congressional tendency to say "we" when we really mean "I." It is a congressional thing.

Let me pick up on a point that Mr. Brady made earlier. He was talking about the benefits of NAFTA with respect to Texas and with respect to Mexico. Let me ask you, and I am not sure which of you knows the answer to this question: What is the rate of poverty in Mexico today? Any of you happen to have a ballpark estimate?

Dr. MISHEL. Substantially higher than it used to be.

Mr. DAVIS. Well, you anticipated my next question. I was going to ask you what the rate of poverty was at the time that NAFTA was concluded.

Do any of you challenge Dr. Mishel's point? I actually don't know if it is substantially higher, but I think his point is that there has not been a substantial improvement in the poverty rate. Do any of you challenge that point empirically? Mr. Aldonas.

Mr. ALDONAS. Yes. I do. What I think it does is it obscures——

Mr. DAVIS. Can you do it in less than 15 seconds?

Mr. ALDONAS. I will. It obscures too much. What you are seeing is increases in income closer to the United States, where there is more trade, more investment. What you are seeing in places like Oaxaca, farther south, is you are seeing a deterioration of living conditions.

Mr. DAVIS. So, it has been mixed. What about the rate of illegal immigration? Does anyone have a point to make with respect to the rate of illegal immigration in 1993 as opposed to today? Someone has to answer verbally for the record to pick you up.

Dr. MISHEL. I would just note that when NAFTA was presented, it was suggested that it would address the problem of immigration. I think it appears to most observers—it appears that way to me that in fact it has exacerbated the situation.

Mr. DAVIS. Does anyone empirically challenge Dr. Mishel's point?

Mr. ALDONAS. Yes. I lived and worked in Mexico in 1980 as a Foreign Service officer. I was punching visas. I will tell you honestly, what has happened is there has been a change in the complexion of the illegal immigration. What we are seeing is less from Mexico, in part because there is more investment there. We are seeing much more that is coming out of Central America and farther south.

Mr. DAVIS. Well, Mr. McGraw, let me pick up on that point. It seems that it is a consensus of the panel that we have had mixed results, if not net negative results, from NAFTA. Why should we expect anything different from CAFTA?

Mr. MCGRAW. I think you have a little bit of a different situation. With Mexico, you had a real focus on certain domestic policies that haven't materialized well. Take education, for example, where we have not seen much change. Rounded numbers now, you have about 20 million students in elementary school. You have about 5 million in secondary, and about 1½ million going to higher ed. It is about the same as it was. The reason is that they don't have access to jobs in that area, and therefore the benefits of that kind of education hasn't lent itself.

Mr. DAVIS. Well, I think that is a good narrative. The question is: Tell me why you expect a different outcome with CAFTA.

Mr. Sperling.

Mr. SPERLING. When I talk about, I think, trying to strengthen the debate, I think it is too easy to get into these—the United States created 23 million jobs in the 8 years after NAFTA, so therefore NAFTA worked; or poverty went down in NAFTA, and therefore it didn't.

I think we all have responsibility. There are lots of arguments on each side like that. Poverty is a bit worse than it was at the moment we signed it, but it is kind of better than it was at the height of the peso crisis.

Joe Stiglitz, somebody who is very critical of a lot of trade things, would argue that it did help Mexico come back quicker. On the other hand, I think a lot of the things critics said about small corn farmers being devastated in Mexico turned out to be true.

So, I really think that rather than kind of take this did it work or not work, I think NAFTA is, as you said, a very mixed story. I think, for example, I know in the Clinton Administration we felt that the labor side agreements in there were too weak. We never went back to anything that weak again.

Mr. DAVIS. Let me stop you just——

Mr. SPERLING. So, I guess I just wanted to say that I think it is better in looking at NAFTA to try to take—Mr. Chairman, you have created such a wonderful dialog to kind of do what is so rarely done, where you can look at the pros and cons.

There are some things in NAFTA that went well. There are a lot of things that didn't. Whether you are for it or against it, I think it is better to look at it by kind of breaking up the components. I think you will learn more about what would work or not work in CAFTA.

Mr. DAVIS. Let me quickly shift gears before my time runs out. China has come up several times today. As a lot of you are aware, countervailing duty laws are not applicable against China because of the U.S. Commerce Department's interpretation of the phrase "non-market economy."

How many of you agree with the proposition that countervailing duty laws should apply to church if they also apply to undeveloped market economies? How many agree with that proposition?

The question was about the application of countervailing duty laws right now because of the U.S. Department of Commerce interpretation that is about 20 years old. Countervailing duty laws apply to market economies. China is not treated as a market economy. At the same time, the anomaly is that countervailing duty laws apply to relatively underdeveloped, in fact very underdeveloped, market economies.

How many of you agree with that state of play?

Mr. ALDONAS. Well, it is a little more complex than that in the sense the countervailing duty law has de minimis provisions for developing countries that offer them benefits. So, in one sense, it doesn't apply with the same force as it does—in the case of China, you have methodologies on the dumping side, which significantly penalize China in some respects, are a surrogate for the countervailing duty law.

I think even under the Doha——

Mr. DAVIS. With the market economies, you get both, do you not? You get dumping and you get countervailing duties?

Mr. ALDONAS. Right. What I would say, having administered this, is that within the framework of the dumping laws, there is a lot of flexibility to try and capture what are the effects of the CVD law.

Now, that doesn't go to your point precisely. I do think that we are at a juncture where you have to make a decision about certain parts of the Chinese economy. There, there is flexibility under the law called something market-oriented sector specific, where you could take a look at the flexibility.

I just want to be clear. Legally, the Commerce Department has the authority to apply the countervailing duty law if it makes certain determinations. I am not sure you need a legislative change to get there.

Mr. DAVIS. They haven't done it.

Mr. Sperling, were you trying to jump in?

Mr. SPERLING. I was just going to say, actually, one of the things——

Mr. DAVIS. They haven't done it in 22 years. Go ahead.

Mr. SPERLING. One of the things Sandy Levin and others pushed in the final stage of the negotiations with China really did come from some of the Democrats on this Committee, was to make sure that the anti-dumping provisions would apply. That was actually, I would say, among the two or three last issues that were pushed as part of getting the WTO Agreement.

Chairman RANGEL. Mr. Porter.

Mr. PORTER. Thank you, Mr. Chairman. I would also add that in my 30 days on the Committee, we have had a lot of cooperation. I appreciate it very much. Thank you.

[Laughter.]

Mr. PORTER. I am from the State of Nevada, and we look at globalization and trade a little bit different than some other States in that we are a travel and tourism economy, if not the largest in the country or certainly in the world for a destination. Comments are going to be more of a comment and not a question.

I think that we need to look at tourism and travel as a major part of our economy. It is about a $90 billion business in the United States. If you look at every State in the union, tourism and travel is one, two, and three in every State as far as economic opportunities and tax revenues and/or pure business dollars.

If you look at this industry—and again, I'm bringing it up because you folks are the experts—I think it should also be included as we look at where we are as a country, where we are going. Travel and tourism has been reduced since 9/11 to the United States about 17 percent. That is pretty substantial.

We are seeing also tourism and travel as a bellwether for a strong economy. In Nevada, we have created 60,000 new jobs last year. We are building another 40,000 hotel rooms. We soon may well have 200,000 hotel rooms. Our occupancy is about 98 percent. Now, what does that mean? It means that the American people are traveling, and are feeling comfortable about their jobs and about their future.

I bring up the travel and tourism—I think many times it is left out of the debate because it is not necessarily a line item in Wall Street or steel or some other major industries. I think it should be included in the future.

Now, if my time allows me, I do have a specific question regarding some of the tax questions. Some say that the cost of labor in a finished product determines whether the product will be competitive. Direct labor costs are often only a small portion of the total manufacturing cost.

With our high productivity, the labor cost per unit for our goods is quite competitive. Don't corporate taxes, tort litigation, and complex regulatory compliance have a far greater effect on our competitiveness?

Mr. ALDONAS. It depends on the product and the industry. There is no doubt it has an impact. Certainly—people would be surprised to know that we have among the highest corporate tax rates in the world right now. People are always stunned when I say that European countries have lower corporate tax rates than we do, but that is the reality, and it does make us less competitive globally.

The other thing I would say is that, particularly in manufacturing where we—efficiencies have drained much of the labor content out of every finished product, whether it is produced here or whether it is produced in China.

The other things that drive competition, even in China, are far more powerful. That is why, when I think about China, I actually think less about wage rates than I think about the other subsidies in the Chinese system, whether it is the nonperforming loans that mean a zero cost of capital for somebody who wants to build a steel mill; whether it is the outright grants, the relief from paying their electricity bills—all those things actually have a powerful effect on the decision to invest.

It is not just affecting the United States. It is affecting all our other trading partners as well. If you looked at wage rates in China, textiles would no longer be in China. It would be in Africa, if it was just wage rates. In fact, there are an awful lot of other things in the Chinese system that are designed to keep the investment there.

One of the things we really haven't focused on are the distortions. The rub here is not always about labor standards. It is really about jobs. It is about employment. One of the things that we should focus on is the distortions that attract investment and jobs to a place like China. Those should be the targets of our trade policy, whether it is negotiation, whether it is enforcement, whatever it might be, because I think in part that is a better answer to some of the feelings of insecurity that Americans feel at the end of the day.

Dr. MISHEL. Mr. Porter, I am a labor market economist, and I think it is important when we are dealing with the labor side of that, the wage part, that it is really all of the labor embodied in the products, not just what is directly in the last place before it goes overseas.

So, the labor costs embodied in a product are probably far larger than what is directly—the direct labor costs you are talking about; one particular plant, what its labor does.

Second, just quickly, I have looked voraciously for any evidence that torts provide any competitive cost that creates an imbalance in this country versus other countries. I have not been able to find it. Every sort of examination of this that I have looked at and done myself, I just couldn't see any relationship. I think it is a really small thing, and is blown out of proportion to anything plausible in much discussion.

Mr. PORTER. Thank you, Mr. Chairman.

Chairman RANGEL. Mr. Pomeroy.

Mr. POMEROY. Thank you, Mr. Chairman. Thank you for holding this hearing. It is very important for us to, from kind of a 30,000 feet level, look at trade issues, not just when we have something pending and we are talking about the advantages or dislocations that a given agreement might present, but this view is precisely important.

I have been monitoring it through the morning even though I haven't been able to be in this chair. You have been at it for several hours, and I wouldn't even think about asking further questions except for one that I just feel so strongly about.

Grant, it gets to a line that I think is a very interesting one in your testimony. You said, "Your job is to"—you write to us, "Your job is to serve as a mediator between the aspirations of all your constituents and the reality of the economic challenges we face."

Now, I think some basically mean, well, if your folks don't like trade, you go back and you just tell them how good it is for them. I think there is a reciprocal dimension. First of all, I will accept what you say there. That is true. That is part of our responsibility.

Another part of our responsibility is to bring into Washington, to the macroeconomic view that pervades Washington, the microeconomic reality reflected by the voters we represent. I was astounded when new Members—they got up and introduced themselves at one of the meetings we had. These are people that took often Republican seats, swing districts. It was concern about trade, the economic insecurity that was pervasive in their districts, that people wanted a change and they were able to beat incumbents. This is swing territory, previously Republican represented.

Last week we had the anomalous situation of setting a record for the Dow Jones average, and having 71 percent of the people record themselves as believing the country is on the wrong track, as captured in an ABC poll.

In my opinion, what the Administration has not owned up to is that this macroeconomic view of growth in this country has been detached to whether the average Joe feels like they are getting ahead or not.

Not to talk about—there are two issues to whether they are getting ahead or not. Economic disparity, I am not going to get into that. Economic insecurity is what I do want to make a point on because I believe that people are feeling more and more insecure. I believe economic insecurity is the greatest threat to future globalization of trade.

If we are going to have a pro-trade strategy, Republican, Democrat, Administration, Congress, it has to go right at this core feeling of insecurity held by the households of this country.

I would be interested in particular—Gene, your testimony speaks to the lot. Grant, you have kind of indicated the macroeconomic view. I would like you two to play with the issue of what is the priority of dealing with this feeling of economic insecurity that is so broadly felt. I notice that even the economist, conservative economist, had this as a major piece in their deal last week.

One final thing before I yield the microphone and won't talk again. There have been some disparaging comments made about our farm bill and our agriculture policy in this country. Don't believe a word of it. We are rationally based and competing with some of the most heavily subsidized exports in the world, and that is why we have the farm bill. Okay, but that is an aside.

Back to economic insecurity, Grant and Gene, thank you very much. Thank you, Mr. Chairman.

Mr. SPERLING. Well, I don't think there is any question that what we have seen—people can talk about 25-year trends, but the last 10 or 11 years in themselves are instructive, and I think in some ways humbling, because the last 5 years of the '90s, you saw increased job churning. You saw lots of globalization, lots of change. Yet it had a very pretty face to it; 23 million jobs in 8 years. Wages went up across the board. Poverty went way down.

The last 5 or 6 years have showed a very different face. You have seen such a divide between productivity and wage growth. We are not just seeing the manufacturing or the low income workers. You are seeing a real threat at the middle. You are seeing real pressure on wages.

I think there is a dramatically more significant fear of falling, in other words taking deep falls when you lose. I think people expect you are going to lose a job at times in your life and it is not going to be pleasant. I think the fear that you may take a dramatic fall in your standard of living, and that sense of downward mobility, is really very difficult for people.

I think the truth is that we have to be honest and that there is no silver bullet here. It really is going to take a comprehensive policy. There are things that you can try to do on the anxiety front—wage insurance, training, universal health care. These are important. Of course, they are just one piece.

I think the type of savings, the kind of universal 401(k) to make sure people are building up savings, these are the things you do at the personal side. I also think we have to still keep stressing higher education even though—and this is the trick—higher education has never been more important, and yet it is less of a sure thing. That is the difficulties.

So, we have to do that side. As I have said before, if you don't have an aggressive job, if your folks back home don't believe that you are fighting for the jobs now and for job creation and have strategies, that you are just about adjustment assistance and long-term investment, I don't think they will listen to you, and I think they may go for more protectionist, less productive strategy.

So, I think it is incumbent on all of us to take that anxiety seriously, realize there is something behind it, and try to come up with the productive things that we can do so that we don't—because I feel if we do nothing and are passive, we will end up either letting people suffer or we will have backlashes, which I think will lead to less productive policies.

I will say, just as an advertisement, that nothing ever documents so much of the statistics we have better than the State of Working America that Larry Mishel has been the author of with Jerry Bernstein for so many years.

Mr. ALDONAS. With your permission, Mr. Chairman.

I have given this a lot of thought, and I appreciate the question because I come at it from the different angle. I think we have refracted our politics through the lens of security, and everybody is more anxious as a consequence. We are anxious about the terms of our engagement in the world, not just economically.

I think the Federal Government has fallen down in terms of grappling with basic tasks that even very conservative people like me think is their responsibility, whether it is Katrina, whether it is the borders, whatever it might be. Then on top of that you have this very real wage compression and the anxiety. Gene points out that it is not just a blue collar phenomenon. You add all that together and it is a pretty potent brew.

What I think is most critical is one of the points I was making early on, Congressman, which is that we have to feel like we control our own destiny. What I think is so incredibly important about what you are doing here today, Mr. Chairman, is you are defining the path that would allow every congressman to go to the American public and say, you what? We do control our own destiny. We don't have to be afraid about this, but we do have to have a strategy for how we come to grips with the challenges we are going to face.

If we do that together, I actually think we will find a way of reducing that anxiety. On the other hand, if we don't do that, I think it will grow. It will metastasize, and it will defeat any kind of positive trade agenda.

Chairman RANGEL. Mr. Levin.

Mr. LEVIN. Well, Mr. Chairman, and how good it is to call you that. This is really a breakthrough. You have been here more years than I. I can't remember the last time we had a hearing like this. I think it is a good kickoff to try to open up, take off the lid, and see if we can't do much better. Thank you.

Chairman RANGEL. Thank you.

The Ranking Member asked me to apologize that he had to attend another meeting. You are right, Sandy. This is a beginning. What is remarkable is why people enjoyed being for trade or against trade, I don't know. I guess that is the easiest way to handle complex legislation.

The goodwill that has been evidence of the private sector, we have to find some way. You had mentioned, Gene, the empowerment zones. It just seems to me if we can identify where America is suffering pain and recognize that there are investments—I don't know, some people call them dynamic scoring. Whatever you want to call it.

If you recognize that if you invest in education, if you keep people out of trouble, if you bring in the private sector, then evidence an international genius in creating opportunities for people, whether in Baghdad or wherever, you come in and you are prepared to say, I am prepared to join the government and assist my country in recovery here as we do so well in developing countries.

We can designate where the pain is. Gene, we don't really have to make a person whole. They come to a certain age, they just take a hit. They were in the wrong business at the wrong time. I used myself as an example, as someone who—no one would know anyone with a college education.

My grandfather was a big shot uniformed elevator operator in the criminal court building of New York. You couldn't touch him. Then they automated the elevators. He almost died. When he saw his grandson become an assistant district attorney in that building, it eased the pain.

I think, no matter where you go in the country, when a person, a family, and community loses their help and self-esteem, America can do better. Just as we have had problems with communication between Republicans and Democrats, we have had a problem in communication as though business had an agenda that had nothing to do with America. That is just not so because they never differed.

The only way we can get Republicans and Democrats to be able to do the right thing, especially during a time of budget restraint, is that everyone can go home and explain that they are in that bill.

So, I hope that if there is any success in this, tragically it will be historic. You could be a part of that success if some of the things that you stated, not for the Congress but for the country, you can help us in putting this together so that we have more competition, more productivity, more business, more health insurance, more education, and most importantly, where no American feels that they are not going to make it.

It is not too bad being poor if you have hope that in this country, you can make it. So, I think that if this is dramatic in talking about it, imagine what we could do if we did something about it.

Thank you so much for what you have thought, what you have contributed. I will be sending a letter thanking you personally and asking you to just put a couple of pages together so that we can come together in a room without cameras, without stenographers, and see what we can come up with. Thank you so much.

[Whereupon, at 1:52 p.m., the hearing was adjourned.]

[Submissions for the Record follow:]

Consuming Industries Trade Action Coalition
February 13, 2007

Hon. Charles Rangel, Chairman
Committee on Ways and Means
U.S. House of Representatives
1101 Longworth Building
Washington, D.C. 20515

Dear Mr. Chairman:

On behalf of the Consuming Industries Trade Action Coalition ("CITAC"), a coalition of companies and organizations committed to ensuring that consuming industries and manufacturers in America have access to reliable supplies of globally priced materials necessary for those industries to produce their products, we are pleased to submit these comments to supplement the record of the Committee's recent hearing on Trade and Globalization. Our comments will focus on the impact of protective trade remedy measures imposed by the United States on consumers, especially "consuming industries," those manufacturers, distributors and retailers that rely on imported products to serve their customers at home and abroad.

The Committee has jurisdiction over the trade remedy laws of the United States, principally antidumping, countervailing duties and safeguard measures. These laws, while they serve legitimate aims, can also be fundamentally unfair to consuming industries as presently constructed and applied. In the current world economy, competition is fierce and intensifying, and U.S. consuming industries must be given every opportunity to become and remain competitive in this environment. Current U.S. trade remedy laws can erode consuming industries' competitiveness in very specific ways. We will comment here on two trade remedy issues of concern to consuming industries: zeroing and industrial user standing in trade remedy cases.

1. Zeroing Should Be Eliminated

Zeroing is the practice of ignoring antidumping comparisons where the export price or constructed export price is higher than the foreign "normal value" of that product. Table 1 below gives a simplified example of the way zeroing works to increase margins of dumping and distort the effect of dumping on the domestic economy. Accurate calculation of dumping margins is important to consuming industries because they ultimately pay the cost of excessive protection, through higher prices, not only of imports, but also for domestic raw materials and production inputs. The end of zeroing will bring substantial benefits to consuming industries.

