S. HRG. 110–1203

IS "FREE TRADE" WORKING?

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERSTATE COMMERCE, TRADE, AND TOURISM

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

APRIL 18, 2007

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FIRST SESSION

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IS “FREE TRADE” WORKING?

WEDNESDAY, APRIL 18, 2007

U.S. SENATE,
SUBCOMMITTEE ON INTERSTATE COMMERCE, TRADE, AND TOURISM,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC.

The Subcommittee met at 10:23 a.m., in room SR–253, Russell Senate Office Building, Hon. Byron L. Dorgan, Chairman of the Subcommittee, presiding.

OPENING STATEMENT OF HON. BYRON L. DORGAN, U.S. SENATOR FROM NORTH DAKOTA

Senator DORGAN. We will call the hearing to order. This is a hearing of the Commerce Committee, the Interstate Commerce, Trade, and Tourism Subcommittee. We regret the delay. We've been voting in the Senate and have just completed our second vote. I believe Senator DeMint will be along shortly and some other colleagues as well. But we apologize for the delay.

We thank the witnesses for being here. I'd like to make a very brief statement about the reason we are holding this hearing. The title of the hearing is, “Is ‘Free Trade’ Working?” We will be confronting some trade decisions in the coming months. The President has requested that we extend “Fast Track,” which has been renamed Trade Promotion Authority. In the normal scheme of things in this town, when one title doesn't work very well, you normally re-title it and so what is the old Fast Track has now become Trade Promotion Authority.

It is still the same straightjacket that is requested of Congress that trade agreements be entered into, negotiated in most cases, outside of public view and then brought back to the Congress, and the Congress will have agreed to put itself in a straightjacket and not be able to offer any amendments, and it would be considered under expedited considerations, expedited procedures—that is, Trade Promotion Authority.

The President will request we extend that. There are a number of trade agreements that have been negotiated and are ready for consideration by the United States Congress. I noted earlier this month that the trade agreement with South Korea was, according to one publication, completed just under the deadline, whatever the deadline was, as soft or hard as the deadline might have been for completion of that to be considered under the current Trade Promotion Authority.

The term, "free trade," has been branded in recent years. In fact, books have been written about it. The most recent significant book perhaps, which was a "truanting book for free trade," was that the world is flat. The world of course, is not flat and trade is not free.

But the issue of whether the free trade policies are working is an important issue because we operate under so-called free trade policies. We've negotiated free trade agreements, a number of them in recent years. As we have watched these free trade agreements be implemented, we have seen a dramatic increase in our trade deficit. Our trade deficit has exploded to about $830 billion a year for our merchandise trade deficit last year, the highest in human history. It, in my judgment, ought to suggest that there is something wrong with our trade strategy.

I know that those in this room who are interested in trade have studied David Ricardo and his theory of comparative advantage. The doctrine of comparative advantage is one that suggests that there are natural reasons you would want to do that which is most efficient for you. The typical story is to describe the Portugal and England circumstance of raising sheep and shearing them for wool and raising grapes and crushing them for wine, and exchanging then wool for wine because each state does the other more efficiently.

However, today's free trade agreements and particularly the large deficits that have accrued from these free trade agreements have nothing at all to do with the doctrine of comparative advantage. We have seen substantial American jobs depart this country. In fact, we have a pernicious tax break that says if you leave the country, if you shut your plant, fire your workers, get out of here, move it to China or India or Sri Lanka or Bangladesh, we'll actually give you a tax break.

So we've seen the flight of American jobs, particularly in the manufacturing industry but also in some other industries as well and in addition to that, we have people who now estimate there are 40 to 50 million outsource-able American jobs. Not all of them, of course, will be outsourced but even those that remain will be under pressure, downward pressure, with respect to wages and benefits.

The description the other day of Circuit City deciding to lay off 3,400 workers, not because they weren't good workers but because they wanted to hire less expensive workers, is, I think, a description of that, the downward pressure on wages in this country as a result of how some describe "free trade," in the global economy.

Let me be clear. I support trade, believe in trade and believe we ought to be engaged in plenty of trade. I insist it be fair trade. I believe that so-called free trade is not working and I'm going to be asking questions about that today. I know members of this panel will have different views of it but I think that whatever one's view, I would expect most of us would believe that the issue of trade is very, very important.

It is, in fact, a global economy. I couldn't change it if I wanted to. The question is not that. The question is, what are the rules for trade in the global economy and are the rules for trade rules that are beneficial to this country's long-term economic viability? I submit the answer under current circumstances would be no and change is necessary.

Let me call on my colleagues for any brief opening statements that they wish to make. Senator Cantwell?

STATEMENT OF HON. MARIA CANTWELL, U.S. SENATOR FROM WASHINGTON

Senator CANTWELL. Thank you, Mr. Chairman and thanks for holding this important hearing and I thank the witnesses for being here to testify. Given that we just had a vote scheduled and considering the time of this hearing and an obligation that I also have in another committee, I'm going to submit my statement for the record, but I want to say that the Washington State trade experience is a very unique trade experience and we've had some successes and obviously some challenges. Certainly I'm going to be working with my colleagues here and on the Finance Committee on the Trade Adjustment Authority, making sure that we beef up that area of what the United States needs to do to be investing in a well-skilled workforce.

But I thank the Chairman for his——

Senator DORGAN. Senator Cantwell, thank you very much. Senator Brown?

STATEMENT OF HON. SHERROD BROWN, U.S. SENATOR FROM OHIO

Senator BROWN. Mr. Chairman, thank you and although I don't sit on either this Subcommittee or full Committee, I appreciate your invitation to join you for a few minutes. I particularly thank the panel for being here and thank you all for your leadership on all kinds of trade issues, especially what you've done for American manufacturing and emphasizing the importance of that.

Some years ago, maybe 5 years ago, Mr. Johnston from Akron, Ohio, invited me—it was in my Congressional District in those days, to come and speak to the Akron Machine Shop Operators, a trade association of—they were an association of some several dozen manufacturers, machine shop manufacturers in Summit County. I'll never forget—there were probably 60 or 70 people at this lunch.

Perhaps the companies ranged from as few as five people to one that was over 100, I believe, but only one. Most of them were family owned, most of them non-union, small manufacturers and a gentleman walked up to me right before the lunch and with a blue grocery bag, a plastic grocery bag full of flyers, probably this many—a stack of this many—put them on the table in front of me and said, I get this many flyers every month from all over the country, going out of business sales, cannibalizing their industrial equipment and their inventory or their production capacity. They were not just Ohio companies, they were companies everywhere and it really—to me, that moment really showed the threat to our manufacturing base in this country and how important it is that we have a trade policy and a tax policy that works for American businesses, especially small manufacturers and for workers and for our communities, and that we have a manufacturing policy as part of that, whether it's a Manufacturing Extension Partnership or the other things that we need to do.

A couple of years ago, Mr. Chairman—and you led the opposition to this, to the Central American Free Trade Agreement in the Senate—in the House, as many remember, we put a coalition together of small manufacturers and laborers and environmentalists and a lot of people representing religious organizations, both in Central America and in the United States and people active in agriculture, farmers and it was a coalition of people really representing—representing America, people who know that this trade policy is not working.

When I was elected to Congress in 1992, to the House, we had a trade deficit in the United States of $38 billion, a trade deficit with China, barely double digits and a trade surplus with Mexico. Today, that $38 billion trade deficit has reached, whether you count services, 700, 800-plus billion dollars and our trade deficit with China has increased about 20-fold since those days. And we obviously have a big trade deficit with Mexico now and it's clear when you look at the aggregate trade deficit over these 15 years, it's in excess of $4 trillion.

In some sense—this isn't the whole story but in some sense that means $4 trillion of wealth has left our country and we as a nation need to come up with a real manufacturing policy, a real trade policy that is going to change directions. I think the work that Senator Dorgan has done for years in the Senate and that he is holding hearings with some of the best minds in trade policy on all sides, I think will be very helpful today.

I apologize, I have a mark-up on Food and Drug Administration issues in the HELP Committee so I won't be here for the whole time but I will read all your testimony and continue the conversation with all of you who have been so helpful in formulating the real direction we should take in trade policy in our country. I thank you all for being here.

Senator DORGAN. Senator Brown, thank you very much. The Ranking Member, Senator DeMint is here. Senator DeMint, thank you.

STATEMENT OF HON. JIM DEMINT, U.S. SENATOR FROM SOUTH CAROLINA

Senator DEMINT. Thank you, Mr. Chairman. I want to thank the whole panel for helping us look into this very important issue for the country and I appreciate Senator Brown's comment but I think as all of us know, the trade deficit is not a debt and I think we are many times misleading the American people as to what a trade deficit is. Those of us who had to work with balance sheets for many years know that if you spend $100 to buy an asset that in this country, is worth more than $100, you have actually increased your wealth.

As we look at our trade deficit, while we may be paying for many things from all over the world, we are receiving something very real in return. Many of things that we receive in turn are raw materials, parts for equipment that are manufactured in this country and then often, exported all over the world. I think if we fail to connect the dots on everything that is happening with trade around the world, we really miss that point.

Certainly there are many ways that we can improve trade and we do need to recognize that our whole economy is now interwoven in the international markets and any talk that we somehow need to stop that or try to manage it on some kind of global scale is not realistic and not productive for us here in Congress.

Over 31 million jobs in this country depend on trade and it's the fastest growing sector of our economy. I know in South Carolina, we've become one of the most international states in the country, buying from all over the world and selling all over the world. We have the American headquarters for BMW and Michelin.

Every time we try to do something protectionist related, such as put a tariff on steel, I hear from manufacturers all over our state that they can no longer compete in the global market if it costs them more to buy steel in the United States than it would if they were producing somewhere else. So there is an effect sometimes that we don't intend in Congress when we're trying to protect an industry, when in fact, we make our country much less competitive.

I hope we can focus some of our comments not just on the negative aspects of trade because certainly there are ways we can improve it and we need to discuss it. But one of our biggest challenges as a nation is we are doing things here in Washington and particularly in Congress that make it more and more difficult for our companies to compete globally. So if we don't sell more overseas to the 95 percent of the world that lives outside of America, then we will have a trade deficit with other countries.

When you have the second highest corporate tax rate in the world, you create a problem for our manufacturers and when you have one of the most complex and onerous regulatory systems in the world, it makes us less competitive. And when we have a litigation system that's the worst in the world, creating more liability for manufacturers and producers in this country than any other place in the world, we have to realize, if we're willing to look, that other countries are starting to get it.

Even Europe, who we look at as being antiquated, continue to lower their corporate tax rate and more and more American wealth is staying overseas Senator; Microsoft keeps their money in Ireland instead of bringing it home for research and development and jobs because they lowered their corporate tax rate to around 12 percent or I think below that.

So let's talk about how to make America more competitive, how to take the cost of government off our manufacturers. Then I think we'll solve a problem if we feel it is, that we buy more from other countries than they buy from us.

But I appreciate, Mr. Chairman, you having these hearings because irrespective of our opinions, we know we can improve this trade situation. We know we can level the playing field more for our companies here and expand wealth in this country so I look forward to hearing from these panelists. Thank you.

Senator DORGAN. Well, Senator DeMint, we are going to have a lot to talk about, you and I. It will be an interesting Congress for us to discuss trade. Let me call on the panel and then we will have this opportunity through questions as well, to evaluate some of your comments and the comments of other Members of the Committee.

We have Mr. Leo Hindery who is joining us today and I want to call on Mr. Hindery first. Leo Hindery is a successful business executive for many, many years, a NASCAR driver, an author who has written a book. It takes a CEO that deals a lot with the issue of trade and Leo Hindery was one of the first people I thought of when I thought of asking some witnesses to come to talk about trade and I'm very pleased you have been willing to travel to Washington, D.C.

Mr. Hindery, we will, for all the witnesses, include your entire statement as a part of the permanent record and we would say to all of the witnesses, including yourself, you're welcome to summarize as you wish. Why don't you proceed?

STATEMENT OF LEO HINDERY, JR., MANAGING DIRECTOR, INTERMEDIA PARTNERS

Mr. HINDERY. Thank you, Mr. Chairman, and Senators, and thank you for this privilege. Briefly, I am, as the Senator commented, the Managing Director of InterMedia Partners. I previously served as the Chief Executive of both TCI and AT&T Broadband and I had the privilege of chairing recently the Horizon Project, which was an initiative by a group of 11 chief executives and policy specialists that attempted to produce a report to Congress on what we believe needs to be done to protect America's prosperity in this era of globalization.