	Average Normal Value	**Export Price**	**Export Quantity**	**Total Dollars Dumped**	**Value of Imports**	**Domestic Producers' Shipments**	**Domestic Shipments if NV=EP**
Month 1	$100	$90	150	$1,500	$13,500	$67,500	$75,000
Month 2	$85	$90	150	−$750	$13,500	$67,500	$63,750
Month 3	$150	$120	120	$3,600	$14,400	$72,000	$90,000
Month 4	$120	$130	110	−$1,100	$14,300	$71,500	$66,000
Month 5	$100	$140	105	−$4,200	$14,700	$73,500	$52,500
Month 6	$110	$130	110	−$2,200	$14,300	$71,500	$60,500
Totals			745	−$3,150	$84,700	$423,500	$407,750

The "margin of dumping" if zeroing is used would be 6.02 percent, meaning that importers and consuming industries in this example would pay a tax of more than 6 percent. However, the domestic industry's sales figures in this example are actually better than they would be if all import sales were actually at or below normal value. Clearly, the impact of the import sales must include the negative comparison sales to be accurate.

It is critically important in making policy to balance the interests of domestic producers, importers and consuming industries. This is certainly the case in calculating antidumping duties. In CITAC's view, antidumping duties must consider *all* sales of the subject product in the U.S. market, because all sales affect prices and competition. Thus, sales at prices greater than "normal value" must be counted or the result is inaccurate and distortive.

The U.S. antidumping statute does not mention zeroing, and U.S. courts have held that zeroing is permitted under the statute, but not required. Thus, the Department of Commerce is able to end the practice without amending the statute.

However, zeroing does violate the WTO Antidumping Agreement to which the United States is a party. In our comments to the Committee on zeroing, submitted February 7, 2007, CITAC detailed the reasons why zeroing is not required by U.S. law, why it is prohibited by WTO agreements, and why it is bad economic policy for the United States. We commend the Department of Commerce for taking steps to eliminate this practice in narrow circumstances effective February 22, 2007, although in this step they have not gone far enough.

Six decisions of the WTO Appellate Body have held that zeroing violates the terms of the Antidumping Agreement. These WTO decisions are, in CITAC's view, entirely in keeping with the letter of the WTO Antidumping Agreement. These cases properly conclude that a "product as a whole" under investigation or review is the subject of a dumping "margin" calculation, and individual sales comparisons are not a "margin of dumping." Based on accepted principles of treaty interpretation, this result is entirely proper. We urge the Committee not to countenance defiance of the WTO rulings, but to comply with them.

The U.S. national interest would be served by compliance with the WTO rulings. American manufacturers that rely on vigorous competition in securing their supplies of raw materials and production inputs also face the same or greater competition from global suppliers of their products. Excessive taxation of U.S. manufacturers in the form of actual or threatened antidumping duties makes it more difficult for them to compete from their U.S. manufacturing base and encourages manufacturers to look to other countries. This should be discouraged.

The practice of zeroing has been condemned by the WTO and it must be changed. We have urged the Department of Commerce to abandon the practice in all phases of antidumping proceedings, including investigations, administrative reviews, sunset reviews and changed circumstances reviews. Only a full elimination of zeroing will truly serve the interests of all American manufacturers and conform to WTO rulings. We urge the Committee to work with all stakeholders to change this policy and foster U.S. competitiveness in the global economy.

2. Industrial Users Should Have "Interested Party" Status in Antidumping/ Countervailing Duty Proceedings

Under current law, in contrast to domestic producers, foreign sellers and importers of products in antidumping/countervailing (AD/CVD) duty investigations, U.S. industrial users of these products have no standing. Industrial users have no right to have their concerns addressed during the proceedings, or to seek judicial review of adverse Department of Commerce or International Trade Commission determinations. Indeed, the International Trade Commission is not even required to consider the impact of antidumping/countervailing duties on U.S. consuming industries and industrial users in its final determination. This is fundamentally unfair and unsound economic policy for the United States.

U.S. industrial users must have access to adequate supplies of globally priced raw materials and production inputs to be competitive in a global market. Undue restrictions on imports reduce that access, and result in the loss of U.S. jobs in industries that rely on those raw materials and production inputs. Without equal standing under the law, industrial users have no assurance that relevant facts, such as a loss of manufacturing competitiveness and/or a loss of U.S. jobs in consuming industries, will be part of any trade remedy determination.

Under current law, U.S. industrial users' only avenue for participation in trade cases is to ask to be allowed to speak during the time granted to the respondents in the case (foreign sellers or importers of the products). But U.S. manufacturers' interests cannot be adequately represented by foreign sellers or importers in these proceedings—and they should not have to be.

Even if industrial users are granted time by foreign producers to provide comments in a proceeding, which is by no means certain, current law does not require that their input be taken into account by the ITC in a final determination.

Not only are U.S. industrial users directly and adversely affected by AD/CVD cases, they are often uniquely qualified to provide relevant information in such proceedings on issues such as quality, delivery lead times, domestic availability of unique products, whether U.S. producers are able to meet domestic demand, and the likely impact of the AD/CVD orders on U.S. demand for the subject merchandise.

Fundamental fairness and sound economic policy dictate that U.S. industrial users be afforded the same status as all other participants in trade remedy cases.

Conclusion

CITAC appreciates the opportunity to submit these comments for the record of the Committee's recent hearing on trade and globalization. We look forward to working with the Committee to ensure that U.S. trade policy achieves the best outcome for all stakeholders in the American economy.

Very truly yours,

Steve Alexander
Executive Director

Statement of American Forest and Paper Association

The American Forest and Paper Association (AF&PA) appreciates this opportunity to present the forest and paper products industry's views regarding trade and globalization. AF&PA is the national trade association of the forest, pulp, paper, paperboard and wood products industry. The industry accounts for approximately 6 percent of the total U.S. manufacturing output, employs more than 1 million people, and ranks among the top 10 manufacturing employers in 42 States with an estimated payroll exceeding $50 billion. Sales of the paper and forest products industry top $230 billion annually in the U.S. and export markets.

As is the case with many U.S. manufacturing industries, we face increasing domestic and international challenges. Since early 1997, 128 pulp and paper mills have closed in the U.S., contributing to a loss of 85,000 jobs, or 39 percent of our workforce. An additional 60,000 jobs have been lost in the wood products industry since 1997.

U.S. and Global Trade in Forest Products

The U.S. forest products industry for many years has faced the competitive forces unleashed by globalization. The United States is one of the world's most diverse exporters of forest products, as well as the largest importer. In 2005, U.S. exports of forest products grew to $22.9 billion, a year-on-year increase of 7.7 percent, and were composed of $5.9 billion of wood products and $17 billion in pulp and paper products. Exports accounted for approximately 10 percent of total sales of U.S. forest products last year.

However, U.S. imports of forest products have consistently grown at a faster rate than American exports, resulting in an ever-widening U.S. trade deficit. This trend has been intensified as many key foreign competitors have used various tools including protective tariff and non-tariff barriers, subsidies and undervalued currencies to develop world-class, export-oriented forest products industries, which have been able to exploit the open American market. The U.S. trade deficit in forest products grew to $21.7 billion in 2005, an increase of 63 percent from 2001.

One of the most significant international trends that has emerged over the past two decades is the increasingly important role of developing countries in the global trade of forest products—as both exporters and importers—and similarly as consumers and producers. For example, forest product exports from seven geographically dispersed countries—Brazil, Chile, China, Indonesia, Malaysia, South Africa, and Thailand—have more than doubled since 1998 and developing countries are rapidly increasing their share of global forest products production.

In addition to being involved in international trade, AF&PA members are international producers, with primary mills and converting facilities in Canada, Europe, South America and Asia that supply local markets. Other AF&PA members have U.S. operations of Canadian, European and other foreign countries.

Opening Global Markets

As an industry that believes in the economic benefits of trade liberalization, we have been a strong supporter of the trade negotiating agenda of both Republican and Democratic Administrations. We believe that multilateral trade liberalization is the best way to achieve greater market access for our companies. However, when multilateral negotiations have stalled or have not produced the desired elimination of tariff and non-tariff barriers, our industry has supported the negotiation of bilateral free trade agreements.

To achieve further trade liberalization, AF&PA strongly supports the President's recent request for renewal of Trade Promotion Authority (TPA) before it expires on June 30, 2007. TPA provides U.S. negotiators with the credibility they need to extract the best possible outcome in new trade agreements. To continue pursuing the reduction of both multilateral and bilateral tariff and non-tariff barriers, the Administration will need a renewal of a Congressional authority to negotiate trade agreements under "fast track" conditions.

The Doha Development Agenda

AF&PA strongly supports the World Trade Organization (WTO) Doha Development Agenda (DDA) and we hope the negotiations, which were suspended in July 2006, can resume quickly and conclude with a final agreement this year. AF&PA backs the Administration's market access proposal for the WTO negotiations. We believe that sectoral tariff elimination should be a principal negotiating modality of the Non-Agricultural Market Access (NAMA) talks to go along with an ambitious overall tariff formula cut that results in substantial cuts in applied tariffs. It is critical to our industry that the early elimination of tariffs on wood and paper products, through a forest products sectoral agreement, be achieved. But for such a forest products sectoral accord to be viable, it is essential that all developed and advanced developing countries that are significant producers, are major markets, and with substantial forest resources—e.g., Brazil, China, India, Indonesia, Malaysia—fully participate.

The U.S. and most other developed countries agreed in the Uruguay Round to eliminate tariffs on pulp and paper products (Chapter 47, 48) by January 1, 2004. However, developing countries did not make any commitments to reduce tariffs and continue to maintain substantial duties on both paper and wood products. U.S. tariffs on imports of wood products (Chapter 44) are already at or near zero with only a few wood product categories subject to higher rates. Also, these higher rates apply only to a very limited number of countries which are not members of preferential tariff agreements such as the Generalized System of Preferences.

As a result, the U.S. forest products industry has been forced to operate under a significant competitive disadvantage vis-à-vis emerging competitors such as Brazil, China, Indonesia, and Malaysia. High tariffs (combined with non-tariff barriers discussed below) have allowed countries in Europe, Asia and South America to build world-class paper and wood processing industries, at times supported by government financial assistance, which compete with U.S. suppliers both at home and in third country markets. For example, in recent years, China has significantly expanded and modernized its forest products industry, aided by subsidies and other government policies designed to grow and promote a domestic industry, while tariffs and non-tariff barriers (NTBs) limit the ability of competitive U.S. suppliers to fully take advantage of this fast growing market. So while China has significantly reduced its wood and paper tariffs under its WTO accession agreement, China's participation in a forest products sectoral agreement will ensure that U.S. products of wood and paper products have the same duty-free access to the Chinese market as Chinese producers enjoy in the U.S.

Free Trade Agreements

As a supplement to the multilateral process under the WTO, free trade agreements (FTAs) can also serve as a way to address the U.S. forest products industry's trade liberalization objectives. AF&PA has been a strong supporter of the FTA negotiation process and we have already seen the benefits to our industry resulting from the bilateral elimination of tariffs. For example, the U.S.-Chile FTA has been a benefit to our industry's exports. On January 1, 2004, when the FTA was implemented, Chile eliminated its 6% duty on all forest products. Since then, U.S. exports to Chile have more than doubled and exceeded $100 million in 2006.

To achieve maximum benefits from future FTAs, AF&PA believes that the U.S. should seek the immediate tariff elimination on forest products as was negotiated in the Chile and Australia FTAs. Should that not be feasible due to special product sensitivities, the U.S. should seek tariff elimination in as front-loaded a manner as possible. In the ongoing FTA negotiations with Malaysia and South Korea, as well as in other future FTAs, the U.S. should also focus on the elimination of non-tariff barriers and pursue the industry's policies which seek to address subsidies for capacity building, exchange rates that are not market-based, and commitments to combat illegal logging and related trade.

Subsidies

Subsidies provided by foreign governments for capacity additions or for upgrading existing facilities pose a serious challenge to the competitiveness of the U.S. forest products industry. Government subsidies distort markets by financing new capacity in sectors already experiencing global overcapacity, and supporting production capacity in inefficient facilities that would otherwise be closed in an open market environment. The distortions associated with subsidized capacity building or capacity maintenance have worldwide implications. As American firms compete in a global market, limiting and eliminating these types of market distortions is critical to the economic health of the U.S. forest products industry and to ensuring that American companies are competing on a level playing field.

AF&PA believes that the Doha Round Rules negotiations must address the distorting effects subsidies by foreign governments have on the U.S. forest products industry. Specifically, WTO members should agree to prohibit all subsidies in capacity-sensitive sectors, whether direct subsidies or indirect subsidies provided through government-owned or government-controlled banks, with possible exceptions for capacity closure and associated worker adjustment assistance schemes. This would entail an expansion of existing subsidies disciplines, and measures would be enforceable through the WTO dispute settlement process. The U.S. also needs to seek aggressive commitments to eliminate government subsidies in FTAs, with the current FTA negotiations with South Korea being a prime opportunity.

The emergence of China as a major global economic and forest products industry player has created both business opportunities for AF&PA member companies and a source of market and trade distortions. We are concerned that the Chinese government has provided substantial direct and indirect subsidies to the Chinese paper industry in the form of grants, low interest loans, loan forgiveness and the bailout of failing enterprises. AF&PA has conducted extensive research regarding government subsidies to the paper industry in China and we believe that some of these practices may not be in compliance with China's WTO obligations.

We note that China's 11th Five Year Plan might signal an important change in emphasis from previous plans when it comes to government policy toward industry. Based on publicly available information, it seems that the new Five Year Plan has a more market oriented approach toward economic development and addresses some of the "unhealthy" outcomes of China's rapid industrial expansion, namely the potential for environmental pollution, excessive energy and water consumption, and China's raw material deficit. We hope that greater government concern about the negative impacts of excessive investment will lead to more balanced and sustainable growth in China's paper production and capacity. In the meantime, AF&PA supports the increased scrutiny which USTR and the Department of Commerce have placed on China's industrial subsidy practices. We also continue to support legislation that would apply U.S. countervailing duty (CVD) law to subsidized imports from non-market economies such as China.

Relationship Between Currency and Market Access

Distortions in foreign exchange markets, stemming from currency manipulation by foreign governments, alter international trade patterns and adversely impact the competitiveness of U.S. firms, including forest products manufactures. A number of the U.S.'s principal trading partners, such as China, Japan and South Korea, intervene in foreign exchange markets to keep their currencies undervalued in order to support exports and effectively limit imports into their markets. It is essential that the U.S. Government address the persistent challenge of currency manipulation in an active and responsible manner.

The critical role of exchange rates in determining the quality of market opportunities obtained in trade negotiations is widely accepted. For this reason, Trade Promotion Authority legislation should include language which recognizes that significant or unanticipated changes in exchange rates can negate U.S. market access gains in trade agreements and call for consultations with our trading partners under such circumstances. We recommend that USTR assess the comprehensive impact of exchange rates on market access when negotiating trade agreements, and provide a mechanism for consultations on this subject in the text of trade accords. Otherwise, U.S. trading partners may be able to negate market access negotiated for American producers under multilateral, regional and bilateral trade agreements.

Trade and Environment

The U.S. forest products industry strongly supports efforts to ensure that products entering international commerce in general and the U.S. market in particular, are produced in a sustainable manner. AF&PA members are committed to the highest level of forestry practices, as required by the independently reviewed Sustainable Forestry Initiative (SFI) and our Environmental Health & Safety Principles. We oppose trade practices that permit or foster environmental degradation to gain competitive advantage. We encourage U.S. trade policies that promote enforcement of domestic environmental laws, provide positive incentives for improvements in environmental practices, and preclude the use of environmental standards as barriers to trade.

For example, illegal logging is a shared concern among governments and producers, manufacturers, importers and exporters of forest products and a problem that compromises the economic, environmental, and social objectives of sustainable forestry. Illegal harvesting can have harmful impacts on biodiversity and the overall environment. It also affects the competitiveness of legal forest product producers when illegally harvested wood enters the marketplace without reflecting the true cost of sustainable forest management, especially as the cost of wood is the largest cost component in any forest product, making it difficult for honest companies to compete.

The presence of illegal material in the marketplace significantly affects the ability of U.S. producers to export. A 2004 report commissioned by AF&PA analyzed the extent and economic impacts of illegally produced and traded wood products. According to that report, up to 10 percent of global timber production could be of suspicious origin and illegal logging depresses world legally harvested wood prices by 7–16 percent on average, depending on the product. If illegally harvested wood was eliminated from the global market, the study estimated the value of U.S. wood exports could increase by over $460 million each year. Domestic shipments are also impacted by a comparable amount ($500–$700 million annually) because illegally sourced wood depresses prices for wood products globally, even for those produced in the United States.

The recent Memorandum of Understanding (MOU) on combating illegal logging and associated trade between the U.S. and Indonesia specifically recognizes that illegal logging undermines trade in legally produced timber and forest products, reduces the economic value of forests, weakens efforts to promote sustainable forest management, and robs governments and communities of important revenues. AF&PA applauds the U.S. Government's efforts in completing this MOU and recommends that consideration be given toward using this MOU as a model for future agreements with countries where illegal logging has been identified as a concern.

Trade and Labor

The U.S. forest products industry strongly supports efforts to ensure that products entering international commerce in general and U.S. markets in particular, are produced in accordance with internationally recognized labor standards. The U.S. forest products industry opposes the use of unfair labor practices to gain competitive advantage. We encourage U.S. trade policies to provide positive incentives for improvements in labor standards and enforcement of domestic labor laws.

Conclusion

AF&PA appreciates the Committee's interest in these important issues, and the ability to provide comment on them. We look forward to working with the Committee in the 110th Congress to advance the U.S. international trade agenda to the mutual benefit of our member companies and their employees through policies that will enhance their competitiveness.

Statement of Central America Black Organizations

(1) ***Responses to the Committee concern about the philosophy that more trade is always better, no matter its terms or contents;***

(1a) The Central America Black Organization and the constituents they represent do not agree that more trade no matter its terms is better.

(1b) There are instances where the net effect of certain trade transaction contradicts and presents obstacles to the concept that global trade activity should result in the maximum amount of broadly based economic growth.

Transactions that result in runaway jobs to Latin America and the Caribbean for the sole purpose of taking advantage of labor conditions in the region while not affording a living minimum wage and/or opportunity for labor to bargain for fair wages based on productivity for the workers in the region, negatively affects both the worker in the region and the worker in the United States.

Trade transactions that cause the destruction of domestic farm production with resultant flight of the bankrupt farmers to local cities where they are faced with starvation wages produces an eventual increase in attempts to migrate to the United States in search of any available opportunity to make a living abroad even at below the United States minimum wage.

(1c) Under the Current Paradigm

The Central America and Dominican Republic Free Trade Agreement (CAFTA) will generate millions of dollars of new economic activity in the respective countries involved with limited benefit to people of African Descent, Indigenous Descent and other ethnic minorities. People of African and Indigenous Descent and other ethnic minorities are the ones who suffer most during the adjustment period, because racism and discrimination against these groups serve as obstacles to their ability to access resources needed to adjust to new economic activity and rules of trade interaction.

Sophisticated systems of discrimination exist in Central America and the Dominican Republic that, in an almost invisible manner to outsiders, prevent equality of opportunity to participate. Even more sinister is the fact that the discriminatory practices translate into lack of opportunities for employment, except at starvation wages, for many in the affected groups, and accounts for their unusual high numbers among the poor of these societies.

According to a Trade Impact Review case study conducted by the Women's Edge Coalition [1] adverse conditions that affected many Mexicans during the North American Free Trade Agreement (NAFTA) adjustment experience contributed to increased waves of Mexican economic refugees to the United States. That review recommended the provision of development funds to affected populations to alleviate push factors for migration as evidenced in the migration patterns emanating from Mexico.

(2) ***Responses to the Committee concern about whether the benefits of globalization are being spread broadly to working people, farmers, businesses and consumers in the United States, and if not, what specific changes to U.S. trade policy and international trading rules should be recommended to maximize the benefits and minimize the costs of globalization.***

(2a) The Central America Black Organization and its Diaspora network in the United States contend that opportunities to participate in providing technology exchange, training, research and capacity-building related to globalization is not being spread broadly to institutions and research centers based in and that provide services to communities in the United States of peoples of African Descent, Indigenous Descent, and other ethnic minorities formerly victims of Colonialism in Latin America and the Caribbean.

[1] (http://www.womensedge.org/documents/mexicocasestudyfactsheet.pdf).

The Diaspora network in the United States also contend that whole communities in the United States impacted by high incidences of poverty and especially communities of peoples of African Descent, Indigenous Descent, and other ethnic minorities formerly victims of Colonialism in Latin America and the Caribbean are being bypassed and do not have the opportunity to participate in globalization.

(2b) The Central America Black Organization contend that the positive aspects of globalization are not being spread broadly to working people, small farmers, small businesses from communities of peoples of African Descent, Indigenous Descent, and other ethnic minorities formerly victims of Colonialism in Latin America and the Caribbean.

The Central America Black Organization also contends that whole communities in Latin America and the Caribbean impacted by high incidences of poverty and especially communities of peoples of African Descent, Indigenous Descent, and other ethnic minorities formerly victims of Colonialism in Latin America and the Caribbean are being bypassed and do not have the opportunity to participate in globalization.

(3) *Responses to the Committee concern about what have been some of the most important successes of U.S. trade policy in the recent past in terms of maximizing the benefits of globalization and minimizing its costs.*

The Central America Black Organization and its Diaspora network in the United States are affiliated with and proponents of the "New Paradigm for the Eradication of Poverty Movement."[2] The proponents contend that research work in progress of the Consortium of Universities and Research and Development Centers for Technology Exchange and Capacity Building in the Americas[3] which includes universities and research centers based in minority communities of the Southern Diaspora should be commissioned to recommend ways of connecting the benefits and opportunities of historic successes to a multi-regional partnership that includes peoples of the U.S. Diasporas of discriminated peoples of Central America and the Caribbean. The group believes that research will reveal that U.S. Government policy allows for millions of dollars of set-aside purchases from minority businesses which are much underutilized, especially in the defense manufacturing sector that could result in the conversion of these initiatives to trade policy that allows U.S. minority firms to subcontract or joint venture with counterparts in the CAFTA region in a multi-regional minority set-aside program with the groups we describe in section 2 above.

Some ideas being explored by the Southern Diaspora Research and Development Center Member of ONECA and also member of the Consortium of Universities and Research Centers include:[4]

(a) Utilizing tax benefits, and trade concessions in "operation bootstrap" in Puerto Rico which resulted in millions of dollars in the 936 Program and a viable pharmaceutical and related manufacturing sector. There are a host of nonsensitive defense components and products that could be produced in the region and stimulate technological and production growth in linked industries. . . .

(b) Facilitating investment and trade between U.S. Small Minority Enterprises (SMEs) and their minority counterparts in the CAFTA region could be encouraged with tax benefits to the U.S. partners. Transition from exports to production sharing can be achieved by allowing the U.S. firms to receive multi-year tax benefits/relief on earnings generated from investments in production in the region. This could be modeled after or tacked on to the evolving IC–DISC to ETI experience.

A concept paper "Doors of Opportunities for Fair Reciprocal Trade Partnership and Enterprise Growth Involving Discriminated Communities in the Americas Through a Capacity Building and Social Investment Set-Aside Fund" being prepared by Dr. Marco Mason, Dr. Waldaba Stewart, et al., of the Southern Diaspora Research and Development Center will be forwarded upon completion.

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[2] The New Paradigm Publication and Movement establishes strategies for community development, capacity building, partnership human resource investment, cash investment and leveraged consumption by the invisible majority in Latin America and the Caribbean to generate production of goods and services and inclusion in Fair Trade.

[3] New Paradigm Publications will be forwarded for the records and use of the Committee.

[4] A concept paper "The Central America and Dominican Republic Capacity Building Initiative for Community Participation in Creation of New Wealth Opportunity and Eradication of Poverty," (Revised Dec. 11, 2006) being prepared by Dr. Waldaba Stewart, Dr. George Irish, Dr. Marco Mason, Esmeralda V. Brown, Tonya Frishner, Dr. Celio Alvarez of the Southern Diaspora Research and Development Center and the Medgar Evers College Research Center will be forwarded.

(4) ***Response to Chairman Rangel's announcement that: "We need a better understanding of the winners and losers under our current trade policy. Congress must be an active partner with the Administration in shaping trade policy to strengthen economic opportunities for American workers, farmers and businesses*** and this hearing will provide a framework for future legislative action."

(4a) ***Introductory response to this section by the Central America Black Organization CABO/Organización Negra En Centro America ONECA***

An understanding of the winners and losers under our current trade policy must take into consideration the fact that under the current paradigm, there is an invisible majority of people of African Descent, Indigenous Descent, and other ethnic minorities formerly victims of Colonialism in Latin America and the Caribbean who are losers in this process due to racism and ethnic discrimination.

The losers among that invisible majority in Latin America and the Caribbean include the unemployed, underemployed working people functioning at starvation wages, small farmers who are being forced off of their lands, and potential small business entrepreneurs who are not able to obtain access to capital, credit and technology exchange so that they can compete and participate in global production and trade.

An understanding of the winners and losers under our current trade policy must take into consideration the fact that due to racism and ethnic discrimination, there are people of African Descent, Indigenous Descent, and other ethnic minorities formerly victims of Colonialism in the United States who are losers in this process.

The losers in this population include unemployed, poor, working people; medium size farmers; potential small businesses; potential and existing community based traders; and Institutions of higher learning and Research and Development Centers from the Diasporas in the United States that could provide capacity building, technology exchange and research in the United States from and in communities of peoples.

(4b) ***Analysis of CAFTA by the Central America Black Organization/ Organización Negra En Centro America (ONECA)***

"Unfortunately the CAFTA provisions to date do not contain adequate provisions to ensure that countries with highly unequal income distribution and afflicted by racism and insufficient government political will provide for meaningful participation of ethnic minorities in CAFTA implementation." (See CAFTA Summary Attached.)

Current CAFTA law does not include adequate provisions to deal with instances of racism and discrimination by government officials, civil society and developers that prevent an equal playing field and opportunities for the participation of people of African Descent in Central America, the Dominican Republic and the Diaspora in sustainable development and trade in Central America and the Dominican Republic.

People of African and Indigenous Descent in Central America and the Dominican Republic, people of African and Indigenous Descent from Central America in the U.S. and their allies and associates in the African American Community of the United States will have problems competing in a free trade environment by the blockage of access to resources for development, upgrade and credit for trading.

Given the current unequal treatment of peoples of African and Indigenous Descent in Central America and the Dominican Republic, funds and other resources must be found to enable investors of African and Indigenous Descent and others in the U.S. and in Central America to access affordable interest financing for Community-based Non-Governmental Organizations (NGOs) and Coalitions of African Descent involved in small- and medium-size farming, services including tourism, trade and other sustainable economic development activities.

Many groups have concluded that to succeed in the implementation of CAFTA the United States must help build bridges of inclusion and linkages with ethnic minority communities in Central America and the Dominican Republic.

For example, funds could be set aside for capacity building grants distributed by the Inter American Development Foundation to "enable small farmer coalitions and urban trade consortiums of people of African and Indigenous Descent to engage in joint venture operations in the area of trade and economic development between African Americans, Afro Latinos in the U.S. Diaspora and Afro Latinos and Indigenous in Central America and the Dominican Republic, so that they can compete under CAFTA in fair two-way trade, in the provision of services, in the development of tourist destination sites on land they own or control, and to manufacture and sell nontraditional agricultural products and their own cultural products."

In response to emerging global economic development and trading trends around the world and in the multi-regions of Central America, the Caribbean and the United States of North America, an effort is underway in the Southern Diaspora, in the Caribbean and in Central America to organize individually and in groups to meet the rigors of survival in the new international climate of Free Trade and/or Fair Trade.

A multi-regional self-organized Tri-Partner structure has been launched of Peoples of the United States Southern Diaspora, the Peoples of the Dominican Republic, peoples of the Caribbean Common Market and Economy and Peoples of Central America.

According to **ONECA**, "We want our communities to be included as active participants in the implementation of the agreement—as entrepreneurs with our own businesses, or as partners with international investors—not only as potential workers in low-paying jobs created by CAFTA at the Maquiladora or other activities. For this to be possible, our governments must create the conditions to facilitate our participation as competitive players in Central America's new market conditions." [5]

(4c) ***The New Emerging Reality and Implications for Minority Groups in the United States***

The Southern Diaspora of African descent and other ethnic and minority communities in the United States of North America are now exposed to a new world where jobs are not only based on domestic activity but instead a large number of future jobs will be based on global outsourcing as well as on involvement in international trade.

The U.S. community of African descent and other ethnic and minority communities must find ways of getting involved in trade and commerce, domestically and internationally. Success in international trade will depend heavily on taking advantage of the various linkages to people in markets abroad and in the U.S.A. In this respect, New York State, and similarly endowed States which includes major groups that are affiliated to, associated with, and could be linked with, people of African descent in Central America and the Caribbean can lead in this endeavor.

New York has for a long time been working on this concept first conceived when the Hon. Charles Rangel proposed a Trade Center to facilitate the participation of Southern Diaspora people in the U.S. in trade.

There is an emerging realization that free trade that is unfair and/or one-way has serious, unintended consequences and does not result in the win/win situation originally proposed. Unfair one-way trade has produced flight of jobs, from one region to other regions, and opportunities for large, organized business to exploit the situation as they seek to acquire supplies at the lowest possible price. At the same time invasion of developing areas with subsidized products eliminate production capacity in the developing countries, and the starvation wages paid by multi-national corporations are sufficient to offset the losses of jobs in the developing countries and in the developed countries. The resulting economic depression in developing regions increases the flight of people to developed areas and create immigration crises.

On a global basis, the developed areas of the world will have to compete with each other for the consumer markets in developing countries. A substantial part of that consumer market consists of poor people. If those poor persons were included in and benefited from development in their area, their purchasing power would increase and contributes to overall success of the implementation of applicable Trade Agreements and present opportunities for partnerships with their Diasporas in the United States.

(4d) ***Unfortunate Obstacles to Partnerships and Trade Between People in the U.S. Diaspora and Peoples in Central America and the Caribbean***

A substantial portion of the People of African and Indigenous Descent in Central America, the Dominican Republic and some other parts of the Caribbean are unemployed and underemployed persons and are denied equal treatment for jobs in major sectors of the society. Ironically, in some of these societies those under 21 and those over 45 are often not offered jobs.

The subsistence production of these people are in danger of being wiped out by subsidized products from abroad while locally they are denied access to resources that would enable them to enhance their capacity to compete and/or increase their production of value-added and nontraditional products.

[5] Board Resolution from CABO/ONECA prior to passage of CAFTA. Celio Alvarez Casildo, President.

People of African and Indigenous Descent in Central America who attempt to obtain business loans from the banks are routinely turned down and/or offered outrageous terms that would make proposed business initiatives unfeasible.

In spite of the present adverse opportunity circumstances, some peoples of African Descent in Central America have come together to create Master Plans that would enable them to participate in sustainable economic development in their respective countries.[6] Similar self-determination activities are being discussed among peoples of Indigenous Descent. In this context, a Central American Free Trade Agreement (CAFTA) presents a unique opportunity to bring minority groups that have been traditionally marginalized into the mainstream of international trade.

Providing opportunities as part of CAFTA to the growth, development and well-being of the people of Central America, the Dominican Republic and the CARICOM Region would not only ensure them a fair share in the benefits of CAFTA, but also protect the collective socio-cultural and economic well-being of all of the peoples of the CARICOM and Central American Regions. This will require a set-aside of resources to overcome racism and discrimination as obstacles to participation during the CAFTA transition period.

(4e) ***A New Paradigm for the Eradication of Poverty calls for Community Participation in the U.S. and in the Caribbean in New Community Enterprise expansion based on belief:***

- That providing tools to peoples in disadvantaged communities for the generation and implementation of economic initiatives can make a significant impact on the quality of life of peoples within the communities.
- That there is a reservoir of capable persons within every community that could become entrepreneurs, individually or collectively under the right circumstances.
- That it is possible to work with community people to develop sustainable economic and environmentally friendly master plans for the community.
- That with joint venture participation in selected projects in the master plans developed, the communities can facilitate, own, operate and support the resultant products of the collective planning efforts and thus ensure improvement in the quality of life and environment of the community.
- That Sustainable Economic Development work based on community participation in economically sound and environmentally friendly projects can be profitable for all of the participants in such an effort.
- That once the processes for Community Participation in Sustainable Economic Development bears fruit, economically empowered communities of the Processes can be involved in Fair Two-way Trade.

(4f) The proponents of a New Paradigm look forward to additional dialogue toward forging and implementing approaches designed to help achieve the goals of democratizing access to financing in Latin America and the Caribbean thus providing enterprise expansion in partnerships between the Southern Diasporas of the U.S. and the Real Majorities (as used here this term is polemical and unsubstantiated instead, use the term in Marginated and Discriminated Communities) in Latin America.

(4g) ***Other Observations***

According to the authors of the recently published document "A New Paradigm for the Eradication of Poverty" (available to this Committee):

"In parts of the Caribbean and Central America the peoples of African Descent, Indigenous peoples and ethnic minorities of Central America and parts of the Caribbean find themselves the least prepared and least able to participate effectively because of racial and discrimination barriers to access to resources that could enable them to compete and make positive contribution to their societies, the world in general and their potential partners in the United States."[7]

According to the Inter American Development Bank (IADB) document Building Opportunity for the Majority, "It is one of the profound lessons of economic history that democracy and free markets together provide the best foundation for both economic prosperity and a vibrant civil society. These systems reinforce each other when markets provide opportunity for the vast majority of citizens to participate effectively in economic life as both producers and consumers. When markets empower

[6] Master Planning is described in The New Paradigm documents that will be forwarded.

[7] Dr. Waldaba Stewart and a task force of 11 co-authors, presented the New Paradigm publicly at the Carib News Conference in Panama, November 2006, and available on the Web Site southngocaucus.org.

the majority economically societies can flourish and compete successfully in the global market place."[8]

"Unfortunately the governments in the various countries of Latin America have historically made it difficult to generate demographic data that would highlight exclusion of African-descent and ethnic minorities in matters of access to resources for development and their fair share of government social services. By understating the figures those in power are able to utilize corrupt practices to siphon off resources that should go to marginalized (majority) groups while still receiving the votes of the discriminated majorities."[9]

The insistence in misconstruing who the majority is has enabled the following contradictions according to the IADB (Building Opportunity for the Majority). "Even if the period of uninterrupted growth from 1960 to 1980 were included there would still be no improvement in poverty or inequality despite a 95 percent real growth in per capita gross domestic product over the past 45 years. This lack of broad-based growth manifests itself in social and economic exclusions. Typically exclusion refers to minority groups that are marginalized because of race, ethnicity, and gender."[10]

"There are widespread discrepancies in the census counting African Descendants in the Americas. The World Bank estimate provides a rather conservative number, indicating that about 34% of the 520 million people living in Latin America and the Caribbean Region or roughly 150 million people are of African descent."[11]

According to CEPAL, "The top five ranking Latin American countries with substantial African Descendent populations are the Dominican Republic (84%), Cuba (62%), Brazil (45%), Colombia (26%) and Panama (14%).[12] Despite their considerable numbers and significant contributions to the region's economic development, the African descent population in Central America remained marginalized from the socioeconomic mainstream of their societies."[13]

The Inter American Development Bank rightly identifies the gap between commercial banking that produces the leverage for enterprise development and growth and the fact that theoretically there is plenty of opportunity to engage persons from the minority sectors in a way that would produce profits for the commercial banking system.

In this context, it is noteworthy that as a region, Latin America has the highest level of inequality in the world. Throughout the region 92% of the African descent population live in disproportionate poverty.[14]

Central America chronically reflects the hemisphere's chronic and deep-seated patterns of racial/ethnicity based social and economic exclusion. In Central America this pattern has resulted in desperate lack of opportunities and living in extreme poverty for the bulk of the African descendant population. The same is also true for indigenous and ethnic minorities in the region.

(4h) ***Recommendations***

ONECA and its regional partners hereby firmly proposes a strategy designed to ensure that U.S. Trade Policy and the forces of the global economy are harnessed to maximize yielding fairness, effectiveness and efficiency toward generating optimum beneficial impact, promoting enterprise growth and economic development conditions in the United States as well as in the Americas that would foster opportunities, that would foster expanded trade and for the benefits of globalization to positively impact the industrial multi-sector throughout the hemispheric economy, and correspondingly having positive impact on small businesses, farmers and workers in the traditionally marginated and discriminated African Descendant Communities in the Americas. This proposed strategy is anchored on the establishment and operation of a regional fund designed to enable members and groups in Discriminated Communities to gain capacity development for enterprise growth that will enhance, expand and organize import, export and production activity for participation in the Fair Trade Initiatives and facilitate economic development opportunities that will contribute to a reduction in unemployment, social inequality and poverty.

The fund will allocate mini-grants to facilitate the creation of economic development structures, strengthening organizational infrastructure and facilities and to help foster conditions that are conducive to the production of high-quality goods and trade activity in Discriminated Communities with Master Plans for Sustainable Development.

[8] Inter American Bank Publication, 2006.
[9] Stewart demographic study presented at the 2003 Annual Meeting of CABO/ONECA.
[10] Inter American Bank (IADB) Publication (Building Opportunity for the Majority).
[11] Stubbs.
[12] World Bank and Afro-Latin.
[13] Stubbs.
[14] World Bank and Afro-Latin.

It is hoped that when deliberating on fostering greater economic activity in minority communities that there be a substantial emphasis on creating new opportunities and benefits for businesses and entrepreneurs in the African descendant communities in Latin America, the Caribbean and the United States.

Funds could be set aside for capacity-building grants to enable small farmer coalitions and urban trade consortiums of people of African and Indigenous Descent to engage in joint venture operations in the area of trade and economic development between African Americans, Afro Latinos in the U.S. Diaspora and Afro Latinos and Indigenous in Central America and the Dominican Republic, so that they can compete under CAFTA in fair two-way trade, in the provision of services, in the development of tourist destination sites on land they own or control, and to manufacture and sell nontraditional agricultural products and their own cultural products.

The Committee should support the Southern Caucus of NGOs for Sustainable Development Task Force for Access to Capital and Credit of which ONECA/CABO is a Partner and which includes a network of Minority Banks in developing a financing fund to enable investors of African and Indigenous Descent and others in the U.S. and in Central America to access affordable interest financing for Community-based Non-Governmental Organizations (NGOs) and Coalitions of African Descent involved in small- and medium-size farming, services including tourism, trade and other sustainable economic development activities.

ONECA/CABO recommends that resources be made available so that the University and Research Center Consortium previously mentioned can work in partnership with ONECA/CABO to conduct a definitive study of the demography of the region "Now." If we did nothing else but that we would go a long way toward correcting the problems with the present implementation of economic initiatives in the region.

Statement of Executive Intelligence Review

Dear Chairman Charles B. Rangel, and other Honorable Members of the Committee:

We fully support your opening of the work of the 110th Congress, by holding a series of hearings on the economic conditions of the United States; and in that spirit, we respond bluntly to your questions for this third hearing—on how to identify the "successes" of globalization and improve its "benefits"—by stressing this one central point: *Globalization has been a raving success for those financial interests who imposed it over the past 40 years; and a disaster—as they intended—for the nations and peoples that are being looted*. Therefore, it should be stopped—NOT improved or adjusted to. So-called free (rigged) trade must be stopped, and a set of monetary, foreign policy and economic measures initiated for the mutual benefit of building up nations again.