My own concerns, Senators, about our trade policies manifest themselves, Senator Dorgan, in the Nation's record and still growing trade deficit that you spoke of, in the disappearance of valuable chunks of our economy due to what I believe are callous offshoring of American jobs with many, many millions more to follow and in the adverse national security implications of certain of our trade practices.

As has been commented, the United States is now the only major net consumer in the global economy with a current account deficit in 2006 of $857 billion, a staggering 6½ percent of our GDP and I would point out that this huge deficit does not include an estimated $200 billion of taxable foreign subsidiary earnings being masked each year by misallocations and obfuscating accounting.

As has been commented, more than five million American jobs have been lost to offshoring in just the past 6 years. Three million are manufacturing but notably, two million are service and IT related. Looking ahead, a conservative estimate is that 14 million of the roughly 141 million civilian, non-self employed jobs in the country today will be offshored in the next 10 years, seven million more manufacturing jobs, 3.3 million more service jobs and 3.4 million more IT jobs. Various esteemed individuals, including the former Vice Chairman of the Federal Reserve, Alan Blinder, suggests that my estimates are very, very conservative.

But in the process of exporting these high tech manufacturing jobs, the United States is also indirectly exporting, in my opinion, important aspects of its national security.

We currently have a $50 billion annual trade deficit with China alone, for what are called Advanced Technology products and from a U.S. national security perspective, DRAM, SRAM and ROM chip manufacturing is now grossly over-reliant on China, on Taiwan and

South Korea. Many of these items are essential, absolutely essential to our high-tech weaponry and national defense.

For free trade to be fair trade, Senators, it must, in my opinion, be rules-based and then these rules must be followed. But right now, many major U.S. trading partners are breaking the rules through massive, massive currency, tax and capital subsidies, and through what I believe are unfair labor and environmental practices.

For each of the past 22 years, pursuant to what was called the Trade Act of 1974, the Office of the U.S. Trade Representative has submitted an annual report to Congress, surveying the significant trade barriers to U.S. exports. According to the USTR, there are 10 categories of trade barriers, ranging from tariffs to bribery.

But I would point out notably that no where in this survey of foreign barriers to our exports, Senators, is there any serious treatment of non-ILO labor practices, of nonexistent or diminished environmental standards, or especially of subsidies and currency manipulation. If the USTR's report in 2007, which is called the NTE, which was just delivered to Congress, is overlooking the most adverse trade barriers, then it should come as no surprise that we as a nation, in my opinion, are getting absolutely killed in our trading with China, with India and Japan.

Let me give, if I might, just two cases in point. The Semiconductor Industry Association has recently calculated that the combined tax and capital subsidization of China's high tech industries is now so extreme that only 10 percent of the overall cost difference vis-à-vis American manufacturers is labor-cost based. Ninety percent, Senators, is tax and capital grants based.

In turn, despite Treasury Secretary Paulson's contention on February 10th that the Japanese yen's value is set based on underlying fundamentals, your colleagues, Senators Levin and Stabenow and Congressmen Dingle and Levin have concluded that in fact, the government of Japan's artificial depressing of the yen has now resulted in an effective subsidy to Japanese auto manufacturers of roughly $8,000 per car.

To personalize further how foreign subsidies and illegal trade practices are crushing American workers, I would like to briefly discuss Intel and Citigroup, both of which are leaders in their respective fields. Intel's announcement on February 12 of its new, programmable teraflop superchip was rightly hailed as a success for American innovation. But this euphoria turned into just more pink slips for American high tech workers when a month and a day later, on March 13, Intel announced that it will now build in China, a massive, $2½ billion chip fabrication shop, propped up by an announced $1 billion subsidy from the Chinese government and by many other subsidies that neither Intel nor the Chinese wanted to announce.

Then there is Citigroup, which confirmed last week that at the same time it is eliminating 7,000 American jobs, even more notably in my opinion, it is offshoring—offshoring an additional 9,500 American jobs primarily to India, where it already has 22,000 employees working in highly skilled areas like research, investment banking and credit analysis.

The bank announced these relocations and cuts with absolutely no expressed remorse for the American workers affected and it certainly did not discuss the extensive subsidies. Again, the extensive subsidies it is receiving from the Indian government as inducements for offshoring another 9,500 jobs.

Greatly informing all of my comments today, Senators, is the reality, as has been pointed out and as Senator Sherrod Brown mentioned a moment ago, that the U.S. goods trade deficit with China alone is now a staggering $233 billion. In 2006, we did export $55 billion of goods to the Chinese but they turned around and exported $288 billion to us. This ongoing imbalance in trade with China has left that country, China alone, with foreign exchange reserves of an unprecedented $1.2 trillion, up 37 percent in just the last year. They are by now the far largest source of funding for our deficits.

But as I've commented, China's real trade advantage results not from its criminally low wages but it comes from tax breaks and from subsidies, including currency manipulations, grants, low cost loans given to companies that have no intention and sometimes not even the obligation to pay them back. And to these benefits, China adds tariffs, it adds standards abuses, intellectual property theft, policies favoring domestic production, and market access highly conditioned on local production or intellectual property transfers.

In recent days, we should take some comfort, but modest only, that the Executive Branch has finally began to wake up to some of the specific trade problems with China and to initiate some long overdue responses.

But as we go forward, this Administration working closely with this Congress must, in my opinion, take additional steps to ensure that our trade agreements with all countries, all countries, are fair and vigorously enforced, that high valued added jobs in the U.S. grow and that there continue to be substantial investments in worker skills.

With respect, Senators, I recommend therefore that this Subcommittee consider four actions. Congress should require that the annual NTE survey by the USTR include as defined trade barriers to U.S. exports, subsidies, currency manipulation, non-ILO labor practices and weak or nonexistent environmental standards.

You should in turn, charge the USTR with prosecuting all meaningful illegal violations. And expanding on a proposal made already by Senator Stabenow, any U.S. company, in my opinion, should be permitted to petition for tariffs on imports from countries that materially benefit from these subsidies, keep their currencies depressed or do not have ILO labor and minimum environmental standards.

Finally, I could not agree more strongly that there should be no renewal by this Congress of Fast Track TPA without requiring that all future trade agreements approved under TPA incorporate labor and environmental standards.

Trade agreements, as has been commented on, are only as good as the resources brought to bear to enforce them. Yet we know sadly that in the last 6 years, the U.S. has filed an average of only three WTO cases a year versus an average of 11 per year during the Clinton Administration. I believe Congress should transfer responsibility for evaluating and prosecuting trade agreement violations from the Office of the USTR to a new division in Justice, headed by an Assistant Attorney General for trade enforcement. Congress should also insist on parity enforcement against and among all trade agreement requirements, whether commercial or otherwise.

Senators, as already proposed by Senators Dorgan and Clinton, Congress should, in my opinion, go forward on an actionable limit, expressed as a percent of GDP, on both our yearly trade deficit and our accumulated trade debt. When any such limit is exceeded, the Executive Branch must immediately initiate actions with Congress to bring the deficit back in line.

And finally, to stop the criminal export of important aspects of our national security, Congress should enact legislation quickly requiring that manufacturing activities which have national security implications and are proposed to be offshore be subject first to a national security impact statement.

In addition to these four issues and recommendations, which are under the purview of this Subcommittee, I would hope that the Senate Finance Committee would consider, in a revenue neutral fashion, correlating the corporate tax rate of the Nation's larger manufacturing and technology service companies with the average value added of their U.S. employees. The corporate tax rate for these companies would be reduced on a sliding scale, based on their value-added standing relative to the median of the particular business sector in which they operate.

Since most of the value that a corporation—any corporation—adds to its product and services reflects the wages and benefits it pays its employees, this simple corporate income tax change would be a significant financial incentive for a corporation to boost its average wage to non-executive employees through productivity gains and by investing in their skills and in capital equipment.

Finally, Senators, I believe that the Congress should undertake to eliminate tax deferrals on foreign profits. You should in turn reform the foreign subsidiary tax allocation rules to prevent corporations from reducing their U.S. taxable earnings by misallocating expenses such as interest, R&D and overhead, both of which greatly exacerbate the offshoring of jobs and the trade deficit.

Only by fully understanding how globalization and current U.S. trade policies are affecting America's economic well-being can we craft future policies that will advance the welfare of all Americans.

Hopefully, Senators, my recommendations will help you in this task in ways that preserve the principles of a vibrant middle class, economic growth and mobility, and economic and social justice. Thank you for this privilege. It means a great deal.

[The prepared statement of Mr. Hindery follows:]

PREPARED STATEMENT OF LEO HINDERY, JR., MANAGING DIRECTOR, INTERMEDIA PARTNERS

I am Leo Hindery, Managing Director of InterMedia Partners. I have previously served as the CEO of TCI and AT&T Broadband. Recently, I chaired The Horizon Project, a group of eleven CEOs and policy specialists that produced a report to Congress on what we believe needs to be done to protect America's prosperity in this era of globalization.

Thank you, Mr. Chairman, and Senators, for convening this important hearing on current U.S. trade policies. My own concerns about these policies manifest themselves in the Nation's record—and still growing—trade deficit, in the disappearance of valuable chunks of our economy due to the callous offshoring of millions of American jobs with many millions more certain to follow, and in the adverse national security implications of certain of our trade practices.

The United States is now the only major net consumer in the global economy, with a current account deficit in 2006 of $857 billon, which is a staggering 6.5 percent of GDP. And this huge deficit does not include the estimated $200 billion of taxable foreign subsidiary earnings being masked each year by misallocations and obfuscating accounting.

More than five million American jobs have been lost to offshoring in just the past 6 years: three million manufacturing, and two million service and IT-related. Looking ahead, more than 14 million of the roughly 141 million civilian non-self employed jobs in America today will be offshored over the next 10 years, including 7.0 million *more* manufacturing jobs, 3.3 million *more* service jobs and 3.4 million *more* IT jobs. And these are very conservative estimates according to Alan Blinder, Vice Chairman of the Federal Reserve during the Clinton Administration.

And in the process of exporting high-tech manufacturing jobs, the U.S. is also indirectly exporting important aspects of its national security. The United States has a $50 billion annual trade deficit with China alone for "Advanced Technology Products", and from a U.S. national security perspective DRAM, SRAM and ROM chip manufacturing is now grossly over-reliant on China, Taiwan and South Korea. Many of these items are essential to our high-tech weaponry and national defense.

For free trade to be fair trade, Senators, it must be rules-based, and these rules must be followed. But right now many major U.S. trading partners are breaking the rules through massive currency, tax and capital subsidies and through unfair labor and environmental practices.

For each of the past 22 years, pursuant to the Trade Act of 1974, the Office of the U.S. Trade Representative has submitted an annual report to Congress surveying significant trade barriers to U.S. exports. According to the USTR, there are ten categories of trade barriers ranging from tariffs to bribery.

But nowhere in this survey of foreign barriers to U.S. exports, Senators, is there any serious treatment of non-ILO labor practices, of nonexistent or *de minimis* environmental standards, or, especially, of subsidies and currency manipulation.

If the USTR'S report in 2007, which is called the NTE, is overlooking the most adverse trade barriers, then it should come as no surprise that we as a nation are getting absolutely killed in our trading with China, India and Japan.

Two cases in point:

The Semiconductor Industry Association has recently calculated that the combined tax and capital subsidization of China's high-tech industries is now so extreme that only about 10 percent of the overall cost difference vis-à-vis American manufacturers is labor cost-based and that 90 percent is tax and capital grants-based.

In turn, despite Treasury Secretary Paulson's contention on February 10 that "the Japanese yen's value is set . . . based on underlying fundamentals", Senators Levin and Stabenow and Congressmen Dingell and Levin have concluded that in fact the Japanese government is artificially depressing the yen to such a degree that Japanese automakers are realizing an effective subsidy of roughly $8,000 per car.

To personalize further how foreign subsidies and illegal trade practices are crushing American workers, I would like to briefly discuss Intel and Citigroup, each of which is a leader in its respective field.

Intel's announcement on February 12 of its new programmable teraflop superchip was rightly hailed as a success for American innovation. But this euphoria turned into just more pink slips for American high-tech manufacturing workers when a month and a day later, on March 13, Intel announced that it will now build in China a massive $2.5 billion chip fabrication shop, propped up by an announced $1 billion subsidy from the Chinese government and by many other subsidies that Intel and China did not want to announce.