"Too late? Can't be done?" Not at all. The popular groundswell for "fair" trade, not free trade, and for curbing the "excesses" of globalization, is evident across the United States. Just look at the many articles and books by your fellow Congressmen on the topic. The Nov. 7 election results are a mandate to end the globalization disasters of the last three decades of GATT/NAFTA/WTO/"free trade democracy," and all the other variants. Internationally, a rush of support is awaiting any congressional initiative in this direction, even for the most preliminary measures. It would signify that the United States is returning to sanity and its founding principles.

Second, we have no choice but to confront the real nature of the menace involved in globalization. We are at a blow-out stage of the world monetary and financial system. The unprecedented volumes of speculative activity—mostly denominated in U.S. dollars—are at the point of chain-reactions of nonpayment. Look at the bursting of the home mortgage bubble, the commodities prices volatility, the frenzied hedge fund takeovers of economic activity, the privatization-grab for government infrastructure assets, not to mention gambling, otherwise known as derivatives.

"Globalization, The New Imperialism"

"Globalization, The New Imperialism," was the title of a policy document by Lyndon LaRouche in October 2005, which was a forewarning, to provide policymakers the means to understand what we're up against. (See www.larouchepac.com, "A Strategic View of European History Today; Globalization, The New Imperialism.") The United States and other republics would not exist today, if in the 1700s, the leaders of the American colonies, and their European allies, decided to lobby to merely "improve" the conduct of the British and Dutch East India Companies, rather than to break from their imperial control. (In historical fact, the British East India Co. itself backed fake "popular movements" to plead with the Company to not overcharge for goods, to go easy on slaves, and to provide chaplains on commercial missions, etc.).

Unfortunately, these networks were not trounced in the American Revolution, and have attempted to regain dominance at many times since. Today, the particulars may be different from the 18th century, but there is a continuity of both the nature of imperial control, and even of the pedigree of major financial interests involved, whose practices are called by economic historians, "Anglo-Dutch liberalism." LaRouche warned in 2005:

"The long-ranging drive of the Anglo-Dutch Liberal financier-oligarchical establishment, over the post-Franklin Roosevelt period of world history, has been to destroy the institution of the sovereign nation-state republic throughout the planet, an intention which has been turned loose, full force, with the collapse of the Soviet system. The name given to this global destruction of sovereignty of nations, including that of the U.S.A. itself, is 'globalization.'

"The systemic characteristic of this transformation, most clearly since the middle to late 1960s, has been the destruction of the so-called "protectionist model" of the U.S. economy. The intent has been, including from the government of the U.S.A. itself, to destroy the role of the U.S.A. as a sovereign nation-state, by destroying the so-called 'protectionist' system on which the superiority of the U.S. economy to that of other parts of the world had depended, prior to the 1971–1982 transformation of the U.S. into the presently bankrupt 'service economy' rubbish-bin it has become. The intent of globalization is to make the poverty of the so-called 'developing sector' permanent, by degrading the physical economies of the Americas and Europe to the notoriety of 'Third World' conditions, and by making 'Third World' conditions the standard for economy worldwide."

From this vantage point, we here provide summary documentation and references to back congressional action to end the globalization era, under three main points:

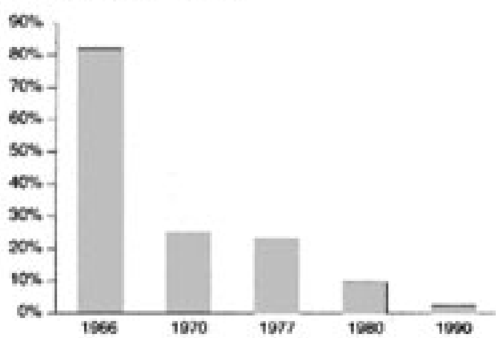
- History of the imposition of globalization,
- Review of the damage from globalization,
- Emergency measures called for.

Globalization Was Imposed, Not "Evolved"

At the 1944 Bretton Woods conference, which set up the post-WW II financial system, a proposal to establish an ITO—International Trade Organization—was voted down. This reflected the prevailing principled view that trade between nations was a prerogative of sovereign governments to determine what was in their mutual best economic interest, and not that of either supra-national agencies, nor private multinational financial interests. Over the subsequent 15–20 years, this principle continued, despite exceptions and assaults, as post-war reconstruction took place, new nations gained independence, and the prospects for a vast advance in economic conditions globally were indicated in the "Atoms for Peace" program, to harness nuclear power.

The original goal of Franklin Delano Roosevelt, for a post-war "International New Deal" for deliberate multi-nation collaboration on infrastructure and rapid economic development was thwarted, because of direct opposition through the Truman Administration. But there was still a vector of development underway until the mid-1960s.

Falling Value of U.S. Merchandise Trade as a Percent of U.S. Foreign Exchange Transactions, 1966-90



Sources: Bank for International Settlements surveys (1986, 1989, 1992); U.S. Federal Reserve surveys (1977, 1980, 1983); GATT.

However, by the 1970s, this dynamic had been seriously undermined by the opponents of national sovereignty and development. In brief: In 1971, the dollar was "floated," which ushered in the era of increasing uncertainty from fluctuating currency exchange rates, and speculative activity amounting to a World Casino. The graph here shows that over two decades, the volume of currency exchange associated with trade in goods collapsed, in contrast to exchange associated with speculation.

In the United States, deregulation was launched in all manner of vital functions—trucking and rail, health care (1973 was the first HMO Act), and energy, culminating in Enronomics. In the 1980s, Margaret Thatcher's Britain became the world model for radical privatization and deregulation. In 1986, with the "Uruguay Round" of the U.N. "General Agreement on Tariffs and Trade," a Thatcher-type campaign was launched to "reform" the entire world farm and food systems by taking away "trade-distorting" practices such as tariffs and national food reserves.

The sophistry of the GATT globalist movement was shown in its slogan, "One World, One Market" to argue that citizens of every nation had the "right" to access their food and all other needs directly from world sources, not from the "confines" of their own nations. "Borderless" free trade was the goal across the board for banking, labor, industrial and agricultural goods and services, and especially access to minerals and natural resources.

In January 1988, the Canada-United States Free Trade Act was signed. In 1992, NAFTA was concluded. In 1995 the World Trade Organization was established. During this process, when Germany was re-unified in 1990, the "free trade" movement was imposed on it, including on Russia, and other parts of the former Soviet bloc.

In the course of all this, a "blob" of cartels and multi-national financial networks positioned themselves for near-total control and killer-profiteering. In 1968, this was described explicitly as a *"world company" project*, by George Ball, a former Under Secretary of State, and Chairman of Lehman Brothers, in a speech to a conference of the Bilderberg Society, on whose steering committee he then served. Ball gave an outline of how the archaic nation-state system should be replaced by globalized corporate cartels.

The "names" associated with this process indicate the networks involved. Lehman Brothers itself, along with Lazard, are foremost entities, and have been in the forefront of the sell-off of the U.S. auto/machine tool capacity and other industrial assets, as well as infrastructure rip-offs through what's now politely termed, "Public Private Partnerships." The poster boy for this process is Felix Rohatyn, long at Lazard, and now a top consultant for Lehman. Also in the line-up is George Shultz, direct collaborator of Rohatyn et al. One view of how the networks operate, is provided by John Perkins' book, "Economic Hit Man."

This gang is now under scrutiny for their global equity fund and hedge fund frenzy of LBO grabs of companies, whose operations are then indebted, downsized and ruined.

Below Economic Breakeven

The net effect on the physical economy, of the years of out-sourcing industry, "global-sourcing" food supply and all related hallmark practices of globalization, has been a *net reduction of productive capacity and living conditions* overall, so that the world economy as a whole is way below even a breakeven threshold of required activity. Specifically: shutting down manufacturing and farming in the United States, and relocating it abroad to cheap labor and low infrastructure sites, causes harm and a net reduction in productivity in all nations involved. Look at some of the features of this, sector by sector.

Industry. There has been an absolute loss of 5.5 million U.S. manufacturing jobs since 1979—including elimination of nearly half the employment in the aerospace and auto industries, the two major machine-tool reserves of the economy. The reemployment of contingents of these former manufacturing workers at less-skilled, lower-wage jobs has lowered the productivity of the American workforce. U.S. consumption of machine tools is now only 60% of the 1980 level, and 60–70% of that consumption is imported machine tools.

What remains of global industrial capacity is now being concentrated in fewer and fewer hands, for example, the Mittal Steel empire, part of the Anglo-Dutch imperium. Steel and heavy industrial goods—measured on a per capita basis of consumption, are declining.

Agriculture. The United States is now food import dependent for 30 to 80 percent of various consumption items, from fruits and vegetables to seafood, even while its former farm counties are experiencing drastic population reductions. On the continent of Africa, food availability per capita is declining. Expected life span itself is dropping in Sub-Saharan Africa. A very few agro-cartels now exert vast control of global food supply lines, including such names as Cargill, Archer Daniels Midland, Bunge, Louis Dreyfus, as well as Smithfield, Suiza and others. International retail food sales are now dominated by Wal-Mart, Carrefour and a few others.

Population. Millions of people are being dislocated by the takedown of national economies. In the United States, there are 12 million Mexicans who would otherwise be in their homeland, but for the free-trade breakdown process. The nation of the Philippines is dependent on remittances from its citizens who are forced to seek work abroad. This is true for all of Central America. In Africa, the refugee population is in the millions. The population of Russia is declining in absolute numbers.

Biological Breakdown. With the decline in infrastructure over the past years—water, power, transportation, health care—the rise of new and resurgent diseases now poses the threat of biological holocaust. This is typified, but not confined to avian flu, or to the new strain of "super"-tuberculosis, now spreading in southern Africa.

Food shocks are also in store, because of the absence of food reserves, and contingencies for botanical pests. A new wheat rust is making its way from eastern Africa, across the Arabian Peninsula, eastward toward the Indian sub-continent, on a spread-path potentially involving 25% of global wheat output. The reason for the danger is that in recent decades, resources were not put into having standby resistant wheat varieties, but instead, private agro-companies came to dominate seed development—including gaining sweeping patent rights—for their own purposes of control and furthering monoculture.

Emergency Measures/The FDR Paradigm

These then, are just a few elements of the "Big Picture" of how far gone we are under globalization. No fix-ups will work, of labor standards or environmental codes, or the like. Emergency action is required. In brief, there are two main areas for legislative initiative. First, to stabilize currency exchange, and put in place measures to prevent insolvencies causing out-of-control shutdown of vital goods and services activities. In particular, the Federal Reserve banking system—with trillions in unpayable claims of derivatives and other "assets"—is bankrupt; and government action is required to place the Federal Reserve under bankruptcy protection and reorganization, in order that required levels of banking function are maintained and obligations honored, but claims equivalent to gambling are frozen at lowest priority.

Going along with this, is the need to initiate nation-to-nation agreements for mutually beneficial fair trade, and to call a halt to the harmful "free trade" commitments and flows. Roll-back the free trade agreements completely.

Second, for both domestic and state-to-state economic activity, initiatives are needed to further large-scale shifts away from the so-called "services economy" model, and shift into a capital-intensive production model, for all national economies. For the U.S. economy, draft legislation has been provided to your Committee, in testimony for your Jan. 23, 2007 hearing, called "The Economic Recovery Act of 2006."

What is involved most simply, is to take a "capital budget approach," in which the Federal Government initiates low-interest credit for priority national infrastructure projects, to be carried out by private contractors. The precedents are clear from the FDR period. And today, the range of infrastructure required is also crystal clear—as described, for example, by the American Society of Civil Engineers. Dams, bridges, new health facilities, ports, water treatment and conveyance, and as the centerpiece: high-tech railroads and advanced nuclear power.

Gearing up to fulfill these infrastructure projects generates the need for millions of new skilled jobs, and for re-tooling, restoring, and expanding the U.S. machine tool/manufacturing capacity.

A detailed policy document on this process is available: "What Congress Needs to Learn: The Lost Art of the Capital Budget," Dec. 22, 2006, by Lyndon LaRouche. (Available in EIR, Vol. 34, No. 2, Jan. 12, 2007, on www.larouchepub.com).

Science Driver

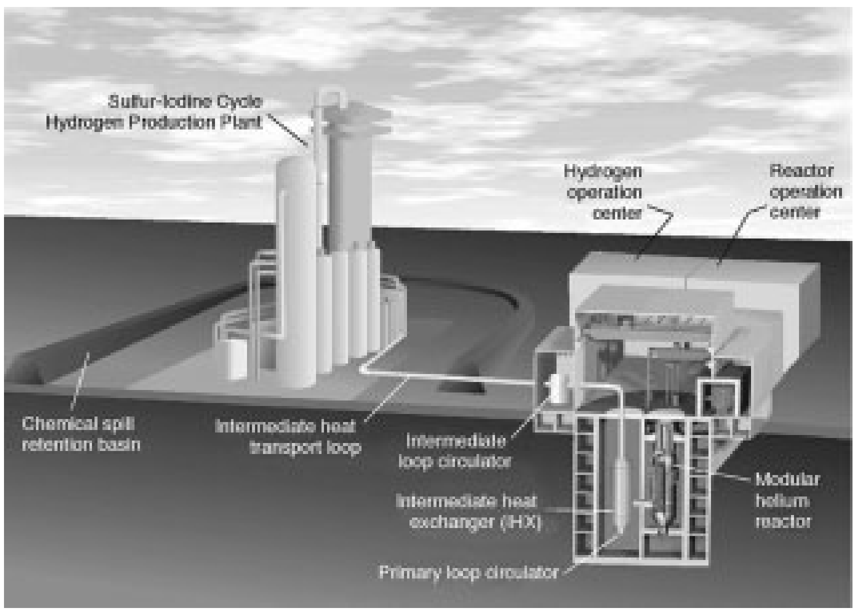
In summary, the program that is now required to bury globalization can be accomplished by a "return to the kind of thinking associated with a 'fair trade,' rather than 'free trade' economy." LaRouche describes this as, "thinking about physical and financial capital as we did under Franklin Roosevelt.

"The principle on which the success of such a program depends, is the principle of fostering the increase of physical productivity, per capita and per square kilometer, through science-driven technological progress in the improvement of the productive powers of labor. This means technological progress as expressed by emphasis on a science-driven economy of the type which brought the U.S. and its allies to victory over Hitler et al. in the preparation for, and conduct of World War II.

"Against the customary carping critics of such measures, consider the following.
"Had Franklin Roosevelt lived, the freeing of the world from the imperial legacy of colonialism and the like, would have created a vast capital market for the products of a converted U.S. war production buildup, the reinvestment of the war debt margins in new capital formation, here and abroad, although it would have been associated with the combination of a temporary austerity, but a healthy accumulation of real capital. . . ."

Now, over 50 years later, we face the severe depletion of our capital stock after three decades of globalization. But the principles of "FDR thinking" still apply. If we take the right emergency measures during the transition, we can drive the economy ahead through resuming the science associated with nuclear power—the "fourth generation" (high temperature) reactors, the R&D to harness fusion power, and the entry into an "isotope economy" of man-made "natural" elements to overcome exhausted resources.

There can be life after globalization, better than ever.



General Atomics

This fourth generation nuclear power design couples a high-temperature helium reactor, the GT–MHR, to a sulfur-iodine cycle hydrogen production plant. Nuclear power is vital for desalinating seawater; and for providing local generation of hydrogen-based fuels.

Statement of Generic Pharmaceutical Association

The Generic Pharmaceutical Association is pleased to have this opportunity to submit written comments in connection with your hearing on "Trade and Globalization."

We share your belief, Mr. Chairman, that "U.S. trade policy can be used as a tool to shape globalization to maximize its benefits, ensure that they flow evenly throughout society, including to working people, and to ensure that the forces of the global economy are harnessed most effectively and efficiently to generate the maximum amount of broadly based economic growth."

One important way we believe this goal can be achieved is by addressing the concerns that follow of the Generic Pharmaceutical Association as they relate to the intellectual property provisions affecting pharmaceuticals in U.S. free trade agreements (FTAs).

Overview

The Generic Pharmaceutical Association (GPhA) represents the manufacturers and distributors of finished generic pharmaceutical products, manufacturers and distributors of bulk active pharmaceutical chemicals, and suppliers of other goods and services to the generic pharmaceutical industry.

GPhA members manufacture the vast majority of all affordable pharmaceuticals dispensed in the United States. Our products are used in more than 1 billion prescriptions every year. Generics accounted for 56% of all prescriptions dispensed in the United States in 2005, but, because generics cost, on average, 30% to 80% less than their brand counterparts, generics account for less than 13% of every dollar spent on prescription drugs.

The generic pharmaceutical industry is a source of robust competition in the United States that offers real and growing benefits to American consumers much in need of affordable medicines. The U.S. generic pharmaceutical industry is beginning now to expand beyond the borders of the United States to help provide much more affordable medicines worldwide.

The successes of the U.S. health care system and the U.S. pharmaceutical industry writ large may be attributed to the prudent balance in the structure of the U.S. pharmaceutical market that encourages true innovation while also facilitating access to affordable generic medicines. FTAs should export the U.S. balance of pharmaceutical innovation and access to affordable medicine in order to ensure that globalization provides the same prosperity abroad as that enjoyed by the United States today and in the future.

Yet, as my testimony will explain, that balance is lacking in U.S. free trade agreements. Congress has a unique opportunity to restore the balance between drug innovation and access to affordable medicines through generic competition when it reauthorizes Trade Promotion Authority this year. And GPhA urges the Congress to call on the Administration to correct the current flaws and put the consumer interest of having access to affordable medicine on an equal footing with the protection of pharmaceutical innovation in the ongoing negotiations with Korea, Malaysia and Thailand that would otherwise diverge from U.S. law and restrict the public's timely access to affordable medicine at home and abroad.

Principal Negotiating Objectives for Pharmaceutical Intellectual Property

The Trade Act of 2002, in which the Congress granted bipartisan Trade Promotion Authority (TPA) to the President of the United States subject to certain negotiating objectives, contains the "marching orders" for U.S. trade negotiators.

In the Trade Act of 2002, the Congress identified three principal negotiating objectives with respect to trade-related intellectual property rights.

The first of these is "to further *promote adequate and effective protection* of intellectual property rights." [1] The Congress further required that in "any multilateral or *bilateral trade agreement* governing intellectual property rights that is entered into by the United States" adequate and effective protection is to be achieved through provisions that "*reflect a standard of protection similar to that found in United States law*." [2] (emphasis added.)

GPhA fully supports this objective if implemented properly. The standard of protection in U.S. law carefully balances fostering pharmaceutical innovation with ensuring access to affordable medicine. The strength of a pharmaceutical market depends on the security of intellectual property and the protection of the incentive to innovate new products. *Of equal importance* to a nation's health and the effectiveness of its pharmaceutical market, however, is the cultivation of a robust generic industry able to provide affordable access to medicines. In free trade agreements, as with U.S. law, these interests must be balanced to provide the greatest benefit to the health of America and to our partners in trade.

It is not unusual for U.S. negotiating objectives to call for the standard of U.S. law or for balance between competing objectives or between competing U.S. industries. For example, the principal negotiating objectives with respect to foreign investment direct U.S. negotiators to "secure for investors important rights comparable to those that would be available under United States legal principles and practice" while at the same time "ensuring that foreign investors in the United States are not accorded greater substantive rights with respect to investment pro-

[1] Trade Act of 2002, Sec. 2102. Trade Negotiating Objectives. (b)(4)(A)(i)(II) The other two principal negotiating objectives for intellectual property under TPA will be discussed later in my testimony.

[2] *Ibid*. It is worth noting that intellectual property is one of only three negotiating topics for which the Congress gave *explicit instructions with respect to bilateral free trade agreements*. (The other two topics are market access and labor.)

tections than United States investors in the United States."[3] The principal negotiating objectives for electronic commerce carefully balance the interests of merchants on the Internet and merchants on Main Street by directing U.S. negotiators "to ensure that electronically delivered goods and services receive no less favorable treatment under trade rules and commitments than like products delivered in physical form."[4] Trade Promotion Authority even seeks balance *among the principal negotiating objectives themselves*, calling for dispute settlement provisions that treat the principal negotiating objectives equally with respect to the ability to resort to dispute settlement and the availability of equivalent procedures and remedies.[5]

In each of these instances, U.S. negotiators spent considerable effort in interagency policy councils, in consultations with Congress and the private sector, and in negotiation with our trading partners to achieve an outcome that would satisfy the principal negotiating objectives laid out by Congress in Trade Promotion Authority.

And indeed, many parts of the Intellectual Property Chapter demonstrate the care with which U.S. negotiators sought to "reflect a standard of protection similar to that found in United States law" in areas outside pharmaceuticals. For example, the copyright provisions in U.S. free trade agreements contain numerous exceptions that maintain the balance between strong intellectual property rights for rights holders and the "fair use" provisions in U.S. law that protect the public's interest.[6] And as far back as the Chile and Singapore FTAs, the IP (intellectual property) enforcement sections of U.S. free trade agreements have included an extensive article that lays out with great precision the *Limitations on Liability for Internet Service Providers (ISP)*, "reflecting the balance struck in the U.S. Digital Millennium Copyright Act between legitimate ISP activity and the infringement of copyrights."[7] To avoid any ambiguity, the more recent FTAs[8] also enshrine the balance found in the Online Copyright Infringement Liability Limitation Act in a separate side letter.[9]

This is in sharp contrast to the treatment of pharmaceutical patents and data protection in U.S. free trade agreements. The branded pharmaceutical industry applauds U.S. free trade agreements for clarifying the obligations contained in Article 39.3 of the WTO's *Agreement on Trade-Related Aspects of Intellectual Property Rights* (the TRIPS Agreement) with respect to data exclusivity and for providing additional protection with respect to pharmaceutical products subject to a patent.[10] But these agreements blatantly exclude provisions to ensure affordable access to safe and effective generic medicines.

Deficiencies in U.S. Free Trade Agreements

Recent FTAs that either have been or are being negotiated under the current grant of Trade Promotion Authority diverge from U.S. law in important respects.[11] In some instances, U.S. FTAs lack the basic elements of the Hatch-Waxman system put into place in 1984—the law that created the generic pharmaceutical industry as we know it. In other instances, the problem may be one of timing.

The "model" IP text which the branded pharmaceutical industry champions was first developed in the course of the Chile and Singapore negotiations. These negotiations started toward the end of 2001 and concluded around the end of 2002. TPA itself did not pass the U.S. Congress until August 2002, when U.S. negotiating positions with respect to pharmaceuticals had already been well advanced. The goal of the branded pharmaceutical industry has been to improve aspects of the model text

[3] *Ibid*., Sec. 2102. Trade Negotiating Objectives. (b)(3).
[4] *Ibid*., Sec. 2102. Trade Negotiating Objectives. (b)(9)(B)(i).
[5] *Ibid*., Sec. 2102. Trade Negotiating Objectives. (b)(12)(G)(i), (ii), (iii).
[6] For example, even though other principal negotiating objectives for intellectual property explicitly call for "ensuring that rightholders have the legal and technological means . . . to prevent the unauthorized use of their works," nonprofit libraries, archives, educational institutions and public noncommercial broadcasting entities cannot be criminally prosecuted under certain copyright provisions, such as those designed to prevent circumvention of technology protection measures. See *U.S.-Colombia Trade Promotion Agreement*, Article 16.7. (4)(a).
[7] USTR Fact Sheet, "Free Trade with Chile: Summary of the U.S.-Chile FTA," 12/11/02, *www.ustr.gov*.
[8] For example, see Morocco, Peru and Colombia trade agreements.
[9] Pub. L. No. 105–304 112 Stat. 2860, 2877. See, for example, the ISP Side Letter for the Morocco, Peru and Colombia trade agreements.
[10] See any of the various Reports of the Industry Trade Advisory Committee on Intellectual Property Rights on the bilateral free trade agreements that have been signed while Trade Promotion Authority has been in effect. For example, see page 17 of their report on the Intellectual Property Provisions of the U.S.-Colombia Trade Promotion Agreement. *www.ustr.gov*. Neither GPhA nor its members participate on this committee, although GPhA has an application pending with USTR.
[11] This also applies to the U.S.-Jordan FTA.

in each subsequent negotiation so that it becomes a new baseline for all future FTAs. In the words of the Industry Trade Advisory Committee on Intellectual Property Rights (ITAC–15), "[t]his baseline is continually reflected in the model FTA agreements, which are constantly changing based on *what we learn through negotiating each of the FTAs*." [12] (emphasis added.)

Ironically, what has not been captured in our FTAs is *what we were learning from our domestic experience* in the United States. Prior to passage of the Medicare Modernization Act (MMA) in 2003, U.S. brand companies were able to exploit loopholes to extend product monopolies to the detriment of consumers. The MMA fixed many of these loopholes, but the "model" pharmaceutical texts have never incorporated these "course corrections" in U.S. law. So it is perhaps not surprising that these are many of the same areas that suffer from a lack of balance in our FTAs.

Just as TPA calls for ensuring that IP standards of protection and enforcement are updated to keep pace with technological developments,[13] we need to ensure that the IP standards of protection and enforcement are updated *to keep pace with U.S. law*.

Let me provide you with a few examples.

Bolar Provision

The Bolar provision in the United States guarantees a generic company the ability to research an innovator's drug during the patent term so that a generic version may be developed and marketed promptly when the patent expires. Just as "Bolar" is required by U.S. law,[14] so too should a safe harbor provision be mandated by the terms of U.S. free trade agreements. A Bolar-type provision is key to maintaining a robust generic industry which helps to strike the proper balance between the interests of innovation and access to affordable medicine. GPhA would like to endorse the statement by witness Daniel Tarullo at the Committee's hearing that "decisions on the provisions to be included or excluded can, almost by definition, make the difference between a good or bad agreement." [15]

Extension of Patents

Patent extensions are awarded to drug manufacturers to compensate for the time lost during the development of a new chemical entity ("NCE"), i.e., to those medicines that are truly novel. The U.S. restores approximately half of the time during which the safety and efficacy of the drug is investigated in clinical trials, in addition to the entire regulatory review period (from submission of the New Drug Application (NDA) to approval). Thus, in order to balance the interest in encouraging pharmaceutical innovation with access to affordable medicine, patent extensions are limited. Under U.S. law, a drug may receive one extension per NCE, the extension may not exceed 5 years, and the total remaining effective patent term may not exceed 14 years from the date of approval.

In contrast, current FTAs provide for an unlimited number of patent extensions and can include "everyday" products. Just as bad, there are no limitations on the duration of each of those extensions. The result is to allow for continual "ever-greening" of the patent protection for brand products, with the potential to indefinitely block generic competition a true windfall for the patent holder.

Market Exclusivity

Another incentive to innovate is market exclusivity. In the United States, market exclusivity for pharmaceuticals is generally limited to a maximum of 5 years and eligibility is limited to new chemical entities (NCEs), i.e., to those medicines that are truly novel, and 3 years for "new condition of use" of a drug. In order to obtain market exclusivity for a new condition of use for a drug, the innovator must conduct new clinical studies that are essential to the approval of that condition of use.[16]

Many FTAs include terms that would broadly prevent marketing of "same *or similar* product[s]" during the period of market exclusivity, providing greater protection than that afforded under U.S. law. Many FTAs also would allow 3 years of market exclusivity to apply to the "products" rather than the "new conditions of use" of the drug product. To make matters worse, this protection would be available without any requirement that "new condition of use" be based on "new clinical investigations [that are] essential to [its] approval."

[12] *Ibid*., p. 5.
[13] Trade Act of 2002, Sec. 2102. Trade Negotiating Objectives. (b)(4)(A)(iv).
[14] Required—35 U.S.C. 271 (e)(1). Export allowed under 21 U.S.C. 382.
[15] Statement of Daniel Tarullo Ph.D., Professor of Law, Georgetown University, January 30, 2007, p. 1.
[16] Five years for new active ingredients—21 U.S.C. 355 (j)(5)(D)(ii). Three years for new condition of use—21 U.S.C. 355 (c)(3)(E)(iii)-(iv).

The provisions in our FTAs can be interpreted to delay generic approval even for nonprotected conditions of use (off-patent and off-market exclusivity) of the same drug and related drug products, such as an original multi-day dosage form.

Best Mode

In order to obtain a patent, U.S. law requires the applicant to disclose the "best mode" of practicing the invention. The disclosure of best mode serves the public's interest in maintaining a strong patent system and progressing technologically, as well as the interest in having access to such technology upon patent expiry.

FTAs have materially omitted best mode as a requirement for patentability. For example, CAFTA provides as follows:

> *"[A] disclosure of a claimed invention shall be considered to be sufficiently clear and complete if it provides information that allows the invention to be made and used by a person skilled in the art, without undue experimentation, as of the filing date."* [17]

In contrast, the U.S. law provides that a patent application shall include:

> "[t]he specification [containing] a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, *and shall set forth the best mode contemplated by the inventor of carrying out his invention."* [18] (Emphasis added.)

Thus, our FTAs require a significantly lower standard of transparency than that found in U.S. law, to the detriment of generics that could enter the market after patent expiry.

Patent Linkage

"Linkage" refers to the obligation in our FTAs and in U.S. law that marketing approval for generics by the health authorities needs to be mindful of brand patents. However, U.S. law provides checks to linkage that protect generics from dubious patent claims and protracted litigation that do not exist in our FTAs.

Under U.S. law, a generic manufacturer may submit, along with its ANDA (abbreviated new drug application), a "paragraph IV" challenge attesting to either non-infringement or invalidity of the patent. The patent holder has 45 days to file a patent infringement action which triggers an automatic 30-month stay of approval of the generic manufacturer's application (which can be shortened by court order in egregious cases). U.S. law allows FDA approval and marketing at the expiration of the 30-month stay, even if the lawsuit is still pending. U.S. law also provides another mechanism to facilitate timely resolution of patent disputes by allowing generic applicants to seek a declaratory judgment on the expiration of the 45-day window. These measures balance strong patent protection with the ability to challenge weak and questionable patents and encourage timely resolution of patent disputes. The U.S. Hatch-Waxman system embodies this concept; yet, it also specifies the types of patents that may be listed for a drug—those patents to which an applicant must refer in seeking approval for a generic drug. Additionally, U.S. law provides a countermeasure for improperly listed patents that would otherwise cause unjust delay of approval. Known as "delisting," the term refers to an applicant obtaining a court order that requires the patent holder to correct or remove patent information listed with the FDA for a product.

Many recent free trade agreements mandate linkage, but provide no means for generic companies to challenge questionable patents, offer no incentive for the early resolution of patent disputes and do not limit the types of brand patents that can be listed for a drug product. Without such measures, the terms of the FTAs could provide *de facto* patent extensions to the brand industry, encourage lower quality patents and allow unjust delays in access to affordable medicine.

Adopting all the particularities of the U.S. system may be unnecessary to achieve a balance between encouraging innovation and ensuring access to affordable medicine with respect to linkage. Rather, it is the fundamental principles of the U.S. system that must be promoted by USTR:

- Mechanisms that facilitate challenges to questionable brand patents, and
- an incentive that expedites the resolution of patent disputes are essential to an efficient health care system—a system that allows protracted patent litigation

[17] Central America-Dominican Republic-United States Free Trade Agreement, Art. 15.9 (9).
[18] 35 U.S.C. 112, first paragraph (2001).

to become *de facto* patent extensions will undoubtedly be bogged down with lawsuits and ultimately unworkable.

- Finally, a mechanism to eliminate poor quality or extraneous patents is necessary to prevent the improper brand patents from obstructing the approval pathway for a generic applicant.

Harmful Effects of FTA Provisions

Some have suggested that it is unnecessary to include access protections in our free trade agreements, arguing that USTR's mandated objective is to foster innovation[19] and besides, our FTAs don't *prohibit* U.S.-style access provisions. But continuing with the current approach comes at real costs.

Blocks Generic Drug Exports.—The current unbalanced approach unfairly delays generic drug exports and diminishes the ability of generic companies and workers to take advantage of the expanded market opportunities available in our FTA partners as a result of lower tariff barriers. It is true that the second principal negotiating objective for intellectual property is "to secure fair, equitable, and nondiscriminatory market access opportunities for United States persons *that rely upon intellectual property protection*."[20] (emphasis added.) But surely Congress was referring to the market access conditions faced by U.S. persons relative to foreign competitors, and did not intend for this principal negotiating objective to favor the foreign market success of U.S. persons that rely upon intellectual property protections over other U.S. persons.

Undermines other TPA objectives and WTO commitments.—The current unbalanced approach undermines the spirit, if not the letter, of the third principal negotiating objective for intellectual property under TPA, namely "to respect the Declaration on the TRIPS Agreement and Public Health, adopted by the World Trade Organization at the Fourth Ministerial Conference at Doha, Qatar on November 14, 2001."[21]

In that Declaration, the Members of the WTO—including the United States—agreed "that the TRIPS Agreement does not and should not prevent Members from taking measures to protect public health." They went on to say in their Declaration, "Accordingly, while reiterating our commitment to the TRIPS Agreement, we affirm that the Agreement can and should be interpreted and implemented in a manner supportive of WTO Members' right to protect public health and, in particular, to promote access to medicines for all."[22]

Since then, in a Decision in 2003,[23] and in a Decision in 2005,[24] the Members of the WTO have reinforced their emphasis on the need "to promote access to medicines for all" by clarifying and strengthening the ability of developing countries that are Members of the WTO to engage in compulsory licensing of pharmaceuticals under the terms of the TRIPS Agreement.

Thus, the Members of the WTO, while preserving the careful balance of rights and obligations relating to trade-related intellectual property rights that they established in the TRIPS Agreement, have clearly emphasized, in this Declaration and in their subsequent decisions implementing this Declaration, the crucial importance to WTO Members of increased access to affordable medicines.

In this context, any trade agreement governing intellectual property rights that is negotiated by the United States should, in the words of the Congress, "respect" this historic global Declaration. The United States deserves credit for playing a leading role in finding a workable compromise in the WTO[25] (indeed, at one point even issuing a unilateral moratorium on dispute settlement cases until a consensus had been reached); and recent U.S. free trade agreements have contained "Under-

[19] Reflecting this bias, USTR recently changed the name of its IPR unit to the Office of Intellectual Property *and Innovation* (emphasis added). Interestingly, the word "innovation" does not appear anywhere in the TPA provisions that define the principal trade negotiating objectives for Intellectual Property.

[20] Trade Act of 2002, Sec. 2102. Trade Negotiating Objectives. (b)(4)(B).

[21] Trade Act of 2002, Sec. 2102. Trade Negotiating Objectives. (b)(4)(C).

[22] Doha Declaration on the TRIPs Agreement and Public Health (Point No. 4). 2001 Doha Ministerial. *www.wto.org*.

[23] Decision of the General Council of 30 August 2003 on the Implementation of Paragraph Six of the Doha Declaration on the TRIPs Agreement and Public Health (WT/L/540) and the WTO General Council Chairman's statement accompanying the Decision (JOB(03)/177, WT/GC/M/82) (collectively the "TRIPS/health solution").

[24] Amendment of the TRIPS Agreement. 2005 Doha Ministerial. *www.wto.org*.

[25] The U.S. played a key role in the Doha WTO Ministerial (Nov. 2001) reaffirmation that global trade rules allow countries to decide what constitutes a health emergency and to issue compulsory license drugs to fight epidemics. Also at Doha, Ministers accepted a U.S. suggestion to extend the global patent rules participation period for Least Developing Countries (LDCs) from 2006 to 2016.

standings Regarding Certain Public Health Measures" to clarify that the Intellectual Property Chapter does not prevent the effective utilization of the TRIPS/health solution.

However, the overall approach in our FTA negotiations has been entirely unyielding with respect to a more general commitment to affordable access to medicines, *even when the specific proposals being put forward by our trading partners have their origin in U.S. law*. This inability to acknowledge the legitimate role of access to medicine provisions has made the United States appear overbearing at the negotiating table to our trading partners and the world, and has unfavorably affected the balance of concessions that U.S. negotiators have needed to offer in other U.S. industries to "pay for" the intransigence of the U.S. brand pharmaceutical industry.

Pose a risk to U.S. consumers through international harmonization efforts.—The current unbalanced approach could come back and "bite" U.S. consumers if it affects future U.S. law through international harmonization efforts. In that sense, the current unbalanced approach also contravenes TPA's dictate that "the President shall . . . take into account other legitimate United States domestic objectives including . . . consumer interests and the law and regulations related thereto."[26]

The U.S. generic industry is far from the only U.S. industry to view FTAs through the lens of how they might affect domestic law and practice. For example, during the Andean FTA negotiations, U.S. telecommunications companies differed over the desirability of a "carve-out" for mobile services providers. Some companies wanted the carve-out because they feared removing it could have led to regulatory oversight of U.S. companies' pricing practices in the United States; to date, the Federal Communications Commission (FCC) has not seen the need to regulate the mobile industry because of significant competition in the U.S. market. The fact that Congress was drafting updates to key telecommunications laws at the time was also a concern. USTR brokered these differences and ultimately accompanied the carve-out with new language that lessened the concerns of those who saw the carve-out as "WTO-minus" and encouraging "egregious behavior" on the part of our trade partners.[27] This type of balanced solution simply hasn't been sought in the pharmaceutical IP provisions.

There are real reasons for the generic industry to raise this concern. Recent harmonization efforts in Congress and the WTO indicate that the U.S. will continue to face pressure to adapt its laws to international standards. Yet, U.S. FTAs spur on the establishment of international pharmaceutical standards that are counter to our own. This is true not only directly, as in the examples I have previously given, but also indirectly. In 2005, Congressman Lamar Smith (R–TX) introduced Patent Reform bill H.R. 2795, which proposed to eliminate the "best mode" disclosure requirement that is currently mandated under U.S. law.[28] Thus, it is conceivable that FTAs lacking a best mode provision could unduly influence patent reform legislation through pressure to harmonize.

Finally, jurists in WTO dispute settlement increasingly interpret the WTO Treaty in the context of other international law. In some respects other international law is incorporated by specific reference into the WTO Treaty (such as with various international IP conventions in the TRIPS Agreement). In other respects the standards established by various international standard setting organizations are given legal status in the WTO (such as those that are referenced in the *Agreement on the Application of Sanitary and Phytosanitary Measures*).

Furthermore, it is likely that WTO jurists will increasingly be called upon to give legal credence in multilateral dispute settlement to relevant provisions in various bilateral agreements to which disputing WTO members are also parties. This can be expected to be the case with respect to provisions relating to pharmaceutical patents and other rights relating to intellectual property and pharmaceuticals.

Thus, when—not if—harmonization efforts succeed, U.S. consumers will have to wait longer to gain access to affordable generic medicine, causing U.S. pharmaceutical expenditures to increase exponentially.

Conclusion

In conclusion, Mr. Chairman, for the sake of global health and the health of Americans, our trade agreements should not contribute to the establishment of greater intellectual property standards than those already provided under U.S. law. But I am confident that if we can introduce in our free trade agreements the bal-

[26] Trade Act of 2002, Sec. 2102. Trade Negotiating Objectives. (c)(6).
[27] Letter to U.S. Trade Representative Robert Portman from Sprint, NII Holdings Inc. and Avantel, dated November 9, 2005.
[28] 35 U.S.C. Sec. 112.

ance found in U.S. law between fostering innovation and ensuring access to affordable medicines that these pharmaceutical intellectual property provisions would work to spread the benefits of globalization throughout society in the United States and in our trading partners. I ask for the Committee's support in achieving this laudable objective.