And then there is Citigroup, which confirmed last week that at the same time it is eliminating 7,000 American jobs, it is, even more notably in my opinion, offshoring an additional 9,500 American jobs primarily to India, where it already has 22,000 employees working in highly skilled areas like research, investment banking and credit analysis. The bank announced these relocations and cuts with absolutely no expressed remorse for the American workers affected, and it certainly did not discuss the extensive subsidies it is receiving from the Indian government as inducements for offshoring another 10,000 jobs.

Greatly informing all of my comments today is the reality that the U.S. goods trade deficit with China alone is now a staggering $232.5 billion. In 2006 we exported $55.2 billion of goods to the Chinese, but they in turn exported $287.8 billion of goods to us. This ongoing imbalance in trade with China has left that country with foreign exchange reserves of an unprecedented $1.2 trillion, up 37 percent just since this time last year. China is now, by far, the largest source of funding for U.S. Government deficits.

As I have commented, China's real trade advantage results not from its criminally low wages, but from tax breaks and from subsidies, including currency manipulation, grants and low-cost loans given to companies that have no intention and sometimes not even an obligation to pay them back. And to these benefits China adds tariffs, standards abuses, intellectual property thefts, policies favoring domestic production, and market access conditioned on local production or intellectual property transfers.

In recent days, the Executive Branch has, finally, begun to wake up to some of the specific trade problems with China and to initiate some long overdue responses. But as we go forward, the Adminsitration, working closely with Congress, must take additional steps to ensure that our trade agreements with *all* countries are fair and vigorously enforced, that high value-added jobs in the U.S. grow, and that there continue to be substantial investments in worker skills.

To these ends, I recommend that this Subcommittee consider four actions:

1. *Take actions against illegal and unfair trade practices.* Congress should require that the annual NTE survey by the USTR include, as defined trade barriers to U.S. exports: subsidies; currency manipulation; non-ILO labor practices; and weak or nonexistent environmental standards. In turn, the USTR should be specifically charged with prosecuting all meaningful illegal violations, and, expanding on a proposal already made by Senator Stabenow, any U.S. company should be permitted to petition for tariffs on imports from countries that materially benefit from such subsidies, keep their currencies depressed, or do not have ILO labor and minimum environmental standards. Finally, there should be no renewal by Congress of fast-track Trade Promotion Authority, or TPA, without requiring that all future trade agreements approved under TPA incorporate such labor and environmental standards.

2. *Strengthen trade agreements enforcement.* Trade agreements are only as good as the resources brought to bear to enforce them, but in the last 6 years the U.S. has filed an average of only three WTO cases a year, versus an average of eleven per year during the Clinton administration. In response, Congress should transfer responsibility for evaluating and prosecuting trade agreements violations from the office of the USTR to a new Division at Justice headed by an Assistant Attorney General for Trade Enforcement. Congress should also insist on "parity of enforcement" among all trade agreement requirements, whether commercial or otherwise.

3. *Cap on the Nation's trade deficit.* As already proposed by Senators Clinton and Dorgan, Congress should enact limits, expressed as percents of GDP, on both the yearly trade deficit and the accumulated trade debt. When any such limit is exceeded, the Executive Branch must then immediately initiate actions to bring the deficit back in line.

4. *National security protection legislation.* To stop the export of important aspects of our national security, Congress should enact legislation requiring that manufacturing activities which have national security implications and are proposed to be off-shored by subject first to a "national security impact statement".

In addition to these four trade-related recommendations which are under the purview of this Subcommittee, I recommend that the Senate Finance Committee consider, in a revenue neutral fashion, correlating the corporate tax rate on the profits of the Nation's larger manufacturing and technology services companies with the average value-added of their U.S. employees. The corporate tax rate for these companies would be reduced on a sliding scale based on their value-added standing relative to the median of the particular business sector in which they operate.

Since most of the value that such a corporation adds to its products and services reflects the wages and benefits it pays its employees, this corporate income tax change would be a significant financial incentive for a corporation to boost its average wage to non-executive employees through productivity gains and by investing in worker skills and capital equipment.

As a final recommendation, Congress should also undertake to eliminate tax deferrals on foreign profits, and to reform foreign subsidiary tax allocation rules to prevent corporations from reducing their U.S. taxable earnings by misallocating expenses such as interest, R&D and overhead, both of which greatly exacerbate the offshoring of jobs and the trade deficit.

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How well the Executive Branch and Congress respond to the significant challenges confronting the American economy will substantially determine whether our Nation continues to be the preeminent economic power in the world, or whether it will experience declining political influence and economic leadership. Only by fully understanding how globalization and current U.S. trade policies are affecting America's economic well-being can we craft future policies that will advance the welfare of all Americans. Hopefully, Senators, my recommendations will help you in this task, in ways that preserve the principles of a vibrant middle class, economic growth and mobility, innovation, and economic and social justice.

Thank you for this opportunity.

Senator DORGAN. Mr. Hindery, thank you very much for being here and thank you for your statement. Next, we'll hear from Lori Wallach, the Director of Public Citizen's Global Trade Watch, a nonprofit organization to promote government and corporate accountability in the globalization and trade arena. Ms. Wallach is a lawyer, has written a number of books and articles on trade, including Who's Trade Organization, a comprehensive guide to the WTO. Ms. Wallach, you may proceed.

STATEMENT OF LORI WALLACH, DIRECTOR, GLOBAL TRADE WATCH DIVISION, PUBLIC CITIZEN

Ms. WALLACH. Thank you, Mr. Chairman, and members of the Committee. Public Citizen has spent 15 years documenting the outcomes of our current trade regime and I appreciate the opportunity to share some of our findings.

In considering where we are now, it's important to focus on the fact that we have now one model of trade and its delivery mechanisms—agreements like NAFTA and WTO. There is nothing inevitable about these rules or these outcomes, nor is this free trade. It is one system of managed trade and this model is an enormous break from the past, for instance, of GATT.

Now, 15 years later, the data is in. This experiment failed even the most modest do no further harm test and as the data provided and my full testimony shows, we desperately need new rules to set up our trade and globalization regime.

The American public has lived this experience so it's not surprising that over the last 5 years, public opinion about the outcomes of this system has shifted dramatically. As the University of Maryland has tracked in a stage poll over the last 7 years, those Americans who think our current system is a net loss for them and for the country is now up to all four of the five quintiles, up to $120,000 in income and this shift in opinion, based on the lived experience of the current system's failure was demonstrated in our election, where scores of Members of Congress, who voted for the current system were defeated by those running, calling for change.

I'm going to summarize my findings briefly but I have 13 pages of testimony with several hundred footnotes to the government sources and there are full reports on many of these findings that can be found on our website, which is *TradeWatch.org*.

First, the U.S. economic outcomes. This model has failed the U.S. national economy and the majority of its participants—workers, firms and farmers. First the trade deficit. Leo Hindery has reviewed the numbers but to put it in context, before Fast Track was established, first in 1974 and the series of agreements it enabled, the U.S. had balanced trade and rising living standards. In fact, in nearly every year after World War II until Fast Track was passed, we had a trade surplus. In every year since Fast Track and the agreements such as NAFTA and its clones and WTO enabled by Fast Track, we've had a trade deficit but for one year.

The size of the deficit we have now is not only horrifying but it is widely considered unsustainable, exposing our country and the global economy to shock and crisis. Now, this is not inevitable. This is a result of bad policy and one can demonstrate this by digging into the actual trade flows.

As Senator Brown mentioned, as we have had free trade agreements with different countries, we've shifted from surpluses in trade with these countries to deficits systematically. We now have a deficit with all of our important free trade agreement partners and with the group as a whole. And in fact, ironically, U.S. export growth to those countries with whom we have free trade agreements is less than to the non-free trade agreement countries. U.S. exports to our free trade agreement partners is a 22 percent growth. To our non-FTA partners, it is 25 percent.

So we have agreements, specific agreements with specific outcomes that are causing these problems and alarmingly, under the WTO and NAFTA, the U.S. is poised to become a net food importer. We now import and export the same commodities. Under WTO rules, we are required to import minimally 5 percent of every commodity line, even if we're exporting them. We now are a net importer of most of the products we eat. We export things that animals eat.

Now what has been the effect on jobs and wages for American workers? Trade theory says that the total number of jobs is not affected by trade policy but rather the quality, the type and the wages for those jobs. These trade agreements explicitly have investment rules that incentivize companies to relocate. You get preferential treatment, better than U.S. law, if you relocate, which is why we saw companies leaving under NAFTA to Canada, where wages were higher.

This is resulting in a labor arbitrage where there is no floor. In fact, Department of Labor studies have documented that since NAFTA and WTO, there has been a 60 percent increase in threats to bust unions by relocating jobs, and relocation has doubled after successful union organizing.

What's the result? U.S. worker productivity doubled during the Fast Track era. The average U.S. worker's annual wages have increased a nickel—.28 percent, one-quarter of one percent raise, double in productivity and that kind of a raise.

How has this happened? We've seen one in six of every U.S. manufacturing job leave the country. Leo Hindery mentioned what that's done to our tax base. Does that support our hospitals, our schools, our essential services? And think of what it has done to our national security. We can't make the things that are critical to our infrastructure and security anymore in this country. We wait for the imports.

But in addition, what's happened to people, real people? The Department of Labor shows when a worker loses a manufacturing job and then gets a service job, their average loss in wages is from $40,000 to $32,000. And this offshoring of jobs is moving up the skills ladder. Leo Hindery mentions the Blinder Study, which shows that for 25 to 42 million high tech jobs, they're extremely susceptible to offshoring. We've lost one million such high tech and service sector jobs in engineering, IT, and accounting since 2001, most that pay better than median wages.

Now, Senator DeMint mentioned the trade theory, which is that we all benefit when there are more imports because prices go down and everyone benefits from lower prices versus the people who are losing income because their job is gone. Those are a minority so everyone gains on the import side and some people are hurt on the loss of job side.

But when you actually plug the data now into theory, the gain in cheaper prices on the import side is now outweighed by the loss to U.S. workers in wages. Empirically, if you look at the Department of Labor data, to the fact that we now have, for workers who make $25,000 a year, a net loss of $3,000 annually. This accounts for a net loss in wages under this model, for the 70 percent of the American workforce that doesn't have a college degree. These rules are a net loss for the majority even accounting for the theory of free trade.

Now, in this period, we've also seen 30,000 farms close, shuttered. We're becoming a net food importer and we've seen numerous U.S. farms go under.

Who is winning? We hear a mantra that somehow this is helping defeat poverty in poor countries. The data show the opposite. The poor countries who have adopted the same model have lower growth rates and are increasing in poverty and hunger. Tomorrow, there will be a letter to Congress delivered by over 300 major national unions, federations, and civil society groups from developing countries beseeching Congress not to provide President Bush more Fast Track to lock in the Doha Round WTO escalation, which they see as incredibly threatening and likely to increase poverty in the developing world.

So the outcomes economically have been a loser for the U.S., a loser for developing countries and then there is the loss to democracy.

To conclude, I want to review an issue that's not often discussed, how these trade agreements are used to undermine domestic policies. WTO and NAFTA require countries to conform all their domestic laws to the rules of the agreements and the agreements have 900 pages of non-trade rules. The U.S. has been the number one target of WTO challenges. We are the number one recipient of WTO attacks. The U.S. has lost 86 percent of all the attacks on our laws.

It's even worse when you take into account the attacks and their anti-dumping and countervailing duty laws. There have only been 49 cases total in the WTO. We've been the target of 33 and we lost 31. The array of U.S. laws is astonishing that have been successfully challenged in the U.S. Tax laws, gambling bans, environmental laws and then there is NAFTA, which has similar rules but stronger.

The U.S. now is subject to seven major NAFTA challenges. There are $28 billion in claims pending. One case is just $300 million and it has cost over $3 million just to successfully defend one of these cases, the bottom line of this economic and democracy failure.

Number one, there are short term steps Congress can take to ameliorate the immediate damage. First, for offshoring of high tech and service jobs, the U.S. ought to adopt the same policies that Europe has, which is that laws—areas of the U.S. economy subject to privacy laws, the offshored work in banking or health records—there should be a protection to make sure consumer privacy is not undermined and the work can't go to countries that don't provide at least minimally the same level of consumer privacy protection. This is what Europe has in their system and it's called the Safe Harbor System. As a result, a lot of work does not get offshored. It stays in the country.

Number two, as Leo Hindery mentioned, there are a variety of national security screens that can be put into place as far as the offshoring of work.