Statement of National Pork Producers Council

The National Pork Producers Council is a national association representing 44 affiliated States that annually generate approximately $15 billion in farm gate sales. The U.S. pork industry supports an estimated 550,200 domestic jobs and generates more than $97.4 billion annually in total U.S. economic activity and contributes $34.5 billion to the U.S. gross national product.

Pork is the world's meat of choice. Pork represents 40 percent of total world meat consumption. (Beef and poultry each represent less than 30 percent of global meat protein intake.) As the world moves from grain based diets to meat based diets, U.S. exports of safe, high-quality and affordable pork will increase because economic and environmental factors dictate that pork be produced largely in grain surplus areas and, for the most part, imported in grain deficit areas. However, the extent of the increase in global pork trade—and the lower consumer prices in importing nations and the higher quality products associated with such trade—will depend substantially on continued agricultural trade liberalization.

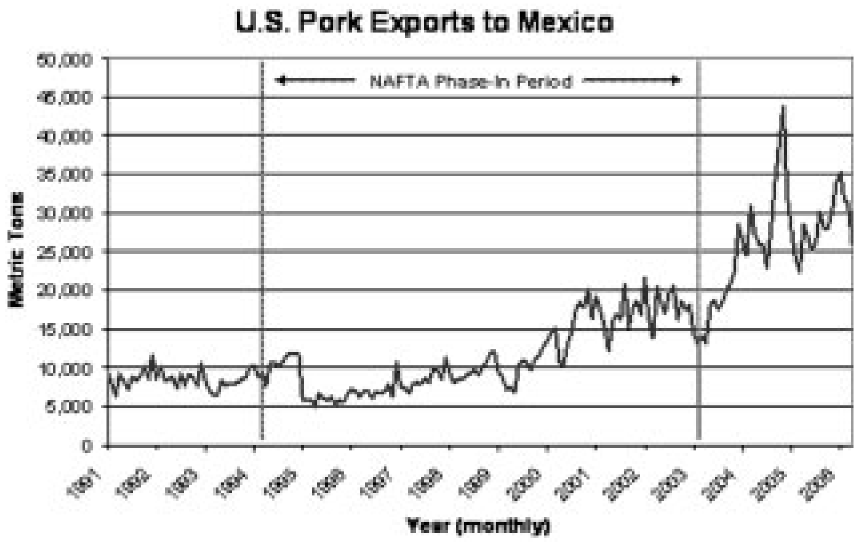
PORK PRODUCERS ARE BENEFITING FROM PAST TRADE AGREEMENTS

In 2005, U.S. pork exports totaled 1,157,689 metric tons valued at $2.6 billion, an increase of 13 percent by volume and 18 percent by value over 2004 exports. U.S. exports of pork and pork products have increased by more than 389 percent in volume terms and more than 361 percent in value terms since the implementation of the NAFTA in 1994 and the Uruguay Round Agreement in 1995. Pork exports for the first 11 months of 2006 have continued to grow. January–November exports were 1,147,835 metric tons valued at $2.6 billion. This is an increase of 9 percent by volume and 8 percent by value over pork exports during the same time period in 2005.

The following eight export markets in 2005 are all markets in which pork exports have soared because of recent trade agreements.

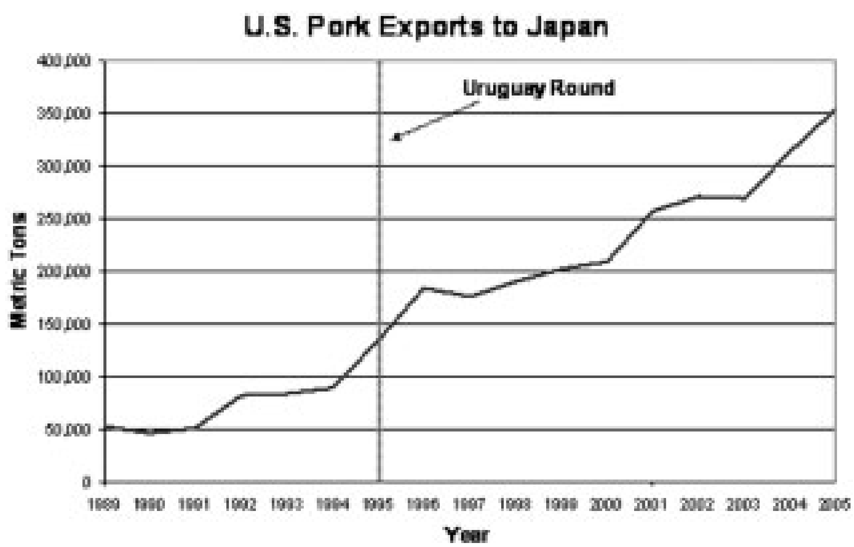
Mexico

In 2005 U.S. pork exports to Mexico totaled 331,488 metric tons valued at $514 million. January–November 2006 export figures indicate U.S. pork exports to Mexico increased 9 percent by volume and 11 percent by value over January–November 2005 exports. Exports during this timeframe in 2006 were 324,630 metric tons valued at $508 million. Without the NAFTA, there is no way that U.S. exports of pork and pork products to Mexico could have reached such heights. In 2005, Mexico was the number two market for U.S. pork exports by volume and value. U.S. pork exports have increased by 248 percent in volume terms and 358 percent in value terms since the implementation of the NAFTA growing from 1993 (the last year before the NAFTA was implemented), when exports to Mexico totaled 95,345 metric tons valued at $112 million.



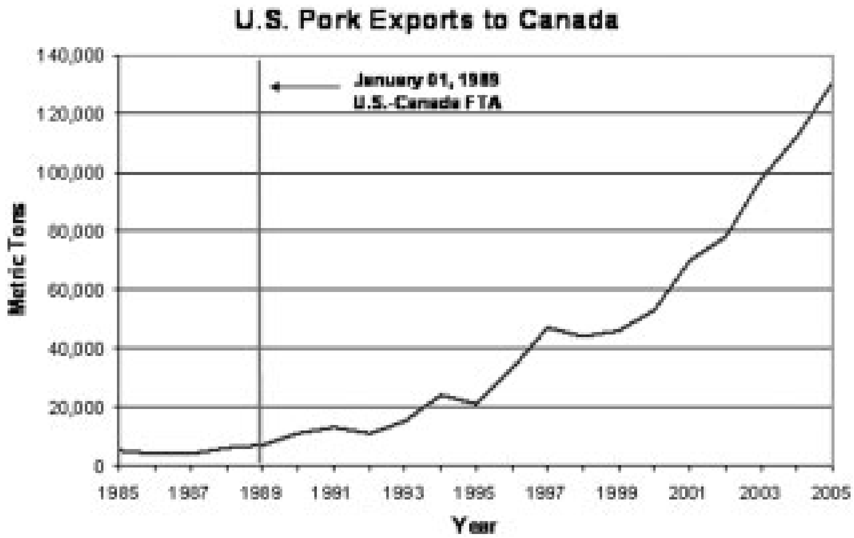
Japan

Thanks to a bilateral agreement with Japan on pork that became part of the Uruguay Round, U.S. pork exports to Japan have soared. In 2005, U.S. pork exports to Japan reached 353,928 metric tons valued at just over $1 billion. Japan remains the top value foreign market for U.S. pork. U.S. pork exports to Japan have increased by 322 percent in volume terms and by 191 percent in value terms since the implementation of the Uruguay Round.



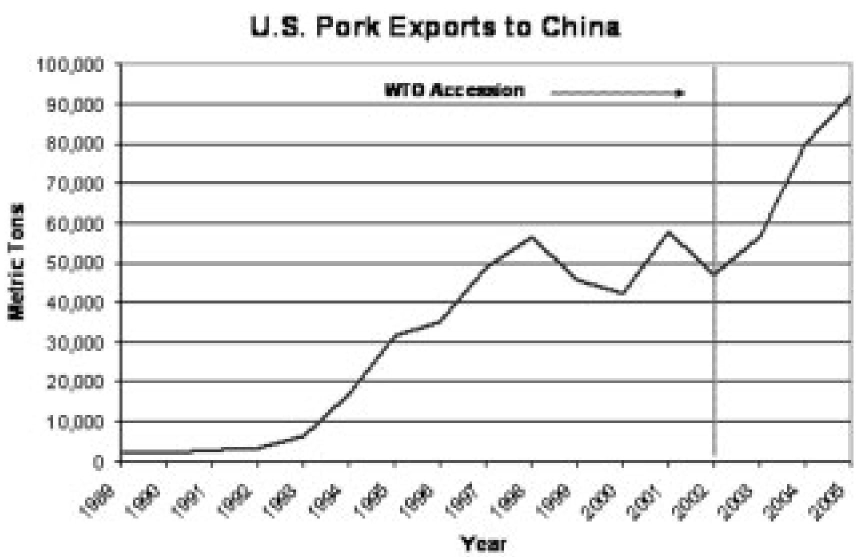
Canada

U.S. pork exports to Canada have increased by 1,816 percent in volume terms and by 2,422 percent in value terms since the implementation of the U.S.-Canada Free Trade Agreement in 1989. In 2005 U.S. pork exports to Canada increased to 130,581 metric tons valued at $396 million. January–November 2006 pork exports to Canada increased to 126,913 metric tons valued at $400.5 million—a 6 percent increase by volume and a 11 percent increase by value over January–November 2005 exports.



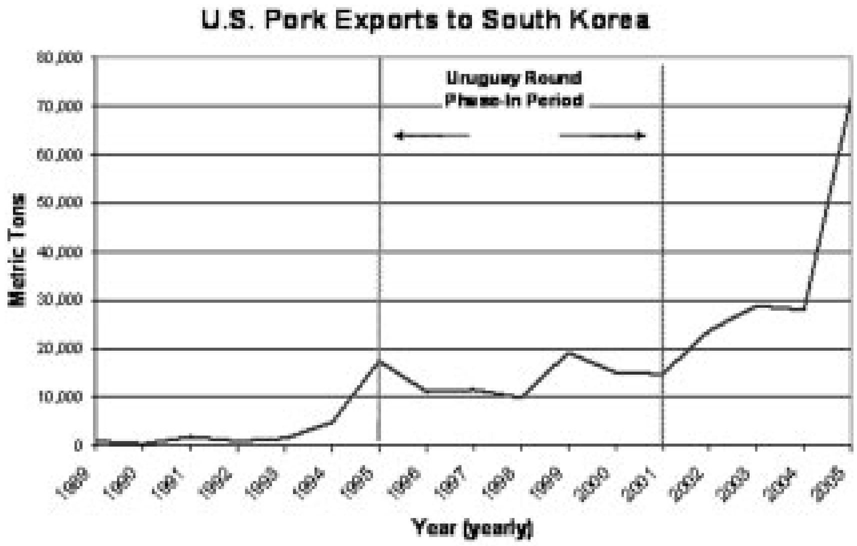
China

From 2004 to 2005, U.S. exports of pork and pork products to China increased 22 percent in value terms and 16 percent in volume terms, totaling $111 million and 92,255 metric tons. U.S. pork exports have exploded because of the increased access resulting from China's accession to the World Trade Organization. Since China implemented its WTO commitments on pork, U.S. pork exports have increased 60 percent in volume terms and 67 percent in value terms.



Republic of Korea

U.S. pork exports to Korea have increased as a result of concessions made by Korea in the Uruguay Round. In 2005 exports climbed to 71,856 metric tons valued at $155 million, an increase of 1,425 percent by volume and 1,705 percent by value since implementation of the Uruguay Round. Exports to the Republic of Korea in 2006 grew aggressively. January–November 2006 pork totaled 94,722 metric tons valued at almost $200 million—this is a 47 percent increase in volume terms and a 43 percent increase in value terms over the same time period in 2005.

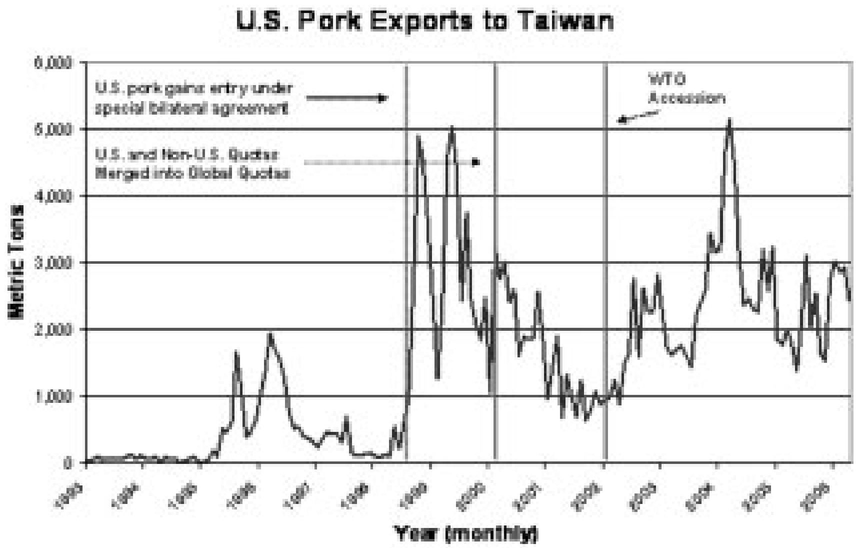


Russia

In 2005 U.S. exports of pork and pork products to Russia totaled 40,315 metric tons valued at $72 million. January–November 2006 exports to Russia exploded to 80,594 metric tons valued at $160 million—a 111 percent increase in volume terms and 129 percent increase in value terms over the same period in 2005. U.S. pork exports to Russia have increased largely due to the establishment of U.S.-only pork quotas established by Russia as part of its preparation to join the World Trade Organization. The spike in U.S. pork export to Russia in the late 1990s was due to pork shipped as food aid.

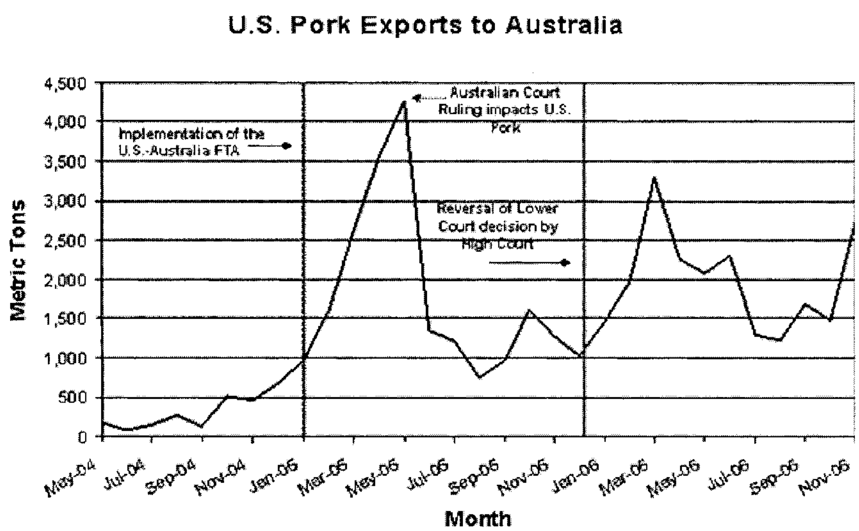
Taiwan

In 2005, U.S. exports of pork and pork products to Taiwan increased to 24,555 metric tons valued at $41 million. U.S. pork exports to Taiwan have grown sharply because of the increased access resulting from Taiwan's accession to the World Trade Organization. Since Taiwan implemented its WTO commitments on pork, U.S. pork exports have increased 94 percent in volume terms and 132 percent in value terms.



Australia

The U.S. pork industry did not gain access to Australia until recently, thanks to the U.S.-Australia FTA. U.S. pork exports to Australia exploded in 2005 making Australia one of the top export destinations for U.S. pork. Even with the disruption caused by a legal case over Australia's risk assessment of pork imports, U.S. pork exports to Australia in 2005 totaled $60 million—a 463 percent increase over 2004 exports.



Benefits of Expanding U.S. Pork Exports

Prices—The Center for Agriculture and Rural Development (CARD) at Iowa State University has calculated that in 2004, U.S. pork prices were $33.60 per head higher than they would have been in the absence of exports.

Jobs—The USDA has reported that U.S. meat exports have generated 200,000 additional jobs and that this number has increased by 20,000 to 30,000 jobs per year as exports have grown.

Income Multiplier—The USDA has reported that the income multiplier from meat exports is 54 percent greater than the income multiplier from bulk grain exports.

Feed Grain and Soybean Industries—Each hog that is marketed in the United States consumes 12.82 bushels of corn and 183 pounds of soybean meal. With an annual commercial slaughter of 105.3 million animals in 2006, this corresponds to 1.34 billion bushels of corn and 9.63 million tons of soybean meal. Approximately 16 percent of this production is exported, and these exports account for approximately 216 million bushels of corn and 1.54 million tons of soybean meal.

However, as the benefits from the Uruguay Round and NAFTA begin to diminish because the agreements are now fully phased-in, the creation of new export opportunities becomes increasingly important.

NPPC 2007 Trade Priorities

With 96 percent of the world's population residing outside of the United States, it is essential that U.S. pork producers continue to gain access to more of these potential customers. While pork exports have exploded in recent years, future growth is dependent on further trade liberalization. NPPC continues to support expanded market access through multilateral and bilateral trade negotiations.

WTO Doha Round—Notwithstanding the staggering growth of U.S. pork exports in recent years, according to USDA, the average global tariff on pork is a staggering 77 percent. The WTO Doha Round presents an opportunity to increase market access for U.S. pork in many countries, including the two top priority markets of the pork industry—the European Union and Japan. An extension of trade promotion authority may be needed to bring the Doha Round to a successful completion.

Peru Trade Promotion Agreement—The Peru Trade Promotion Agreement will provide new market access to more than 28 million consumers in the South American country. When fully implemented, according to Iowa State University economist Dermot Hayes, the Peru agreement will cause live U.S. hog prices to be 83 cents higher than would otherwise have been the case. That means the profits of the average U.S. pork producer will increase by 7 percent based on 2005 data. NPPC strongly supports congressional passage and implementation of the Peru Trade Promotion Agreement. The aggressive market access provisions coupled with the agreement on inspection equivalence make the Peru agreement a state-of-the-art agreement for U.S. food and agriculture to which all future FTAs will be compared.

Colombia Trade Promotion Agreement—NPPC strongly supports congressional passage and implementation of the Colombia Free Trade Agreement. U.S. pork producers will benefit significantly from the increased exports resulting from this agreement. According to Iowa State University economist Dermot Hayes, the Colombia agreement, when fully implemented, this FTA will cause live U.S. hog prices to be $1.63 higher than would otherwise have been the case. That means that the profits of the average U.S. pork producer will expand by 14 percent, based on 2005 data. NPPC strongly supports congressional passage and implementation of the Colombia Trade Promotion Agreement. Like the Peru agreement, the Colombia agreement is a state-of-the-art agreement for U.S. food and agriculture to which all future FTAs will be compared.

Panama Trade Promotion Agreement—The Panama Trade Promotion Agreement will benefit U.S. pork producers by creating new export opportunities to the 3 million new customers in Panama. According to Iowa State University economist Dermot Hayes, the Panama agreement, when fully implemented, will cause hog prices to be 20 cents higher than would otherwise have been the case. Therefore exports to Panama will be worth approximately $20.6 million to the U.S. pork industry in additional revenue than otherwise would have been the case. U.S. pork producers support congressional passage and implementation of the Panama agreement.