Number three, we should strengthen our Buy American anti-offshoring rules, which currently, the Procurement Agreement Rules in trade agreements undermine and I agree with what Leo Hindery said about tax deferrals.

In the broader sense, the answer is no more of the same. This policy has taken our country to the edge of a cliff. The first thing we need to do is hit the emergency brake and then turn around. Therefore, I agree, no more Fast Track. We need to replace that mechanism and in the future, we need a new system for negotiating trade agreements that includes binding rules about what must and must not be in trade agreements so we set a new course. Thank you.

[The prepared statement of Ms. Wallach follows:]

PREPARED STATEMENT OF LORI WALLACH, DIRECTOR, GLOBAL TRADE WATCH DIVISION, PUBLIC CITIZEN

Mr. Chairman, and Members of the Subcommittee, on behalf of Public Citizen's 200,000 members, thank you for the opportunity to share our research on the outcomes of current U.S. trade policy. Public Citizen is a nonprofit research, lobbying and litigation group based in Washington, D.C. Founded in 1971, Public Citizen accepts no government or corporate funds. Public Citizen's Global Trade Watch division focuses on how the current globalization model and its implementing mechanisms, including the World Trade Organization (WTO) and the North American Free Trade Agreement (NAFTA), affect Public Citizen's goals of promoting democracy, economic and social justice, health and safety, and a healthy environment.

First, I would like to recognize the leadership of Subcommittee Chairman, Senator Byron Dorgan, who has tirelessly worked to focus attention on the failings of our current trade regime and the need for change. Chairman Dorgan has methodically tracked the outcome of the current policies and plays a vital role in insisting that if these results are not acceptable, then the model can and must be changed.

Unfortunately for all of us living with the results, the data supporting the need for a new direction in trade policy are extremely compelling. I pray that this hearing helps spur the needed changes. Since the Fast Track system devised by President Nixon was passed in 1974, the agreements it enabled have undermined the interests of most American workers, firms and farmers. Economic damage has been but one outcome. The principle and practice of democracy also has been a casualty. This testimony first focuses on economic outcomes and then describes domestic policies that have been undermined via trade pacts.

This is avoidable damage. A bad process—Fast Track—has enabled bad policy, which in turn has had terrible results. There is nothing inevitable about the negative outcomes my testimony describes. A new policy can achieve better results. Minimally, we must avoid expanding the current failed policy, for instance via a Doha Round WTO escalation or via more NAFTA-model "free trade agreements" (FTAs).

> The summary of the damage thus far? Before Fast Track we had balanced trade and rising living standards; since then the U.S. trade deficit has exploded as imports surged, and now we have a deficit equal to 6 percent of our GDP. A deficit of this magnitude is widely agreed to be unsustainable, exposing the U.S. and global economy to risk of crisis, shock and instability. The average American worker is only making a nickel more per hour in inflation-adjusted terms than in 1973, despite impressive productivity gains, while income inequality has jumped to levels not seen since the Robber Baron era. During the NAFTA–WTO era, we have lost three million U.S. manufacturing jobs, one of every six in that sector, devastating local tax bases on which our schools and hospital rely and undermining our ability to produce the basic goods essential for our national security and infrastructure. And now, we are even becoming a net food importer!

How have we gotten into this mess? The U.S. Constitution gives Congress exclusive authority to "regulate commerce with foreign nations" (Article I–8.) The Federalist Papers discuss why this structure—and the inherent checks and balances it established—was vital based on the experience of living under a regime where trade policy was determined by the executive—the king in the case of the American colonies. The goal was to ensure that U.S. trade policy was set by the branch of government closest to the people so as to preclude the ability of the President to favor friends of allied foreign governments rather than considering the national interest. Fast Track delegates away to the Executive Branch Congress' constitutional authority to control the contents of U.S. trade agreements, as well as numerous other important powers. Happily, another Boston Tea Party or a revolution are not needed to rectify the concentration of trade authority in the hands of the executive, as it is within the power of Congress to do so.

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.

For those members of the Commerce Committee not in office in 1993 when NAFTA was considered, I respectfully urge you to review the floor debate during which the Commerce Committee's Vice Chair, Senator Ted Stevens, wisely inquired whether the limits imposed by Fast Track on the Senate are even permissible under the Constitution. Senator Stevens noted that an Article I–7 clause 1[1] provides the Senate a right to amend revenue measures. Trade agreements, by merit of their setting tariff levels, are revenue measures. Fast Track eliminates the Senate's constitutional right to amend. This is a point worth consider in thinking about what system should replace the Fast Track delegation mechanism. The conclusion of this testimony addresses this issue in more detail.

Fast Track must be replaced. Fast Track enabled trade agreements are devastating the U.S. middle class while increasing poverty and instability overseas. The following data summarizes the outcomes of our current policy. This is not speculation about what *could* occur or projections based on various assumptions. Following are the actual outcomes, replete with footnotes and details thanks to Global Trade Watch's research director, Todd Tucker.

1. The Results of Current U.S. Trade Policy: 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 Fast Track was first passed. In 1973, the average American 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. 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 American workers in a race-to-the-bottom with poverty-wage workers worldwide, U.S. workers would see wages increase in a way that more closely tracks productivity increases. Trade pacts that require companies to respect workers' rights to organize a union would empower workers in developing countries to fight to raise their wages also.

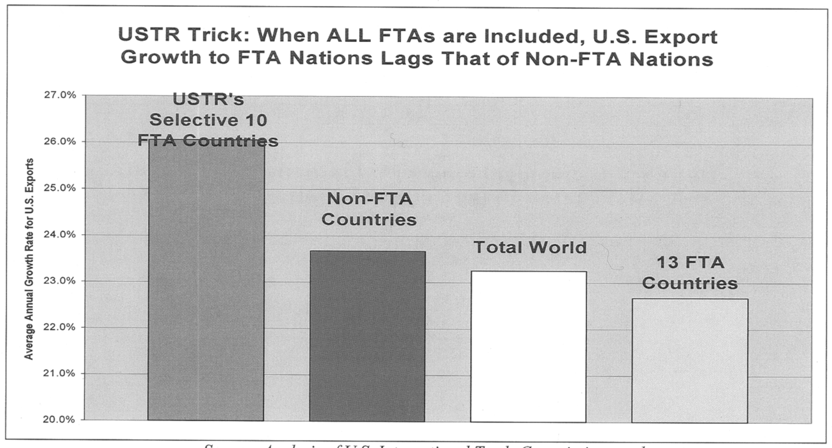
Special protections included in "free trade" agreements for certain sectors, such as Big Pharma, increase consumer prices. As bad trade deals push down our wages, these deals also include provisions that directly jack up consumer prices. Special protections for Big Pharma included in WTO and NAFTA required the United States to provide them longer monopoly patent protections. Did the U.S. Congress really intend to extend U.S. drug patent terms from the pre-WTO and pre-NAFTA 17-year terms to the WTO and NAFTA-required 20-year terms? And, what is such protectionism doing in a "free trade" agreement? The University of Minnesota's School of Pharmacy found that the WTO and NAFTA 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.[2] The University of Minnesota study only covers medicines that were under patent in 1994, so the total cost to us is much higher.[3]

How our trade policy is suppressing American wage levels. Trade's downward pressure on our wages comes from both the import of cheaper goods made by poorly-paid workers abroad (displacing goods made by better-paid U.S. workers) and threats during wage bargaining by employers that they will move overseas. The result is growing inequality among Americans, with workers losing while the richest few enjoy massive gains. The pro-Fast Track Peterson Institute for International Economics estimates that as much as 39 percent of the observed growth in U.S. wage inequality is attributable to trade trends.[4] Most proponents of the NAFTA–WTO *status quo* trade model acknowledge this connection. But they argue that even so, U.S. workers win when imports produced by low-paid workers overseas increase because it means cheaper stuff for all of us. However, in fact when the actual data is plugged into the trade theory, the reality is quite different.

Now for the vast majority of Americans, the gains in lower prices from trade are being outweighed by wage losses—meaning net losses for most. When the non-partisan Center for Economic and Policy Research applied the actual data to the trade theory, they discovered that when you compare the lower prices of cheaper goods to the income lost from low-wage competition under our current policy, the trade-related losses in wages hitting the vast majority of American workers outweigh the gains in cheaper priced goods from trade. U.S. workers without college degrees (over 70 percent of us) lost an amount equal to 12.2 percent of their wages, so for a worker earning $25,000 a year, the loss would be more than $3,000 per year![5] Talk about unfair trade. We need new trade agreements and policies that guarantee that the gains from trade outweigh the losses for most Americans.

Before Fast Track we had balanced trade; since it was instituted, the U.S. trade deficit has exploded as imports surged. The pre-Fast Track period was one of balanced trade for the United States and rising living standards for most Americans. 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 Fast Track was first implemented, the United States has run a trade deficit. And since Fast Track got us into NAFTA and the WTO, the U.S. trade deficit surged from under $100 billion to nearly $800 billion—that is 6 percent of national income! This huge trade deficit is widely agreed to be unsustainable, meaning unless we implement policies to shrink that deficit, the U.S. and global economies are exposed to risk of crisis, shock and instability.

Imports ***into*** *the United States from the countries with whom the United States has FTAs are growing considerably faster than exports* ***from*** *the United States, meaning our FTAs are actually increasing the U.S. trade deficit.* USTR has claimed that U.S. exports to countries with which we have FTAs beat non-FTA exports, however to come up with the data they use to support this claim, they conveniently exclude the three FTA nations with which we have the biggest deficits: Mexico, Canada and Israel. When you put these nations back into the calculation, the U.S. annual export growth rate 2001–2006 to our FTA partners is 22.67 percent—*below U.S. exports to non-FTA nations and to the world as a whole.* In fact, the Bush Administration itself knows well that U.S. FTAs lead to growth in bilateral *trade deficits.* In an October 2006 speech to a Korean audience, Deputy USTR Karan Bhatia said that it was a myth that "The U.S. will get the bulk of the benefits of the FTA. If history is any judge, it may well not turn out to be true that the U.S. will get the bulk of the benefits, if measured by increased exports. From Chile to Singapore to Mexico, *the history of our FTAs is that bilateral trade surpluses of our trading partners go up*" [italics added].[6]



Source: Analysis of U.S. International Trade Commission numbers.

The United States has large and growing trade deficits with all of its major FTA partners and with the group of FTA nations as a whole. And in the cases of Mexico and Jordan, we went from small surpluses to large deficits. There are no tricks here: all 13 FTA nations are presented in order of accession. Since USTR didn't adjust for inflation, we didn't either. USTR included several FTA nations that haven't had a full calendar year of FTA treatment (and others like CAFTA nations whose U.S. exports temporarily crashed due to the Administration's embarrassing textile rules of origin mix-up): we give the administration benefit of the doubt and compare the full year-to-year trade balance. As you can see, the small surpluses we now (and perhaps temporarily) enjoy with the tiny CAFTA markets do not outweigh the large and growing deficits with our more important FTA partners. Numbers in italic and in parentheses represent deficits.

Table 1.—U.S. FTAs = Large and Growing Trade Deficits

Country	Entry Date	Date of Entry Trade Balance	2006 Trade Balance	$ Change from Entry to Present
Israel*	1985	*($651,386,137)*	*($11,062,816,493)*	($10,411,430,356)
Canada	1989	*($13,010,182,276)*	*($104,807,513,391)*	*($91,797,331,115)*
Mexico	1994	$530,787,754	*($82,493,273,675)*	($83,024,061,429)
Jordan	2001	$110,019,449	*($797,938,097)*	($907,957,546)
Chile	2004	*($1,771,368,610)*	*($3,330,114,125)*	($1,558,745,515)
Singapore	2004	$3,001,393,110	$4,161,051,450	$1,159,658,340
Australia	2005	$7,278,102,445	$8,592,539,836	$1,314,437,391
Morocco	2006	$49,296,037	$322,704,253	$273,408,216
CAFTA–DR:	2006			
El Salvador		($203,985,314)	$240,060,256	$444,045,570
Guatemala		($457,372,341)	$195,816,702	$653,189,043
Honduras		*($603,278,117)*	*($163,867,841)*	$439,410,276
Nicaragua		*($592,042,526)*	*($820,712,923)*	($228,670,397)
Bahrain	2006	*($119,873,998)*	*($161,641,962)*	($41,767,964)
Total FTA Deficit		....	*($190,125,706,010)*	

*Source: U.S. International Trade Commission numbers. (*Measured since 1989 due to data availability; 2006 FTAs' deficit growth measured 2006 relative to 2005.)*

Now the United States is even poised to become a net food importer! Unbelievably, due to this import surge, the United States is even becoming a net *food* importer. While U.S. farmers were told by NAFTA–WTO supporters that they would be "breadbasket to the world," nearly 300,000 family farms have been shuttered since the pacts went into effect.[7] Now we're importing massive amounts of the grains and feeds we also export, and running a deficit in most categories of foods that wind up on our dinner table, including fruits, vegetables and more.[8] We can reverse this mess, and we must to avoid major economic damage.