Permanent Normal Trade Relations with Russia—Russia, with a population of 142 million people, in 2005 was the sixth largest market in the world for U.S. pork and pork product exports. A bilateral trade deal was reached November 10, 2006, between the United States and the Russian Federation concerning Russia's accession to the World Trade Organization. The WTO accession agreement will give

U.S. pork producers even more access to Russia, which in September 2003 reached agreement on a country-specific quota for the U.S. That so-called WTO downpayment has allowed U.S. pork exports to Russia to increase tremendously. To complete its accession to the WTO, Russia must finalize its remaining bilateral market access negotiations and complete multilateral negotiations on a comprehensive Working Party Report and Protocol of Accession. The U.S. Congress will need to pass permanent normal trade relations (PNTR) status for Russia so that the United States can benefit from the trade concessions that country makes in its accession to the WTO.

In conclusion, U.S. pork producers continue to benefit from past trade agreements. Exports are increasingly important to the profitability of the U.S. pork industry.

Statement of Ohio Conference on Fair Trade

The Ohio Conference on Fair Trade is a statewide coalition of faith, labor, environmental, family farm, community and social justice organizations. We formed in 2001 in response to growing concerns about a globalization policy that seemed to be creating more problems for the Nation and in our international relationships, rather than resolving problems. We have grown to represent literally tens of thousands of citizens in Ohio through our diverse collection of organizations. We thought it was important for you to hear from local and community groups in our Nation to know that our trade policies have an impact on all levels of civil society.

We do not endorse the current model of free trade as represented by NAFTA and CAFTA, and believe that these failed policies are responsible for many of our current economic problems. We contend that our trade policies must contain incentives for preserving good jobs, protections for workers, and protections for the environment. We also believe that our trade policies are undermining the family farmers of the U.S. and of our trading partner countries. Furthermore, our current trade model threatens the health and sovereignty of our communities and States.

Ohio has experienced record job loss since the introduction of NAFTA. Policy Matters Ohio and the Economic Policy Institute have documented our domestic economic problems related to these unfair trade practices. The correlation between our soaring trade imbalance, so-called "free" trade and the resultant loss of manufacturing jobs is indisputable. Since NAFTA, Ohio has lost more than 200,000 manufacturing jobs. This dismantling of our industrial sector has not yet stabilized but continues in a downhill spiral with the commencement of CAFTA and other giveaway trade deals.

How does it make sense to spend generations fighting for fair and safe work places in our country, only to send our industrial base overseas? When did we lose sight of the prize: safe and secure employment for all the citizens in our country? When did we make the choice to favor providing obscene advantages and control to a few corporations instead of protecting the security, sovereignty and well-being of our own citizens?

When NAFTA was implemented in 1994, the U.S. enjoyed a $1 billion trade surplus with Mexico. We were promised more jobs in the United States. We were told we were doing the "right thing" by Mexicans who would be lifted out of poverty. Ten years later we had a $45 billion deficit with Mexico, we had caused more job loss from the U.S., we had seen rising rates of poverty in Mexico and rising food costs, we had decimated parts of Mexico's environment, and we witnessed skyrocketing illegal immigration as we put 1.5 million Mexican farmers out of work. Did trade cause these problems? No! What caused these problems was the mismanagement of our trade deals.

Obviously, we cannot discuss trade without looking at China. China now accounts for over one-quarter of our global trade deficit which is nearing $600 billion. Ninety-eight percent of China's exports are manufactured goods with 40% of its exports landing in the U.S. As the U.S. trade deficit soars, States like Ohio have reached all-time lows for job loss, wage growth, uninsured citizens and mortgage foreclosure rates, not to mention a State budgetary fiasco that has resulted in the draining of our rainy day funds, rising sales tax rates, expanding fees on goods and services and across the board cuts in State services. Once we had a trade policy that we employed to address human rights violations. Now we have granted PNTR status to China and trade has become an end to achieve, rather than a tool to achieve health, security and prosperity for our citizens.

Our Nation is blessed with fertile soils, temperate climates, a strong network of family farms and a technological infrastructure envied around the world. Historically we were a robust net exporter of food and fiber. But over the past two decades, our agricultural exports have stagnated despite a nearly 30% reduction in the major commodity prices, and imports of food products have soared. We are now a net importer of food. This is one major indicator of a failed trade policy.

Family farms are decreasing at an alarming rate in our country. Despite the fact that having control and self-determination of our food and fiber production within our own borders has become a health and security issue in recent years, we continue to allow agribusiness to mismanage our global trade policies, resulting in the decrease of our national natural resources, decrease in jobs and security, and a stunning increase in food safety issues as we insist that food inspections and safe, quality production practices are yet another deterrent to "free" trade.

The negative environmental impact of our trade agreements also demonstrates the inadequacy of addressing serious issues through so-called "side agreements" rather than addressing them within the core agreement. Since the introduction of NAFTA, which was accompanied by environmental "side agreements," 66 documented toxic waste sites have been created within the Mexican border states, with millions of tons more of dangerous industrial waste not accounted for within these documented sites. The Mexican government's pollution monitoring of manufacturing sites has decreased 45% since 1994, and even the NAFTA Commission for Environmental Cooperation which was established to document environmental injustices, admits that it has no authority to correct these injustices. As of 2004, only 5% of the companies required to report industrial toxic discharges were actually doing so. Pollution and public health issues have increased dramatically in the Mexican border areas where U.S. corporations, totally free of regulation and oversight, have created manufacturing sites to exploit cheap labor.

Another distressing aspect of NAFTA-style trade agreements is the extent to which they have extended into regulatory issues governed by State legislatures, mayors, and city and county councils. Local land-use laws, local health care and education regulations, local procurement practices (how our local tax dollars are spent!) are all now subject to international agreements. Our personal freedoms, our rights to seek self-determination, and our democratic processes have all been traded away, and most of us don't even know it yet!

We called them "free" trade agreements. If they were "free" they wouldn't require a thousand pages to describe. If they were "free" they wouldn't include an abundance of non-trade-related and "investors rights" provisions to protect the profits of the multi-national corporations who we have encouraged to operate without conscience or concern for workers or environment. This is not "free" trade. This is a corporate "free-for-all."

Despite all the evidence available that the original promises of NAFTA had not been realized, instead of having responsible and intelligent oversight of the results of our trade agreements, we allowed this Administration to continue to abuse its Fast Track trade authority by instituting *more* bad trade deals in the form of CAFTA, and other deals in the Middle East.

We are not opposed to trade. We believe that it needs to be engaged in with responsibility, intelligence and fairness. We would agree with the findings of the International Forum on Globalization (IFG), an alliance of leading scholars, economists, researchers, activists and authors, representing 60 organizations in 25 countries, which maintains that the 10 principles upon which all economic activity should be based are: democracy, subsidiarity, ecological sustainability, common heritage, diversity, human rights, sustainable livelihoods and employment, food security and safety, equity, and the precautionary principle. What a different world we could have if we were guided by these principles rather than being led by the biggest and most powerful corporations!

We believe that IFG and many other nonpartisan, nongovernmental organizations that have made it their mission to analyze our trade and globalization policies are in a far better position to offer alternatives for our current failed policies. Clearly it is essential to bring multiple noncorporate groups to the table to resolve these problems.

Statement of the Retail Industry Leaders Association

The Retail Industry Leaders Association (RILA) welcomes the opportunity to submit written comments for the record of this hearing on globalization and U.S. trade policy. RILA is the trade association of the largest and fastest growing companies in the retail industry. Its members include retailers, product manufacturers, and service suppliers, which together account for more than $1.5 trillion in annual sales. RILA members operate more than 100,000 stores, manufacturing facilities and distribution centers, have facilities in all 50 States, and provide millions of jobs domestically and worldwide. Our members pay billions of dollars in Federal, State and local taxes and collect and remit billions more in sales taxes. Our members are also leading corporate citizens with some of the Nation's most far-reaching community outreach and corporate social responsibility initiatives.

The retail sector, along with the suppliers and customers that it serves, is an essential part of the U.S. economy. Retailers meet the needs of U.S. consumers, and in doing so are essential drivers of the U.S. economy. We also serve the global market for consumer goods and bring U.S. products to the foreign markets where they operate. Retailers provide quality jobs at all employment levels with good benefits. The industry also creates opportunities for entry-level employment, part-time work, jobs for nonskilled workers, and management training for front-line workers.

Trade Expansion is a Positive and Powerful Economic Force

Virtually all of RILA's members, both retailers and suppliers, rely on international trade to conduct their businesses. Our members depend on imports of both finished consumer products and production inputs for merchandise that will eventually be sold at retail stores. Many RILA members are also working to expand retail outlets and operations in countries that are open to U.S. investment and expand market access for American products.

RILA and its members are champions for trade expansion and recognize that building upon trade partnerships is essential to providing U.S. consumers with the quality and variety of products they expect at prices they can afford, and to creating opportunities for global retailers to offer goods and services to customers around the world. International trade is a powerful force that can empower people to provide a better life for themselves and their families. RILA believes that comprehensive free trade agreements (FTAs) such as those recently negotiated with Colombia, Peru, and Panama can create valuable new opportunities to expand economic activity while also ensuring that the benefits of trade are not undermined by a lack of respect for or enforcement of adequate workplace, environmental, investment, or intellectual property rights and obligations. These trade agreements not only benefit American consumers, workers, and businesses but also help to create jobs for workers in developing nations who are trying to lift themselves out of poverty. RILA urges the most rapid possible submission and passage of implementing legislation for these agreements. We would also like to see FTAs in the pipeline, particularly with larger trading partners like Korea and Malaysia, successfully concluded during the effective period of the current Trade Promotion Authority (TPA) procedures.

Spreading Trade's Benefits

As mentioned above, trade can be a powerful economic force to help people to improve their standard of living. Trade liberalization raises productivity and real wages while expanding consumer choice and purchasing power. One change in U.S. trade policy that could be made to benefit consumers and workers at the bottom of the income ladder would be to eliminate the disproportionately-high tariffs on low-cost items such as footwear and clothing. Today, U.S. tariffs on consumer goods are regressive; the lowest earners pay the highest rates, in percentage terms. Tariffs on some products are in the double digits, such as on certain clothing, footwear, luggage, dinnerware, and food such as butter and cheese. Some of the highest tariffs apply to the types of goods that people of modest means tend to buy, and lower duties are imposed on similar products that are more often purchased by upper-income individuals. For example, tariffs on low-end sneakers range between 48 and 67 percent, but tariffs on higher-end sneakers are only 20 percent, and for leather dress shoes, the tariff is 8.5 percent. This trade policy forces consumers with limited means to pay a greater percentage of their disposable income on life's necessities.

RILA recommends reducing the disproportionately high tariffs on everyday consumer products, either through unilateral action or through free trade agreements, and particularly if U.S. producers cannot supply the goods at a commercial level. Further, RILA believes the existing FTA template could be improved with less-restrictive rules of origin such as cumulation and other techniques in the textile and apparel sector.

RILA also believes that U.S. trade policy would be improved to spread the benefits of trade more broadly if retailer and consumer interests are allowed to provide input in ongoing trade remedy cases regarding the impact those cases would have on their livelihoods. Under current law, retailer and consumer interests may not even participate in trade remedy cases, and policymakers are forced to make decisions with impartial information. Legislation to make this change was introduced by Congressman Knollenberg in the 109th Congress (H.R. 4217). RILA believes similar legislation should be introduced and positively considered in the 110th Congress, with the suggestion that retailer interests also be included.

Trade Policy Successes

RILA and our member companies support the aggressive trade liberalization agenda that has been pursued under the bipartisan TPA. RILA's members benefit from, and have energetically supported, the bilateral and regional trade agreements that have been concluded under TPA. RILA members have also benefited from the various U.S. trade preference programs, and we support the continuation and improvement of these programs such as the Generalized System of Preferences, the African Growth and Opportunity Act, and the Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) Act. These programs provide tangible benefits to America and our trading partners, and help to pave the way for future two-way trading relationships.

Conclusion

RILA congratulates the Committee for its attention to and oversight of U.S. trade policy. Negotiated trade liberalization and ongoing autonomous reform of our own trade regime are essential elements of America's economic success story. RILA stands ready to work with the Committee in pressing forward an ambitious pro-trade agenda. If you have any questions on this statement or require any assistance, please contact Lori Denham, Executive Vice President, Public Affairs, or Andrew Szente, Director, Government Affairs.

Stop CAFTA Coalition
January 30, 2007

The Honorable Chairman Charles B. Rangel
2354 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Rangel,

In conjunction with the House Ways and Means Committee Hearing on Trade and Globalization, the Stop CAFTA Coalition would kindly like to submit this written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

While it is important to acknowledge that trade and globalization have presented opportunities and challenges to several industries and sectors throughout the United States, we would also like the Committee to focus on the devastating effects of U.S. trade policies on developing countries and their impoverished citizens. In particular, we ask that the Committee keep in mind the preliminary results and effects of the Dominican Republic and Central American Free Trade Agreement (DR–CAFTA) on our Central American neighbors in lieu of determining the fate of the Peru, Colombia and other proposed trade agreements.

In September 2006, the Stop CAFTA Coalition, in coordination with friends, allies, and counterparts in Central America, issued the ***Monitoring Report: DR–CAFTA in Year One*** (which can be downloaded in English and Spanish at www.stopcafta.org), looking primarily at the process of implementing DR–CAFTA since January 1, 2006. While it is far too early to detail long-term trends in labor, textiles, agricultural practice and policy, investment patterns, services, and environmental consequences of DR–CAFTA, some early trends have emerged demonstrating how the benefits of DR–CAFTA are not being broadly spread to working people, farmers, local businesses, and consumers in Central America, despite promises to the contrary.

BACKGROUND

As the Committee is aware, the U.S.-Central America Free Trade Agreement (CAFTA) was initiated by the Bush Administration in January of 2002 as an effort to revitalize faltering talks for a Free Trade Area of the Americas. After a year of preliminary discussions, "negotiations" began in February of 2003 and were completed in December of that year between the United States, El Salvador, Guatemala, Nicaragua, and Honduras. Costa Rica joined the accord in January of 2004, and all six countries formerly signed in May of 2004. In August of 2004 the Dominican Republic was docked to the core agreement creating the U.S.-Dominican Republic-Central America Free Trade Agreement (DR–CAFTA).

DR–CAFTA was adopted first by El Salvador in December of 2004; Honduras and Guatemala in March of 2005; the United States in July of 2005; and Nicaragua and the Dominican Republic in September of 2005.

DR–CAFTA was initially intended for implementation on January 1, 2006. Shortly before, in mid-December 2005, the United States Trade Representative (USTR) announced that in its estimation, countries in Central America had failed to fully enact laws necessary to bring their legal systems into compliance with changes mandated by DR–CAFTA. At this point the USTR set in motion a process of rolling implementation, whereby, the USTR would certify countries as ready to implement CAFTA on a case-by-case basis. As a result of this policy DR–CAFTA was implemented first by the United States and El Salvador on March 1, 2006; Nicaragua and Honduras on April 1, 2006; and Guatemala on June 1, 2006.

The USTR has yet to allow the implementation of the agreement in the Dominican Republic. Costa Rica remains the only country to have not ratified the agreement.

FINDINGS OF "DR–CAFTA IN YEAR ONE" MONITORING REPORT

The process of rolling implementation has had negative consequences for the region and for the United States particularly by creating confusion surrounding the governing rules of origin for textiles. The result has been lost jobs in the United States and parts of Central America. Far from creating the promised regional textile complex to offset competition from China, the ham-handed approach to implementing DR–CAFTA has contributed to a trend, already in place, of Central America losing market share to competitors from Asia.

The confusion surrounding implementation has been by and large the creation of the United States Trade Representative and congressional leadership. The USTR has insisted on new concessions from Central American counterparts that go beyond items negotiated during CAFTA discussions. These concessions include:

- Demands to re-interpret intellectual property rules to grant extended periods of protection for U.S.-based pharmaceutical companies.
- Requirements that governments in Central America adopt U.S. Department of Agriculture meat inspections protocols, thereby foregoing their rights to inspect meat packers prior to issuing export licenses in the United States and re-inspecting meat at the border.
- Forcing countries to accept USTR interpretations of a host of disagreements concerning tariff rate quotas and distribution of import licenses.
- Demands that all of these disputes be settled by changes in the civil codes of all of the countries in order to cut off the potential for legal challenges later.

The USTR has been unwilling to meaningfully compromise with any of its partners, even when the new demands were part of side deals between the Bush Administration and congressional Republicans that helped pass DR–CAFTA by a slim 2-vote margin.

The delays in implementation have been especially long in Guatemala and the Dominican Republic. In Guatemala, outstanding issues concerning pocket linings and taxes on beer were still not settled even after the implementing deadline had passed. The USTR has halted implementation in the Dominican Republic due to issues surrounding taxes on imported vehicles, intellectual property rules regarding prescription drugs, and the transportation of petroleum throughout the island.

There is already evidence of stress to the rural economy of Central America that is being exacerbated by DR–CAFTA. Imports of items such as fresh beef and a variety of dairy products to Central America have increased dramatically. Guatemala has already submitted a case before the World Trade Organization for dumping of chicken quarters by U.S. poultry exporters. In El Salvador, inflation is increasing, including for food items, indicating that despite promises to the contrary, increased food exports from the United States are not leading to lower food prices.

Another impact of DR–CAFTA implementation is the cost to the government of initiating programs to prepare the rural economy for the disruptions. The Nicaraguan government has established a program to administer support funds; however, those support funds are being absorbed by larger producers, not small farmers who desperately need them. Further disruptions to the rural economy will lead to expanded migration, both within Central America and to countries outside the region.

There has been no improvement of the human rights situation in Central America under DR–CAFTA. Indeed, there is evidence that DR–CAFTA and other neo-liberal reforms are increasing social conflicts. In El Salvador, Guatemala and Honduras the state is responding with increased violence, or failing to protect social activists non-violently demanding their rights.

What is more, coalitions of legal scholars, lawyers, and civil society organizations in the Central American countries have presented legal challenges to domestic and regional courts calling into question the constitutionality of the implementing laws.

Finally, there was a great deal of concern about the situation of worker rights in Central America expressed by Members of Congress during the DR–CAFTA fight. While too early to draw specific conclusions, we simply note that few collective bargaining agreements exist with noncompany unions in the free trade zones of Central America, and the age old practice of firing union leadership in an effort to squash organizing efforts continues unabated.

CONCLUSION

Given this brief synopsis of how DR–CAFTA has failed to maximize the benefits of globalization while minimizing its costs to the impoverished in Central America, the Stop CAFTA Coalition strongly encourages the House Ways and Means Committee to review our ***Monitoring Report: DR–CAFTA in Year One*** in full, which can be downloaded in English and Spanish at www.stopcafta.org. Supported with empirical data from experts in the field, the Report will provide the Committee with a better understanding of "the winners and the losers" throughout the region under DR–CAFTA. In reviewing the Stop CAFTA Coalition's Monitoring Report, the Committee will be better equipped to address the trade policy issues concerning the Peru, Colombia, and other future free trade agreements.

The task of monitoring the impacts of DR–CAFTA is an ongoing one. Therefore, as a Coalition, we assure the House Ways and Means Committee that we will continue to monitor and periodically report on the effects of DR–CAFTA on our Central American neighbors. We encourage the Committee to use our findings as a resource in establishing future U.S. trade policies, and for the future review and repeal of DR–CAFTA.

We thank you for your time and consideration of our request.

Sincerely,

The Stop CAFTA Coalition

Statement of Lori Wallach, Public Citizen's Global Trade Watch

On behalf of Public Citizen's 200,000 members, I thank the Ways and Means Committee for the opportunity to share my organization's views on the current state of trade and globalization policy. Public Citizen is a nonprofit citizen research, lobbying and litigation group based in Washington, D.C. Public Citizen, founded in 1971, accepts no government or corporate funds. Global Trade Watch is the division of Public Citizen founded in 1995 that focuses on government and corporate accountability in the globalization and trade arena.