Over 3 million American manufacturing jobs—1 out of every 6—lost. The U.S. manufacturing sector has long been a source of innovation, productivity, growth and good jobs.[9] But by the end of 2006, the United States had only 14 million manufacturing jobs left—nearly 3 million fewer than before NAFTA and the WTO.[10] The U.S. Labor Department has a list of nearly 1.7 million U.S. workers that have specifically lost their job to trade during the NAFTA–WTO era—and that is under just one narrow program that excludes many of the trade pacts' victims.[11] Further, the non-partisan Economic Policy Institute estimates that as many as 7 million additional manufacturing jobs could have been supported in the U.S. economy were it not for this massive trade deficit caused by our bad trade policy.[12] The good news is that this outcome is neither random nor inevitable: bad policy led to bad results. We can change our trade policymaking process and get good agreements that create good jobs—and rebuild our now-dwindling ability to manufacture the products on which our Nation's very security and well-being rely.

Devastation of America's manufacturing base is eroding the tax base that supports our schools and hospitals. The erosion of our manufacturing base during the Fast Track era means fewer firms and fewer well-paid workers to contribute to local tax bases. Research has shown that the broader the manufacturing base, the wider is the local tax base and offering of social services.[13] With the loss of manufacturing, fiscal resources that could be used for social services declined,[14] while welfare enrollments increased.[15] This has resulted in the virtual collapse of some local governments.[16] These "trade" pacts also undermine our access to essential services by requiring that many services be privatized and/or deregulated so that public services are transformed into new for-profit commodities that only those who can afford to purchase can obtain.[17]

The off-shoring of American jobs is moving rapidly up the income and skills ladder. Economy.Com estimates that nearly one million U.S. jobs have been "off-shored" since early 2001 alone, with 1 in 6 of those in Information Technology, engineering, financial services and other business services.[18] Progressive Policy Institute, a pro-NAFTA–WTO think tank, found that 12 million information-based U.S. jobs—54 percent paying better than the median wage—are highly susceptible to off-shoring.[19] Independent academic studies put the number of jobs susceptible to off-shoring much higher. Alan Blinder, a former Fed vice-chair, 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 off-shored in the foreseeable future.[20] Yet, if we were to implement policies to forbid off-shoring of certain types of jobs to nations that do not provide adequate privacy protections for confidential health and financial data for example, we could have a much lower rate of job off-shoring. Europe already has this policy in place.[21]

Bad trade policy downgrades quality of U.S. jobs available. Trade affects the types and quality of jobs available—and our wage levels—not the number of total jobs. We lost millions of manufacturing jobs during NAFTA and WTO, but overall unemployment has been fairly stable as new service sector jobs were created. Proponents of the NAFTA–WTO *status quo* often raise this point to claim that recent trade policies have not hurt most American workers. But, what they do not mention is that the quality of jobs available to the majority of U.S. workers—and the wages we can earn—have all been degraded by our trade policy. For instance, the average worker displaced during this period from manufacturing went from earning $40,154 to $32,123 when re-employed.[22] The loss of workers' bargaining power caused by so many off-shored U.S. jobs—first in manufacturing, now in services too—means stagnant wages for all of us. Under NAFTA and WTO we are forced to compete in the same labor market as poor countries' less-than-$1 per day workers in a perpetual race-to-the-bottom.

2. The Results of Current U.S. Trade Policy: Increased Income Inequality in the U.S. and Worldwide

The inequality between rich and poor in America has jumped to 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. Rich Americans' share of national income was stable for the first several decades after World War II but shot up 40 percent for the richest 10 percent and 124 percent for the richest 1 percent between 1973 and 2005—the Fast Track era.[23] Nearly all economists agree that our trade policy has partially driven this widening inequality. We must replace the trade policies causing this rift. Reversing this trend is vital to the health of American democracy.

How could American workers' productivity double, but wages stay flat? Trade policy shifts during the Fast Track era also have had a *direct* impact on American workers' ability to bargain for higher wages. In the past, American workers represented by unions were able to share in the economic gains generated by productivity increases—by bargaining for their fair share. 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. And indeed, the factory shut-down rate following successful union certifications tripled since NAFTA went into effect.[24] Meanwhile, these deals forbid Federal and state governments from requiring that U.S. workers perform the jobs created by the outsourcing of government work. Such "anti-off-shoring" policies—as well as prevailing wage laws designed to ensure goods wages for construction work—are subject to challenge in foreign tribunals for violating the pacts' rules. 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.[25] We need a new way to make U.S. trade agreements that guarantees working families' get a fair shake.

The worldwide gulf between rich and poor has also widened since Fast Track. Remember all the hype about how these trade agreements would reduce poverty in the developing countries? We still hear this line today. 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 this retrograde trade model. In 1960, the 20 richest nations earned per capita incomes 16 times greater than non-oil producing, less developed countries. By 1999, the richest countries earned incomes 35 times higher, signifying a doubling of the income inequality.[26] According to one United Nations study, the richest 1 percent of the world's population receives as much as the poorest 57 percent.[27] According to another U.N. study, "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."[28] The gap is worsening over time, but a trade policy designed to benefit the majority can turn this trend around.

3. Fast Track's Legacy: Stagnant Growth, Poverty and Hunger in Poor Countries

Progress on growth and social development in poor countries slows 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. There, income per person grew by 75 percent in the 1960–1980 period, before the International Monetary Fund (IMF) 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 in Latin America 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![29] 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 1960–1980.[30] In numerous Latin American countries, people have risen up at the ballot box to elect new governments that reject these failed policies and who are implementing better alternatives—providing a hopeful example to the world.

Poverty, hunger and displacement 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 NAFTA–WTO-style policies. And the share of people living on less than $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,[31] as the IMF and World Bank and then WTO imposed this model. According to the Food and Agriculture Organization, global efforts toward reducing hunger have "stalled completely worldwide" during the WTO era.[32] During the Fast Track era, as nations have begun adopting NAFTA–WTO style policies—from Mexico[33] to China[34] and beyond—the displaced rural poor have had little choice but to immigrate to wealthy countries 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. After NAFTA, Mexican immigration to the United States jumped 60 percent after over a million *campesinos* lost their livelihoods to NAFTA-style policies.[35] Desperation and social instability is growing among many poor nations' vast rural populations. According to the Indian government, thousands of farmers bankrupted by trade policies commit suicide every year, leaving their children and families without alternate means of support.[36] Both American workers and farmers and our counterparts in poor countries are all suffering under the current trade and globalization system—united, they represent a global majority for a change of course.

Developing countries that did not adopt the package fared better. In sharp contrast, nations that chose their own economic mechanisms and policies through which to integrate into the world economy had more economic success. For instance, China, India, Malaysia, Vietnam, Chile, and Argentina since 2002, have had some of the highest growth rates in the developing world over the past two decades—despite largely ignoring the directives of the WTO, IMF or World Bank.[37] 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.[38] It is only now that many of these countries are bringing their policies down to the WTO's anti-development strictures that their economies are beginning to unravel.

4. Important Domestic Policies Have Been Undermined by "Trade" Agreements

Many people are surprised when they first learn that actual trade between countries is only one element of the policies established and enforced by NAFTA and the WTO, which also require that countries alter wide swaths of domestic non-trade policy or face sanctions. NAFTA and the WTO are dramatically different from all other trade agreements that preceded them. Traditionally, trade agreements focused on tariffs, quotas and border customs inspections. NAFTA and the WTO exploded the boundaries of what was included in trade pacts, establishing over 800 pages of non-tariff policies to which signatory countries must conform their domestic laws. Those new agreements set constraints on signatory countries' *domestic* food safety standards, environmental and product safety rules, service-sector regulation, investment and development policy, intellectual property standards, government procurement rules, tax policy and more. A key WTO and NAFTA provision specifically requires each signatory country to ensure the conformity of all of its laws, regulations and administrative procedures to the agreements' terms.[39] Other WTO and NAFTA signatory nations—and foreign investors through NAFTA and its various extensions such as the Central America Free Trade Agreement (CAFTA) and other bilateral FTAs—can challenge U.S. national or local policies before an international tribunal for failure to comply with the agreements' terms. Nations whose policies are judged not to conform to the agreements' rules are ordered to eliminate them or face permanent trade sanctions.

One commenter called NAFTA a "hunting license" for those seeking to challenge state laws in the name of "free trade."[40] Unfortunately, the evidence has borne this out, as a range of non-trade issues reserved for state and local governments—such as local prevailing wage laws and other procurement policies; state and local "Buy America" procurement policies; low-cost healthcare programs; higher education policy; and state funding for public services, the environment, and even local libraries—are now under current NAFTA or WTO jurisdiction, or are being targeted for such by trade negotiators around the globe. The U.S. State Department, lobbying about how a state law might violate WTO, pressured Maryland state legislators to drop a procurement policy aimed at promoting human rights in Nigeria. California Governor Schwarzenegger vetoed a California law requiring a portion of highway pavement to use recycled tires because this would violate trade agreement procurement rules.

The United States is the country which has faced the largest number of WTO challenges to its laws, and has lost 86 percent of such cases. The diversity of U.S. laws that have been successfully challenged using WTO or NAFTA is stunning. The United States has been ordered by a NAFTA tribunal to open its road to Mexico-domiciled trucks regardless of whether the vehicles or drivers meet U.S. safety standards. Under the WTO, U.S. tax, environmental, anti-dumping, safeguard, procurement and gambling policies have all been challenged. The United States has been the number one target of challenges at the WTO, where domestic laws are almost always ruled against in tribunal hearings. The United States' record at the WTO is also unique in that its win record for cases it has brought against other countries at WTO is lower than the average win rate, as you can see in this table.

U.S. WTO Disputes

	United States as Complainant	United States as Respondent	All Disputes (*including U.S. and non-U.S. cases*)
Complainant Win	24	43	114
Respondent Win	5	7	15
% Cases Won By Complainant	82.8%	86.0%	88.4%

The United States has lost an array of WTO attacks against domestic public interest laws, a pattern which extends to successful WTO attacks on other nations' environmental, food safety and other public interest laws. The United States weakened gasoline cleanliness standards after a successful WTO assault on Clean Air Act regulations by several countries. Even though the United States signed a global environmental treaty called the Convention on International Trade in Endangered Species, American rules requiring shrimp fishers not to kill sea turtles were diluted after a WTO challenge to U.S. Endangered Species Act regulations enforcing the treaty. The U.S. Marine Mammal Protection Act was weakened after Mexico threatened WTO action to enforce an outstanding ruling against the law under the General Agreement on Tariffs and Trade (GATT). Now the dolphin-safe label no longer means that tuna caught with dolphin-deadly encirclement nets is banned from U.S. stores, but that tuna can bear the dolphin-safe label as long as no dolphin death was observed! These are only a few of the negative results of 9 years of WTO implementation.

Non-Trade Public Interest Laws Challenged at WTO

	All Public Interest Disputes	Public Interest Disputes—U.S. as Complainant	Public Interest Disputes—U.S. as Respondent
Complainant Win	16	7	5
Respondent Win	3	2	0
% Cases Won By Complainant	84.2%	77.8%	100%

Domestic laws having nothing to do with trade have been successfully attacked, including the U.S. ban on Internet gambling. A WTO enforcement panel just ruled that the U.S. Government failed to comply with a 2005 final WTO order to change certain laws related to the U.S. ban on Internet gambling. The WTO Internet gambling ruling implicates large swaths of state and Federal gambling law unrelated to online gaming as potential trade barriers, and a follow-on WTO challenge already has been threatened by the European Union. The ruling clears the way for Antigua, which challenged the ban, to demand compensation from the United States, and if an agreeable deal cannot be struck, to impose trade sanctions. To exact compliance, Antigua could suspend benefits it extends to the United States under other WTO agreements. Antigua could, for instance, suspend its observance of copyright and patent protections required by the WTO to a degree deemed equivalent to Antigua's commercial losses from its Internet gambling operations being excluded from the U.S. market. One of the most significant consequences of the WTO's 2005 ruling is that an array of common state gambling regulations such as gambling bans, state lotteries or exclusive Indian gaming rights, which have the unintended effect of keeping out private European lotteries and casinos, were implicated as trade violations and placed in jeopardy of future challenges. In 2005, 29 state attorneys general wrote the Bush Administration seeking withdrawal of the gambling sector from WTO jurisdiction. The WTO GATS agreement allows nations to "take back" service sectors from WTO jurisdiction, but only after compensating trading partners for lost business opportunities. The Bush Administration has refused to do so.

There have been 35 WTO attacks on U.S. anti-dumping, countervailing duty, and safeguard (AD–CVD) law and the United States lost 33 of these cases.

Anti-Dumping/Countervailing Duty/Safeguards Disputes

	United States as Complainant	United States as Respondent	All AD/CVD/SG cases (*any country as Respondent*)
Complainant Win	2	33	49
Respondent Win	0	4	6
% Cases Won By Complainant	100%	89.2%	89.1%

Multi-million dollar cases against the United States are pending under NAFTA's "Chapter 11" foreign investor protection enforcement system, while the cost of successfully defending just one NAFTA Chapter 11 attack on U.S. law cost $3 million. Canadian cattle producers are using NAFTA to demand $300 million in compensation from U.S. taxpayer funds, claiming that the Canadian cattle import ban instituted after mad cow disease was found in Canada violates their NAFTA rights. A Canadian tobacco company is using the private NAFTA tribunals to attack the U.S. tobacco settlements. A California regulation requiring the backfilling of open-pit mines has been challenged by a Canadian mining enterprise, which plans to develop a giant open-pit cyanide gold mine in Imperial Valley, California, and which owns and operates similar mines around the world. These are among the 48 cases or claims filed thus far by corporate interests and investors under NAFTA's "Chapter 11" investor provisions, which grant foreign interests more expansive legal rights and privileges than those enjoyed by U.S. citizens or corporations. With only 14 of the 48 cases finalized, some $36 million in taxpayer funds have been granted to five corporations that have succeeded with their claims. These cases include successful attacks on a government's use of zoning laws and operating permits to regulate a toxic waste dump closed for contamination problems, the ban on cross-border PCB trade, the ban of a toxic chemical and logging regulations. An additional $28 billion has been claimed from investors in all three NAFTA nations. The U.S. Government's legal costs for the defense of just one recent case topped $3 million. Seven cases against the United States are currently in active arbitration.

Imports of food into the United States have soared under the WTO and NAFTA while inspection has declined and "equivalence" rules requires us to accept food that does not meet our standards. The WTO and NAFTA have resulted in a dramatic increase of dangerous food being imported into the United States.[41] The rules of these agreements have also greatly restricted the United States' ability to protect the public from unsafe food. Imported food is more than three times more likely to be contaminated with illegal pesticide residues than U.S.-grown food, according to new analysis of FDA data. Meanwhile U.S. food imports have skyrocketed, U.S. inspections of imported food have declined significantly.[42] Imports of Mexican crops documented by the U.S. Government to be at a high risk of pesticide contamination have dramatically increased under NAFTA, while inspection has decreased. Approximately 74 U.S. import inspectors are responsible for inspecting nearly 2.4 billion pounds of imported meat and poultry. Food-borne illness is on the rise globally and in the United States due in part to the "globalization" of the food supply. NAFTA and WTO require the United States to accept imports of food meeting "equivalent" but no U.S. safety standards. For instance, the Uruguay Round Agreements Act made statutory changes to the Federal Meat Inspections Act and the Poultry Products Inspection Act that in 1995 resulted in a minor, seemingly insignificant change to the U.S. meat and poultry regulations, when the words "equal to" were replaced with the word "equivalent"—a statutory change in the trade implementing legislation that was then used to change the regulations applying to imported meat.[43] Under the trade agreement-required new rules, more than 40 nations' meat inspection systems have been declared equivalent and imports are now allowed and obtain USDA labels, even though some of this imported food is inspected by company employees, not independent government inspectors as required under U.S. law.[44]

Conclusion: Replace the Past Track With a Good Process to Change Course from Our Failed *Status Quo* Trade Policies

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 non-trade 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.

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 OKs hundreds of changes to wide swaths of U.S. non-trade 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? 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 non-trade policy changes were bundled in with legitimate trade provisions.

Federalism is also flattened by Fast Track. In a form of international pre-emption, state officials also must conform our local laws to hundreds of pages of non-trade 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.

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.

Fast Track must be replaced so that we can steer a new course on trade policy. 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.

Endnotes

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Senator DORGAN. Ms. Wallach, thank you very much for your testimony. Next we will hear from John Johnston, who is a Founding Partner at Modern Metal Cutting, an Akron, Ohio company that offers precision cutting and machining of steel products. He is also a Member of the U.S. Business and Industry Council, an organization that advocates for fair trade policies. Mr. Johnston, welcome. Thank you for traveling to this hearing. You may proceed.

STATEMENT OF JOHN JOHNSTON, PARTNER, MODERN METAL CUTTING, LLC

Mr. JOHNSTON. Good morning, Mr. Chairman, and members of the Committee and thank you for the opportunity to testify on the vital question, is free trade working? The short answer is no and I'll explain why in a minute.

My name is John Johnston and I've been involved in manufacturing in Ohio for 16 years. My company, Modern Metal Cutting, offers precision cutting and machining of tubes and other special shapes. I am active in several regional and national manufacturing organizations, including an Akron organization of small companies that do precision metalworking.

I also sit on an organization, NEOCAM and from that vantage point, I can tell you that Northeast Ohio has been hit especially hard over the last two decades. Anyone who takes the short ride into downtown Cleveland from the airport and sees the abandoned factories knows something has gone wrong and in the rest of the industrial heartland of our country as well.

I've been committed to strengthening manufacturing in my home region and state and in the Nation at large all my adult life, but it seems to me that domestic manufacturers face a stacked deck. We face predatory foreign competition that U.S. trade policy has failed to address in a meaningful way. As a consequence, a major overhaul of U.S. trade policy is needed.

Has free trade worked for Ohio and for Ohio manufacturing? For me, the answer is clearly no. From 1997 to 2004, goods production in our manufacturing-heavy state dropped nearly 9 percent in real terms, the worst absolute performance in the country and the fourth worst in percentage terms. Between 1997 and 2006, Ohio lost more than 22 percent of its total manufacturing jobs and nearly 25 percent of its jobs in durable goods industries. Wages in the state's goods producing sector fell 15.7 percent from 1997 through 2005, the worst performance in America.

Why do I blame ineffective U.S. trade policies for these problems? When I look at the recent trade performance of some of the manufacturing sectors that are among Ohio's largest, it is difficult to ignore the very strong connection.

For example, between 1997 and 2006, the U.S. trade deficit for durable goods industries increased by nearly 260 percent and transportation equipment grew by nearly 155 percent and fabricated metals, where I work, grew by a factor of 10. In non-electrical machinery, America ran a surplus of $14.4 billion in 1997. By last year, that had turned into a deficit of just less than $12 billion.

The U.S. Business and Industry Council calculates that in the past 10 years, 96 percent of our Nation's key manufacturing sectors lost shares of their own home U.S. market. In dozens of cases, imports now control more than half of the U.S. market and among the biggest losers are high tech sectors such as aircraft engines and parts as well as machine tools of any kind, also in power generation equipment. These sectors represent the heart of any industrial economy in the 21st century and their loss points to some of the key problems caused by our misguided trade policies.

As a businessman, I can't help but be worried by these trends. With our mammoth trade deficit, the United States is buying far more from the rest of the world than what we are selling; and I have a hard time believing the rest of the world is going to continue to fund this over-consumption.

I also keep hearing and reading that I shouldn't be concerned about the loss of U.S. manufacturing jobs because it's a sign of soaring productivity. Frankly, I don't see any correlation between productivity gains and loss of factories and jobs. Some of our best-run companies are now going to disappear.

So how exactly has trade policy contributed to these problems? Two points—the first being, foreign governments intervene in trade flows all the time in different ways and for their own benefit. They erect tariff and non-tariff barriers to protect their own industries. They heavily subsidize producers on their home soil, including with value-added tax rebates on exports. They manipulate the exchange rates of their currency. They steal intellectual property and they dump products into our market below the cost of what it is to produce it in their own market.

These trade practices represent the way business is done all around the world with one exception—the United States. And yet, U.S. trade policy, for far too long, has aimed at opening our home market to exactly these types of producers even as they cheat against us in all the ways I've just described to you.

Second, our trade deals keep picking the wrong target countries. We sign trade agreements with developing counties that simply cannot afford our exports. Bilateral trade agreements with small, impoverished economies, do very little to enhance U.S. manufacturing exports. If the main purpose of U.S. trade policy is to create more business for domestic companies and enhance the standard of living of the employees, then our aim has been completely cockeyed.

It's gratifying to see the new and innovative approach that the 110th Congress is taking on trade policy. I am very pleased, Mr. Chairman, that you have introduced legislation to bring our imports and exports into line with an auction quota system. Enhancing workers' rights and environmental protection around the globe are all worthy objectives for trade policy though it is important that the Congress hold firm to its principles in any negotiation on these issues with the Bush Administration.

These are all worthy goals and yet they are not sufficient to aid domestic manufacturers and other producers that create jobs and wealth and to accomplish that, there must be trade flows that must change dramatically and significantly and now.

Here is what I believe is really needed. First, a moratorium on the signing of any new trade agreements until major pro-domestic producer and worker trade strategies are identified and put in place. Congress might consider appointing a broad-based national commission to carry out this mission.

Second, Congress should reject new Fast Track authority until we have in place trade policies that stop the erosion of our national industrial base.

Third, we need specific legislation such as the Ryan-Hunter currency manipulation bill. And further, a border equalization tax to address the unfair advantage caused by the rebate of VAT taxes in over 150 of our trading partners.

Institute major legislation to begin to reduce the trade deficit. The approach could be an import quota, an auction system, as recommended by Chairman Dorgan or it could be a trade balancing temporary import surcharge as proposed by Representative Mike Michaud. These approaches, both of which could be designed to be consistent with WTO rules, would rapidly get the trade deficit under control. In addition, they would save the world trade system as a whole, which is dangerously out of balance today.

I've listed more detailed recommendations in my written testimony but these would be an important start. Their passage would go a long way toward allowing domestic businesses a chance to compete on a fair and equal basis with our foreign counterparts.

I thank you for the consideration of my views. I look forward to answering any questions that you may have.

[The prepared statement of Mr. Johnston follows:]

PREPARED STATEMENT OF JOHN JOHNSTON, PARTNER, MODERN METAL CUTTING, LLC

Good morning, Mr. Chairman, and Members of the Committee, and thank you for the opportunity to testify on the vital question "Is 'Free Trade' Working?" The short answer is "no" and I'll explain why in a minute.

My name is John Johnston, and I have been involved in manufacturing in Ohio for 16 years. Two years ago, I helped to found a new metal services venture called Modern Metal Cutting, which offers our customers precision cutting and machining of tubes and other metal shapes.

I have also been active in several regional and national manufacturing organizations. Since 1997, I have been a Board member of the Summit County Machine Shop Group, an Akron-area organization of small companies in the precision metalworking sector. These firms, generally family-held for generations, specialize in quickly turning around constantly changing small orders of highly customized parts and components of larger industrial products. From 2001 to 2006, I served as the organization's president.

In addition, I sit on the Steering Committee of the Northeast Ohio Campaign for American Manufacturing or NEOCAM. NEOCAM is a regional coalition formed to promote awareness of domestic manufacturing's importance, and to improve its competitiveness. Northeast Ohio has been hit especially hard over the last two decades by trade policies that allow our foreign competitors to take advantage of unfair government programs designed to boost manufacturing—and our government does nothing in response. Anyone who makes the short ride into downtown Cleveland from the airport—and sees the abandoned factories—knows something went very wrong in Northeast Ohio—and the rest of the industrial heartland.

In recent years I have been pleased to work with the U.S. Business and Industry Council. This national business organization is composed of 1,500 member companies that are mainly smaller, family-held domestic manufacturers. For decades, its Washington advocacy efforts have focused on ensuring that national-level domestic and international policies preserve and strengthen industry in the United States. They supply the national and international political perspective that is often lacking in our local organizations.