In announcing this hearing, Chairman Rangel said he hoped to gain "a better understanding of the winners and losers under our current trade policy" and to look for ways that Congress can "be an active partner with the Administration in shaping trade policy to strengthen economic opportunities for American workers, farmers and businesses." Public Citizen applauds the endeavor to make the benefits from trade more widely shared. The search for a trade policymaking process that better reflects the checks and balances America's Founders created regarding trade policy is a necessary first step.

Since Fast Track was first introduced in 1974 by then-President Richard Nixon, many of the worst U.S. trade agreements, including the North American Free Trade Agreement (NAFTA) and the Uruguay Round of the General Agreement on Tariffs and Trade establishing the World Trade Organization (WTO) have been negotiated using Fast Track. **Before Fast Track we had balanced trade and rising living standards; since then the U.S. trade deficit has exploded as imports surged.** In fact, in 1973, the United States had a small trade surplus, as it had in nearly every year since World War II. But in every year under Fast Track save one, the United States has run a trade deficit.

The average American worker is only making a nickel more per hour in inflation-adjusted terms than in 1973, the year before Nixon's Fast Track was first used to grab Congress' constitutional trade authority. Better trade policy can do better for America's workers than this pathetic 0.28 percent raise. Were it not for trade agreements that pit U.S. workers in a race-to-the-bottom with poverty-wage workers worldwide, U.S. workers' wages would better track productivity increases, and workers in developing countries could fight to raise their wages also.

We need a new mechanism for negotiating trade agreements that puts a steering wheel—and when necessary, brakes—on our trade negotiators so that Congress and the public are back in the driver's seat. Only by replacing the unbalanced, outdated Fast Track trade authority delegation system can we chart a new course on trade that can harness trade's benefits for the majority.

How have we gotten into this mess? While the U.S. Constitution gives Congress exclusive authority to "regulate commerce with foreign nations" (Article I–8), Fast Track delegates away to the executive branch Congress' constitutional authority to control the contents of U.S. trade agreements, as well as other important powers. This means the branch of government closest to the people has been ejected from the driver's seat of our trade policy.

Fast Track's structural design ensures Congress cannot hold executive branch negotiators accountable to meet the negotiating objectives Congress sets in Fast Track legislation. Thus, simply adding new negotiating objectives to the existing Fast Track structure, for instance regarding labor and environmental issues, will not result in trade agreements that reflect Congress' goals and objectives. In fact, the 1988 Fast Track used to negotiate and pass NAFTA and WTO explicitly required that labor rights be included in U.S. trade agreements. President George Herbert Walker Bush and his negotiators simply ignored these objectives, while satisfying the negotiating objectives desired by their business supporters. Under Fast Track, the Bush Administration was empowered to sign such agreements despite failing to meet Congress' labor rights objectives and submit them for a no-amendments, expedited vote. Members of Congress were thus forced into a position of having to vote against these entire agreements, having no earlier recourse to ensure the agreements met the objectives necessary to make them supportable.

This is because Fast Track ensures that Congress' role is performed *too late* to do any good: Congress only gets a "yes" or "no" vote on a trade agreement *after* it's been signed and "entered into." That vote also ok's hundreds of changes to wide swaths of U.S. nontrade law to conform our policies to what the "trade" deals require. By eliminating Congress' right to approve an agreement's contents *before* it is signed, Fast Track also allows outrageous provisions to be "super glued" onto actual trade provisions. Did the U.S. Congress really intend to extend U.S. drug patent terms from the pre-WTO 17-year terms to the WTO-required 20-year terms? This requirement was tucked into the WTO's Trade Related Intellectual Property provisions. The University of Minnesota School of Pharmacy found that the WTO's windfall patent extensions cost U.S. consumers at least $6 billion in higher drug prices and increased Medicare and Medicaid costs nearly $1.5 billion just for drugs then under patent.[1] Because under Fast Track, Congress never had the ability to review, much less vote on the WTO text before it was signed, this and numerous other outrageous nontrade policy changes were bundled in with legitimate trade provisions.

Federalism is also flattened by Fast Track. In a form of international preemption, state officials also must conform our local laws to hundreds of pages of nontrade domestic policy restrictions in these "trade" pacts, yet state officials do not even get Congress' cursory role. Fast Track is how we got stuck with NAFTA, WTO and other race-to-the-bottom deals.

Fast Track trashes the "checks and balances" that are essential to our democracy—handcuffing Congress, state officials and the public so we cannot hold U.S. negotiators accountable during trade negotiations while corporate lobbyists call the shots. In one lump sum, Fast Track:

- Delegates away Congress' ability to veto the choice of countries with which to launch negotiations;
- Delegates away Congress' constitutional authority to *set the substantive rules* for international commerce. Congress lists "negotiating objectives," but these are not mandatory or enforceable and executive branch negotiators regularly ignore them. In fact, the 1988 Fast Track used for NAFTA and WTO explicitly required that labor rights be included in U.S. trade agreements.
- Fast Track permits the executive branch to sign trade agreements *before* Congress votes on them, locking down the text and creating a false sense of crisis regarding congressional wishes to change provisions of a signed agreement.
- Fast Track empowers the executive branch to write legislation (Congress' constitutional role), circumvent normal congressional committee review, suspend Senate cloture and other procedures, and have guaranteed "privileged" House and Senate floor votes 90 days after the President usurps one more congressional role by submitting legislation (Congress' role).
- Fast Track rules forbids all amendments and permits only 20 hours of debate on the signed deal and conforming changes to U.S. law.

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[1] Stephen W. Schondelmeyer, Economic Impact of GATT Patent Extension on Currently Marketed Drugs, PRIME Institute, College of Pharmacy, University of Minnesota, March 1995, at Table 1.

All of these authorities are transferred to the executive branch conditioned only on the requirement the executive branch gives Congress 90-day notice of its intent to start negotiations with a country and then another 90-day notice before it signs a completed agreement. Congress has no recourse to revoke its delegation of authority if the executive branch ignores the negotiating objectives Congress lists in its Fast Track statutes. The closed rule, expedited procedures for consideration can only be revoked for failure to go through specific notices and formal consultations, while failure to listen is not actionable.

The result has been retrograde trade agreements that are devastating the U.S. middle class while increasing poverty and instability overseas.

Fast Track's Legacy: U.S. Wages Stagnate as Trade Deficits Soar, Displacing Good U.S. Jobs

The average American worker is only making a nickel more per hour in inflation-adjusted terms than in 1973, the year before Nixon's Fast Track was first used to grab Congress' constitutional trade authority. In 1973, the average U.S. worker made $16.06 hourly in today's dollars. That same worker only makes $16.11 today despite U.S. workers' average productivity nearly doubling since 1973.[2] Better trade policy can do better for America's workers than this pathetic 0.28 percent raise. Were it not for trade agreements that pit U.S. workers in a race-to-the-bottom with poverty-wage workers worldwide, U.S. workers' wages would better track productivity increases, and workers in developing countries could fight to raise their wages also.

Our Fast Track-enabled trade policy is suppressing U.S. wage levels. Trade's downward pressure on U.S. wages comes from both the import of cheaper goods made by poorly-paid workers abroad (displacing the market for goods made by better paid U.S. workers) and the threats during wage bargaining of corporations moving overseas. The result is growing inequality with workers losing while the richest few make massive gains.

The pro-Fast Track Peterson Institute for International Economics estimates that about 39 percent of the observed increase in wage inequality is attributable to trade trends.[3] But, such proponents of our current trade rules also cite trade theory to say that even so, U.S. workers win when imports increase because when production is done by low-paid workers overseas, we all can buy cheaper goods. Yet, the non-partisan Center for Economic and Policy Research applied the actual data to the trade theory. They found that when you consider the lower prices of cheaper goods versus the income lost from low-wage competition, U.S. workers without college degrees (the vast majority of us) lost an amount equal to 12.2 percent of their current wages. That is to say, under our current policy the losses in wages from trade outweigh the gains in cheaper prices from trade. For a worker earning $25,000 a year, this loss would be slightly more than $3,000 per year![4] Talk about unfair trade.

Before Fast Track we had balanced trade and rising living standards; since then the U.S. trade deficit has exploded as imports surged. In fact, in 1973, the United States had a slight trade surplus, as it had in nearly every year since World War II. But in every year since 1974 save one, the United States has run a trade deficit. Since Fast Track paved the way for NAFTA and the WTO, the U.S. trade deficit surged from under $100 billion to $800 billion or 6 percent of national income.[5] This is a trade deficit widely agreed to be unsustainable, exposing the U.S. and global economy to risk of crisis, shock and instability.

Unbelievably, the United States is also becoming a net *food* importer. While American farmers were told by NAFTA–WTO supporters that they will be "breadbasket to the world," the amount of food imports beat out exports in August 2006.[6] Meanwhile, hundreds of thousands of U.S. farms are shuttered due to careless trade pacts.

Over 3 million American manufacturing jobs—1 out of every 6 manufacturing jobs—have been lost during the Fast Track era. The U.S. manufacturing sector has long been a source of innovation, productivity growth and good jobs—especially for the nearly 70 percent of Americans without a college degree.[7]

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[2] Bureau of Economic Analysis and Bureau of Labor Statistics figures, accessed January 2007.

[3] William Cline, *Trade and Income Distribution*, (Washington, D.C.: Peterson Institute for International Economics, 1997).

[4] Dean Baker and Mark Weisbrot, "Will New Trade Gains Make Us Rich?" Center For Economic and Policy Research (CEPR) Paper, October 2001.

[5] Bureau of Economic Analysis figures, accessed January 2007.

[6] U.S. Department of Agriculture's Economic Research Service figures, accessed January 2007.

[7] Bob Baugh and Joel Yudken, "Is Deindustrialization Inevitable?" *New Labor Forum*, 15(2), Summer 2006.

But by the end of 2006, the United States had only 14 million manufacturing jobs left—nearly 3 million down from our pre-NAFTA–WTO level.[8]

Job offshoring is moving rapidly up the income and skills ladder. Economy.com estimates that nearly 1 million U.S. jobs have been lost to offshoring since early 2001 alone, with 1 in 6 of those in information technology, engineering, financial services and other business services.[9] The Progressive Policy Institute, a think-tank associated with the pro-NAFTA–WTO faction of the Democratic Party, found that 12 million information-based U.S. jobs—54 percent paying better than the median wage—are highly susceptible to offshoring.[10] Independent academic studies put the number of jobs susceptible to offshoring much higher. Alan S. Blinder, a former Fed Vice Chairman, Princeton economics professor and NAFTA–WTO supporter, says that 28 to 42 million service sector jobs (or about 2 to 3 times the total number of current U.S. manufacturing jobs) could be offshored in the foreseeable future.[11] Yet, if we even implemented the same policies Europe now uses that halt offshoring of such jobs if our private health and financial data might be compromised, we could have the lower offshoring rates of also wealthy Europe.

Fast Track's Legacy: Increased Income Inequality in the U.S. and Worldwide

U.S. economic inequality is at astronomical levels not seen since the Robber Baron era. The richest 10 percent of Americans are taking nearly half of the economic pie, while an even more elite group—the top 1 percent of the income distribution—is taking nearly a sixth of the pie.[12] As noted, nearly all economists agree that our trade policy has partially driven this widening inequality.

American families are now less able to improve their own lot, as trade policy shifts during the Fast Track era have had a direct impact on American workers' ability to bargain for higher real wages. How could it come to pass that American workers' wages stayed flat while our productivity doubled? Where did all those gains go? In the past, American workers represented by unions were able to share in these gains. But since the Fast Track-enabled NAFTA and WTO went into effect, as many as 62 percent of U.S. union drives face employer threats to relocate abroad, according to U.S. Government-commissioned studies. The "trade" agreements include special "foreign investor" privileges for corporations that move out of the United States and indeed, the factory shutdown rate following successful union certifications tripled since NAFTA went into effect.[13] The Fast Track-hatched trade agreements' attack on America's working families' ability to lift themselves up has led increasing numbers to turn against *any* active expansion of international trade.[14]

The worldwide gulf between rich and poor has also widened since Fast Track. At the time that Congress approved implementing legislation to join NAFTA and the WTO, we heard a lot of hype about how these Fast Tracked trade agreements would reduce poverty in the developing countries. Yet, the reality is that the corporate globalization era policies enabled by Fast Track have increased income inequality between developed and developing countries. Income inequality has also increased between rich and poor within many nations under these retrograde trade agreements. According to one United Nations study, the richest 5 percent of the world's people receive 114 times the income of the poorest 5 percent, and the richest 1 percent receives as much as the poorest 57 percent.[15] According to another, "In almost all developing countries that have undertaken rapid trade liberalization, wage inequality has increased, most often in the context of declining industrial employment of unskilled workers and large absolute falls in their real wages, on the order of 20–30 percent in Latin American countries."[16] This trend is widening over time. In 1960, the 20 richest nations earned per capita incomes 16 times greater

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[8] L. Josh Bivens, "Trade Deficits and Manufacturing Job Loss: Correlation and Causality," Economic Policy Institute Briefing Paper 171, March 14, 2006.

[9] Marla Dickerson, "'Offshoring' Trend Casting a Wider Net," *Los Angeles Times*, Jan. 4, 2004.

[10] Robert D. Atkinson, "Understanding the Offshore Challenge," Progressive Policy Institute Policy Report, May 24, 2004.

[11] Alan S. Blinder, "Offshoring: The Next Industrial Revolution?" *Foreign Affairs*, March/April 2006.

[12] Thomas Piketty and Emmanuel Saez, "The Evolution of Top Incomes: A Historical and International Perspective," National Bureau of Economic Research Paper 11955, January 2006.

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than non-oil producing, less developed countries. By 1999, the richest countries earned incomes 35 times higher, signifying a doubling of the income inequality.[17]

Fast Track's Legacy: Stagnant Growth, Poverty and Hunger in Poor Countries

Progress on growth and social development in poor countries has slowed during the Fast Track era. Increasing economic growth rates mean a faster expanding economic pie. With more pie to go around, the middle class and the poor have an opportunity to gain without having to "take" from the rich—often a violent and disruptive process. But the growth rates of developing nations slowed dramatically in the Fast Track period. For low- and middle-income nations, per capita growth between 1980 and 2000 fell to half that experienced between 1960 and 1980! The slowdown in Latin America was particularly harmful. Their income per person grew by 75 percent in the 1960–80 period, before the International Monetary Fund began imposing the same package of economic, investment, and trade policies found in NAFTA and the WTO. Since adopting the policies, per capita income growth plunged to 6 percent in the 1980–2000 period. Even when taking into account the longer 1980–2005 period, there is no single 25-year window in the history of the continent that was worse in terms of rate of income gains. In other world regions, growth also slowed dramatically, while in sub-Saharan Africa, income per person actually shrank 15 percent after the nations adopted the policy package also required under the WTO and NAFTA![18] Improvement measured by human indicators—in particular life expectancy, child mortality, and schooling outcomes—also slowed for nearly all countries in the Fast Track period as compared with 1960–80.[19]

Poverty, hunger and displacement are on the rise. The share of the population living on less than $2 a day in Latin America and the Caribbean rose following the implementation of the Fast Track-enabled NAFTA and WTO, while the share of people living on $1 a day (the World Bank's definition of extreme poverty) in the world's poorest regions, including sub-Saharan Africa and the Middle East, has increased during the same period.[20] According to the Food and Agriculture Organization, "Since the [1990] baseline period, progress [toward reducing hunger] has slowed significantly in Asia and stalled completely worldwide."[21] From Mexico[22] to China[23] and beyond, the displaced rural poor in the Fast Track era have had little choice but to immigrate or join swelling urban workforces where the oversupply of labor suppresses wages, exacerbating the politically and socially destabilizing crisis of chronic under- and unemployment in the developing world's cities that fuel instability. Many who have not fled rural areas are no longer with us. According to the Indian government, tens of thousands of farmers bankrupted by trade policies commit suicide, leaving their children and families without alternate means of support.[24]

Developing countries that did not adopt the package fared better. In sharp contrast, nations like China, India, Malaysia, Vietnam, Chile—and Argentina since 2002—which chose their own economic mechanisms and policies through which to integrate into the world economy, had more economic success. These countries had some of the highest growth rates in the developing world over the past two decades—despite ignoring the directives of the WTO, IMF or World Bank.[25] It is often claimed that the successful growth record of countries like Chile was based on the pursuit of NAFTA–WTO-like policies. Nothing could be farther from the truth: Chile's sustained rapid economic growth was based on the liberal use of export promotion policies and subsidies that are now considered WTO-illegal.[26]

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[17] UNCTAD, *Least Developed Countries Report*, 2002, at 17.

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[19] Mark Weisbrot, Dean Baker and David Rosnick, "Scorecard on Development: 25 Years of Diminished Progress," CEPR Paper, September 2006.

[20] Shaohua Chen and Martin Ravaillon, "How Have the World's Poorest Fared since the Early 1980's?" *World Bank Research Observer*, vol. 19, no. 2, 2004, at 152–3.

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Conclusion: Replace the Fast Track With a Good Process to Get Good Trade Agreements

Fast Track was designed 30 years ago as a way to deal with traditional tariff and quota-focused trade deals. Today's "trade" agreements affect a broad range of domestic nontrade issues like local prevailing wage laws, Buy-America procurement policy, anti-offshoring measures, food safety, land use and zoning, the environment and even local tax laws. Congress, state officials and the public need a new modern procedure for developing U.S. trade policy that is appropriate to the reality of 21st century globalization agreements.

Critical to such a new system is restoring Congress' ability to control the contents of U.S. trade agreements, as well as empowering Congress to decide with which countries it is in our national interest to negotiate new agreements. Because the Constitution grants the executive branch the exclusive authority to negotiate on behalf of the United States with foreign sovereigns, a system of cooperation between the Congress and executive branch is needed. However, in contrast to Fast Track, which by its very structural design sidelines Congress, a new trade negotiating mechanism must provide early and regular opportunities for Congress to hold negotiators accountable to the substantive objectives Congress sets.

This is needed to ensure future pacts contain terms beneficial to most Americans. With a new forward-looking trade negotiating process, we can ensure U.S. trade expansion policy meets the needs of America's working families, farmers and small businesses.

Americans For Fair Taxation
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January 30, 2007

America is now and forever will be a cog in the global economy. For many years, we have enjoyed being the prime mover, but that status is quickly changing and the evidence is all around us. America is becoming a consumer-based nation rather than a manufacturer to the world marketplace. The main reason our economy has grown thus far is mainly due to the profits earned by the major retailers who are still based in this country. Two of the most visible economic indicators that all Americans realize as being a cause for fewer and fewer good-paying jobs is the relocation of manufacturers or the use of outsourcing to produce a cheaper product or service.

But these two obvious events are not causes of lower-paying jobs: They are the effects resulting from companies wishing to maintain their profit margins and looking for a more viable area of the world to justify the maintaining of the bottom line. The root cause for all the ills that America is suffering is the incomprehensible Tax Code that all Americans must abide by.

It is important to realize that while the income tax system may have worked as a viable means of government revenue collection in the past, it must also be realized that Americans drove the global economy. Today, it is the global economy that is driving Americans, and we are shackled to an outdated system of tax collection. It is now being reported that China is seriously considering revamping their system to a 15% sales tax system and relying solely on the consumption of goods and services to sustain their growth.

We have the chance to do the same by supporting H.R. 25, and bring our manufacturers back to the U.S.A. where they belong. It is our tax system that has failed us and it is the overhauling of our tax system that will save us. America has been the leader of the world for many years, and if nothing is done, we will very soon be number 2 or 3. We the American people do not need another 1,000 or more pages added to the Tax Code, but really need for the Tax Code to be keel-hauled and start with The Fair Tax.

Donald Williamson
Volunteer