In sum, I have been committed to strengthening manufacturing in my home region and state, and in the Nation at large, all my adult life. I want to believe strongly in its future. In fact, I've got my money on it. But I also want to make very clear that my commitment—and those of thousands of other manufacturers like me—alone is not enough. No matter how hard we try, we can't win in a policy environment stacked against us. Our efforts can still be defeated by unwise Federal policies—especially unwise trade policies.

Because I have been very deeply involved in sales and marketing, I have visited companies throughout the Midwest. I know firsthand that in the globalized American economy many of these firms have had to continually reinvent themselves with new technologies, new management techniques and new business models. Many of these dynamic businesses have been very successful; others have not.

My hometown and region also understand that local and state government policies can be crucial to the health of their manufacturing bases. Our recent economic difficulties have sparked a major burst of community development initiatives and coalition-building involving business, the public sector, and the nonprofit sector. Manufacturers in Ohio, and particularly northern Ohio, know that they need to be proactive doers and big-picture thinkers. We are not sitting around idly waiting for protection.

Nevertheless, our efforts must be complemented with major changes at the Federal level, and nothing is more essential than an overhaul of Washington's approach to a broad range of international trade-related issues. The U.S. role in the global economy is Washington's responsibility—especially because we live in a world in which foreign governments fight hard for the interests of their businesses and have no reluctance to use all the resources and influence at their disposal to get this job done. Indeed, under the Constitution, the right to regulate foreign commerce rests with the Congress. Thank you for taking that responsibility seriously at this Committee.

The needed overhaul of U.S. trade policy has to reflect the interests of domestic businesses, which are too often absent from policy deliberations in Washington, D.C. If new U.S. trade policies don't actually change trade flows by changing the conditions companies like mine face both at home and abroad, they won't bring us a dime's worth of new business, they won't create or preserve a single new American job, and they won't raise the wages or benefits of a single American worker.

Has "free trade" worked for Ohio and for Ohio manufacturing? It's impossible to look at my state's economy and say "Yes." The latest Census data tell us that, as of 2004, Ohio was the Nation's third largest producer of goods. But in the 7 years prior to 2004, goods production in our manufacturing-heavy state dropped nearly 9 percent in real terms—the worst performance in the country and the fourth worst in percentage terms.

Between 1997 and 2006, Ohio lost more than 22 percent of its total manufacturing jobs and nearly 25 percent of its jobs in durable goods industries. The latter still account for nearly 70 percent of the state's manufacturing employment, and they pay among the state's best wages—as they do nationwide. That's surely why wages in the state's goods-producing sector overall—which paid more than 24 percent better than the service sector according to the latest figures—fell 15.7 percent from 1997 to 2005—the worst performance in America.

Why do I blame ineffective U.S. trade policies? Clearly, they're not the only factor. But I look at the recent trade performance of some of the manufacturing sectors that are among Ohio's biggest, and it's difficult to ignore the very strong connection. For example, between 1997 and last year, the U.S. trade deficit for durable goods industries increased by nearly 260 percent. In transportation equipment, it grew by nearly 155 percent. In fabricated metals—my sector—it exploded by more than a factor of 10. In non-electrical machinery, America ran a surplus of $14.4 billion in 1997. By last year, that had turned into a deficit of $11.9 billion.

The net effect of these figures means fewer opportunities for sales abroad and often reduced sales at home. An even clearer picture of the damage comes from research on import penetration in U.S. manufacturing industries that has been published in recent years by the U.S. Business and Industry Council. Import penetration is an economist's way of saying how much of the U.S. home market is being taken away from domestic manufacturers and captured by foreign imports.

The Council has looked at how much of the U.S. market has been won by imports over the last 10 years in over 100 categories. It's not a pretty picture.

An astonishing 96 percent of these sectors—which are all capital- and technology-intensive industries—lost U.S. market share to imports during this period. That's the market they're supposed to know best. That's the market where they face no trade barriers. In literally dozens of cases, import penetration at least doubled. In dozens of cases, moreover, imports now control more than half of the U.S. market. Among the biggest so-called "loser industries" are sectors such as aircraft engines and parts, machine tools of all kinds, and power generation equipment.

These sectors represent the heart of the industrial economy of any high-income country in the 21st century. They generate disproportionately large gains in productivity, and technological advance. They employ most of our country's knowledge workers. And they, of course, pay the best wages in the entire economy. A country that loses its dominance in these industries is like an athletic team that sits back and watches its star players bought by rival teams willing to offer better packages and conditions. The U.S. is also going to be a country that will face major struggles to remain an economic and military superpower.

These points describe some of the microeconomic problems caused by our trade policies. But we should not forget the macroeconomic threats. As a businessman, I can't help but be worried by the American economy's rapid accumulation of titanic debts—so much of them resulting from decades of buying from the rest of the world much more than we sell.

I have a hard time believing that the rest of the world is going to continue funding our over-consumption—especially as we become ever less creditworthy, at least by normal financial standards. I would feel a lot better about the prospects for my business and my industry—and the Nation at large—if I didn't know that the dollar could easily collapse if just a few foreign central banks started hedging their bets and reducing their dollar holdings.

I really hope that we can avoid the kind of worldwide economic meltdown that would result. Like most of you I suspect, I am puzzled as to how long the Nation can keep tempting fate.

I also keep hearing and reading that I shouldn't be concerned about the loss of U.S. manufacturing jobs because it's a sign of soaring productivity. I don't see any correlation between productivity gains and the loss of factories and jobs. Some of our best-run companies are now starting to disappear.

And as a businessman, I find myself wondering exactly who is going to buy most of the products that the world's factories keep turning out, if not the American consumer? Unless we keep going deeper into debt, how can we as a nation keep up the pace if high-paying manufacturing jobs keep getting replaced by much lower-paying service jobs?

Are the American customers for the products I help make really going to be replaced by Chinese or Indian customers—on anything close to a one-for-one basis? And if so, with trade deficits continually rising at this point, how long is this going to take?

But how exactly has trade policy contributed to these problems? I'd like to focus on two features of this policy. First, as I indicated before, foreign governments intervene in trade flows all the time, in countless ways. They erect tariff and non-tariff barriers to protect their own industries. They heavily subsidize producers on their home soil, including with Value-Added Tax rebates on exports that have grown in recent decades as tariffs have been cut. They manipulate their exchange rates. They steal intellectual property. And they dump products in our market at below the cost of production in their home market.

What's most important to understand, however, is that our trade problems are not limited to one high-profile sector—like steel. And they aren't limited to one problem country—like China. Increasingly, these practices represent the way business is done all around the world, throughout the manufacturing sector, with one major exception—the United States. And what our trade policy has done for way too long has been to open our market wide to producers enjoying these advantages—which of course include multinational companies that produce overseas—and then tell our domestic firms, which manufacture and create economic benefits here: "You're on your own. Lots of luck."

Second, recent Presidents and their trade negotiators keep picking the wrong target countries to sign trade deals with, at least from the standpoint of strengthening manufacturing at home. Just think of the countries and regions that have dominated U.S. trade diplomacy for nearly 20 years—where we've signed the most deals: Mexico, China, The Caribbean Basin, Central America, Sub-Saharan Africa, Jordan, and more recently, Panama, Colombia, and Peru. Even the current Doha Round of world trade talks aims explicitly at delivering most of the benefits of expanded, freed-up trade to developing countries.

Signing trade deals with these countries and regions may be justified—if the main purpose of trade policy is to create new opportunities for foreign workers and companies. Or if the main purpose is bolstering U.S. national security and fighting global terrorism by aiding populations that might be receptive to the pitch of violent extremists. (Incidentally, both of the above assumptions are open to serious questioning.) However, if the central goals of U.S. trade policy are creating more export opportunities for domestic companies and raising the standard of living of their employees, then our aim is completely cockeyed.

In fact, one of my own Senators, Sherrod Brown, has come up with the most convincing explanation for this set of trade deal targets. As he points out in the case of China, when American multinational companies look at the People's Republic, they don't mainly see a billion potential new customers. They see a billion potential new workers. And by extension, the main markets that the U.S. multinationals want to export product to are not abroad. They're at home.

So I agree with those who argue that it's completely misleading even to describe most recent trade agreements as free trade agreements—because the aim can't be to create sustainable two-way flows of business. Our target countries are either too small or too poor or too deeply in debt or too protectionist and export-oriented to become big new consumers of American-made products for the foreseeable future.

But they have tremendous capability and potential to supply the U.S. market—especially when our multinational companies provide them with the world's most advanced production technologies and equally advanced management techniques. As a result, it's best to describe these deals as outsourcing or offshoring agreements. Their main purpose is not to expand the worldwide sales of domestic American producers. Instead, it's to help multinational companies serve the U.S. market from very low-cost, regulation-free production platforms abroad.

Trade deals such as these—signed with regions with vastly more export than import potential—can't help but tremendously boost the U.S. trade deficit. And they can't help but place domestic producers under ever more pressure—pressure that often has little or nothing to do with free market forces—much less "free trade."

What should Congress do about this? I worded this question deliberately—because the ball is squarely in Congress' court. After more than 6 years under the current administration, it is clear that the White House thinks that "more of the same" trade policies will somehow produce different results. Thus the Administration can't be counted on to be part of the solution.

As a result, it's gratifying to see so many Senators and Members of Congress these days vigorously discussing the need to make big changes in U.S. trade policy. I am very pleased, Mr. Chairman, that you have introduced legislation to bring our imports and exports into line with an auction quota system—an ambitious, sweeping plan that acknowledges implicitly that piecemeal solutions to these trade problems will never suffice. I was also very pleased by the emphasis that the Senate and House Democratic freshmen have recently placed on new trade policies that reflect the needs of domestic businesses.

Enhancing worker rights and environmental protections around the globe are worthy and appropriate objectives for trade policy. Mr. Chairman, your leadership on these issues is greatly appreciated. It is important that the Congress hold firm in current negotiations with the Bush Administration requiring strong and enforceable protections for workers and for the environment in new trade agreements.

Yet from the perspective of domestic companies and industries—the ones that actually generate jobs and wealth and income here at home—these issues cannot be the main focus of changing current trade policy. Leveling the playing field for companies such as mine by changing the trade flows so that we turn the corner and begin to eliminate the trade deficit needs to be the central policy objective.

What else is needed to assist the domestic manufacturers—and service providers and farmers and ranchers—that make up the vital productive side of our economy?

It's obvious that the first step is to stop doing harm. The trade agreements that the United States negotiates and signs no longer promote more production and employment at home than they send abroad. We as a nation urgently need to figure out how to do trade policy right again. As a result, I recommend that there be a moratorium on all new trade agreements until major, pro-domestic producer and worker trade strategies are identified and put in place. Congress might consider appointing a broad-based national commission to carry out this mission.

For similar reasons, Congress should reject new Fast Track authority for the Executive—until we have in place trade policies that stop the hemorrhaging of manufacturing plants, R&D facilities, and the high-paying/good benefit jobs associated with them. Nationally, since 2001, we have lost more than three million manufacturing jobs. Stemming this erosion of jobs, skills, and our industrial base ought to be the first objective of any new national trade policy.

In addition, Congress should:

- Swiftly pass the Ryan-Hunter currency manipulation bill—which already enjoys wide, bipartisan support. This legislation would allow trade remedy law action against foreign government manipulation of currency that is designed to keep their values artificially low.
- Address the unfair advantage caused by the rebate of VAT taxes by over 150 of our trading partners. To do so, Congress must pass a border equalization tax. This tax would apply to foreign goods from VAT countries coming into our market. They would be taxed at the same amount as the rebate they received upon leaving the foreign country. We should then use the proceeds to pay the VAT tax faced by American exports entering foreign markets. This step would go far toward creating a fair and level playing field for U.S. goods and services.
- Institute major legislation to begin to reduce the trade deficit. The approach could be an import quota and auction system as recommended by Chairman Dorgan or it could be a trade-balancing, temporary import surcharge as proposed by Rep. Mike Michaud. These approaches, both of which could be designed to be consistent with WTO rules, would rapidly get the trade deficit under control. In addition, they would save the world trade system as a whole, which is dangerously out of balance today. Countries cannot get rich by exporting over-production to the Untied States indefinitely.

Many other things need to be done, not only in trade policy, but in related tax and regulatory policies. These measures that I have just highlighted, however, represent an essential starting point. Their passage would put the Congress strongly on record in support of a program that supports domestic manufacturers and their employees.

If these measurers were turned into U.S. policy, they would go a long way to allowing domestic businesses the chance to compete on a fair and equal basis with their foreign counterparts.

Thank you for your consideration of my views. I look forward to answering any questions that you might have.

Senator DORGAN. Mr. Johnston, thank you very much. Next we'll hear from Christopher Wenk, a Senior Director for International Policy at the U.S. Chamber of Commerce. Mr. Wenk, thank you.

STATEMENT OF CHRISTOPHER WENK, SENIOR DIRECTOR, INTERNATIONAL POLICY, U.S. CHAMBER OF COMMERCE

Mr. WENK. Good morning. Chairman Dorgan, Ranking Member DeMint, thank you for inviting the U.S. Chamber of Commerce to testify today at this hearing on current U.S. trade policy. My name is Christopher Wenk and I serve as the Senior Director for International Policy at the U.S. Chamber, the world's largest business federation.

Without question, free trade has been one of the cornerstones of our economic successes as a nation. Is free trade working, you ask? Absolutely.

Let's consider the following facts. America's international trade in goods and services accounts for roughly 27 percent of our country's GDP. Nationwide, our exports directly support 12 million good paying jobs and indirectly support millions of other jobs. Imports keep inflation low and expand consumer choice and quality.

More than 57 million Americans are employed by businesses that engage in international trade and the benefits reach every state in the Nation, including South Carolina and North Dakota. The combined benefits of NAFTA and the Uruguay Round Trade Agreement that created the WTO have increased U.S. national income by $40 to $60 billion a year. The combined effects of trade agreements over the past half-century have raised the annual income of the American household by $10,000. About 97 percent of U.S. exporters are small or medium sized companies, which create three out of four new jobs.

Having said all of the above, it is also important to highlight a fact that is surely not well known by members of this Committee and everyday Americans. The U.S. market is already very open. Seventy percent of our imports face no barriers whatsoever and the average U.S. tariff on remaining imports is very low, at less than 2 percent.

The Chamber believes that the time has come for foreign countries to cut their barriers down to match our already low level. That's why we support trade liberalization, both multilaterally and bilaterally.

Because our market is so open, free trade agreements negotiated by the United States truly do level the playing field for farmers, ranchers, manufacturers, service providers, and workers. For example, over the 12 years since implementation of NAFTA, U.S. exports to Canada and Mexico have surged by well over $200 billion, sustaining literally millions of new jobs and businesses. Since the U.S.-Chile FTA was implemented on January 1, 2004, it immediately began to pay dividends. In fact, U.S. exports to Chile nearly doubled in its first 2 years.

The U.S. trade surplus with Singapore nearly quadrupled over the first 2 years of implementation of that FTA. In the first year of the U.S.-Australia free trade agreement, U.S. exports to Australia grew by $1.6 billion, helping the United States maintain an $8.4 billion goods trade surplus.

In 2006, U.S. exports to Central America and the Dominion Republic rose by an impressive 16 percent. The U.S. recorded a trade surplus of $1 billion with these countries in 2006, compared with a deficit of $1.6 billion in 2005.

Today, just under half of American exports go to markets where they enter duty free, thanks to these FTAs. In fact, our exports to FTA partners are growing twice as fast as our exports to the rest of the world. Further, the Chamber supports prompt Congressional action on the FTAs recently concluded with Peru, Columbia, Panama and Korea, pending a successful conclusion to the ongoing negotiations between the Hill and the Administration.

In a little more than 60 days, the President's trade negotiating authority will expire. Renewal of this authority is critical to enable the United States to continue having a seat at the table negotiating world buy markets. Without this authority, the United States will be left on the sidelines as other nations negotiate bilateral and regional trade deals without us, as happened after TPA lapsed in 1994. Without it, no foreign government will engage in serious trade negotiations with the United States and the Doha Development Agenda will not be able to unleash its true potential. Failure to renew the President's trade negotiating authority would deny U.S. trade negotiators a vital tool and risk letting America fall behind in the global economy.

Regardless of who wins the 2008 elections, the next President should have the authority to negotiate market opening trade deals in consultation with Congress.

The opportunities trade presents are clear but there are challenges as well. In recent years, Congress has engaged in a dialogue about how to ensure that U.S. workers and workers in developing countries could benefit from increased trade investment flows. The U.S. business community encourages these discussions as well as efforts to provide American workers with the tools they need to raise their productivity.

We welcome new ideas on ways to improve the Trade Adjustment Assistance Program and we hope that Congress will also consider new programs that will assist American workers.

If U.S. companies, workers and consumers are to thrive amidst rising competition, new trade agreements such as the Doha Round and the various FTAs I cited before are absolutely critical.

I would leave you with some interesting remarks that Treasury Secretary Hank Paulson gave to the Economic Club of Washington recently on the subject of trade—the case for trade is clear and compelling and if we want more people to support it, we need to ease anxieties and help more people realize the benefits of trade. The alternative, raising protectionist barriers and isolating ourselves from the gains of trade would hurt the economy. The long-term costs of protectionism, for us and the rest of the world is lost jobs and lost opportunity. Thank you.

[The prepared statement of Mr. Wenk follows.]

PREPARED STATEMENT OF CHRISTOPHER WENK, SENIOR DIRECTOR, INTERNATIONAL POLICY, U.S. CHAMBER OF COMMERCE

On behalf of the U.S. Chamber of Commerce, I am pleased to appear before the Senate Commerce Subcommittee on Interstate Commerce, Trade and Tourism to provide testimony on how trade is working for the U.S. economy. International trade plays a vital part in the expansion of economic opportunities for American workers, farmers, and businesses. As the world's largest business federation—representing more than three million businesses and organizations of every size, sector, and region—the U.S. Chamber views efforts to expand trade opportunities as squarely in the interests of America's workers, farmers, consumers, and companies.

As such, the Chamber has helped lead the business community's effort to make the case for initiatives to expand trade, including global trade negotiating rounds under the purview of the World Trade Organization (WTO) and its predecessor, the General Agreement on Tariffs and Trade, as well as bilateral and regional free trade agreements (FTAs). The Chamber does so because U.S. businesses have the expertise and resources to compete globally—if they are allowed to do so on equal terms with our competitors.

Trade, Growth, and Prosperity

The facts show that while some are hurt—and should be helped—the overwhelming majority of Americans derive great benefits from international trade and investment. America's international trade in goods and services accounts for roughly 27 percent of the country's GDP. As the Office of the U.S. Trade Representative has pointed out, the combined effects of the North American Free Trade Agreement (NAFTA) and the Uruguay Round trade agreement that created the WTO have increased U.S. national income by $40 billion to $60 billion a year. In addition, the lower prices for imported goods generated by these two agreements mean that the average American family of four has gained between $1,000 and $1,300 in spending power—an impressive tax cut, indeed.

When Trade Promotion Authority (TPA) lapsed in 1994, the international trade agenda lost momentum. The Uruguay Round was implemented, but no new round of global trade negotiations was launched as the 1990s wore on. Moreover, the United States was compelled to sit on the sidelines while other countries and trade blocs negotiated numerous preferential trade agreements that put American companies at a competitive disadvantage.

As the Chamber pointed out during its 2001–2002 advocacy campaign for approval of TPA, the United States was party to just three of the roughly 150 FTAs in force between nations at that time. Since then, the United States has approved FTAs with an additional dozen countries, and they are bringing substantial economic benefits. Today, just under half (43 percent) of American exports go to markets where they enter duty free thanks to these FTAs. Only a third of U.S. exports enjoyed this advantage back in 1994, the year NAFTA came into force. With sales to our newest FTA partners growing twice as fast as U.S. export growth to the rest of the world; it's no surprise that U.S. exporters are enjoying robust growth.

Free Trade Agreements

As noted above, the United States is an extraordinarily open economy. Consider how U.S. tariffs compare with those of countries where FTA negotiations have recently been concluded or are underway. According to the World Bank, the United States has a weighted average tariff rate of less than 2 percent. By contrast, the weighted average tariff on U.S. manufactured goods falls in the 10–11 percent range in Colombia, Korea, and Peru.

An academic observer may regard the price disadvantage that falls to U.S. companies from these lopsided tariffs as insignificant. However, business men and women face narrower margins than these every day, very often with the success or failure of their firm on the line, so these tariffs can prove decisive. Best of all, a free trade agreement can fix this imbalance once and for all.

The way FTAs level the playing field for U.S. workers, farmers, and business is borne out in the results attained by America's FTAs. For example, the U.S.-Chile FTA was implemented on January 1, 2004, and immediately began to pay dividends for American businesses and farmers. U.S. exports to Chile surged by 33 percent in 2004, and by a blistering 85 percent in 2005. In fact, U.S. exports to Chile nearly doubled in the first 2 years of the agreement's implementation.

Other recent FTAs have borne similar fruits. Trade with Jordan has risen fourfold since the U.S.-Jordan FTA was signed in 2000, fostering the creation of tens of thousands of jobs in a country that is a close ally of the United States. The U.S. trade surplus with Singapore nearly quadrupled over the first 2 years of implementation of the U.S.-Singapore FTA (2004–2005). And over the 12 years since implementation of the North American Free Trade Agreement (NAFTA), by far the largest and most important of these agreements, U.S. exports to Canada and Mexico have surged by well over $200 billion (to a total of approximately $375 billion in 2006), sustaining literally millions of new jobs and businesses.

One of the most compelling rationales for these FTAs is the benefit they afford America's smaller companies. The following table reveals how America's small and medium-sized companies are leading the charge into foreign markets, accounting for more than three-quarters of exporting firms to these three selected markets (one a market where an FTA was recently approved, the second where FTA negotiations were recently concluded, and the third where an FTA has just been proposed). As a corollary, it suggests how smaller businesses stand to gain disproportionately from the market-opening measures of a FTA:

Market	No. of U.S. companies exporting to the market	No. of U.S. SMEs exporting to the market	No. of U.S. SMEs as a percentage of exporters
DR–CAFTA countries	16,640	14,693	88
Peru	5,519	4,403	79
Korea	18,339	16,237	88

Source: U.S. Department of Commerce, 2004 data (latest available).

Beyond the highly successful track record of America's FTAs as measured in terms of new commerce, the Chamber and its members also support FTAs because they promote the rule of law in emerging markets around the globe. This is accomplished through the creation of a more transparent rules-based business environment. For example, FTAs include provisions to guarantee transparency in government procurement, with competitive bidding for contracts and extensive information made available on the Internet—not just to well-connected insiders.

FTAs also create a level playing field in the regulatory environment for services, including telecoms, insurance, and express shipments. In addition, recent FTAs have strengthened legal protections for intellectual property rights in the region, as well as the actual enforcement of these rights.

Following are observations on some of the trade agreements that have been in the headlines lately:

Peru, Colombia, Panama: Negotiations for the Peru Trade Promotion Agreement were concluded in December 2005, and a similar agreement was reached with Colombia a few months later. In December 2006, the U.S. and Panamanian governments announced they had completed negotiations on a Trade Promotion Agreement "with the understanding that it is subject to further discussions regarding labor," according to the Office of the U.S. Trade Representative.

U.S. trade with Peru, Colombia, and Panama has nearly doubled since 2000, and U.S. commerce with the three countries last year totaled $8 billion, $15 billion, and $3 billion, respectively. These are ambitious and comprehensive agreements. Eighty percent of U.S. consumer and industrial products and a majority of the most competitive U.S. farm exports will enter these markets duty-free immediately upon implementation of the agreements.

U.S. investors in these countries also regard the Trade Promotion Agreements as a helping hand for close allies. As described above, the agreements will lend support for the rule of law, investor protections, internationally recognized workers' rights, and transparency and accountability in business and government.

The agreements' strong intellectual property and related enforcement provisions against trafficking in counterfeit or pirated products will help combat organized crime. The agreements will promote economic growth, lending strength to the regional economy and providing local citizens with long-term alternatives to narcotics trafficking or illegal migration.

The Chamber is serving as Secretariat of the Latin America Trade Coalition, a broad-based group of U.S. companies, farmers, and business organizations advocating for approval of the three Trade Promotion Agreements.

Korea: The Chamber also strongly supports the recently concluded U.S.-Korea FTA, which is the most commercially significant FTA the United States has entered into since NAFTA. In 2006, Korea was the United States' seventh-largest U.S. trading partner, seventh-largest export market, and its sixth-largest agricultural market overseas. U.S. goods exports to Korea totaled $32.5 billion last year, an increase of 17 percent over the previous year, and U.S. services exports to Korea reached $10.2 billion in 2005. The United States is the largest investor in Korea and is Korea's second-largest market.

While we look forward to reviewing the text of the U.S.-Korea FTA as it becomes available, we have been briefed on its substance and believe that the agreement achieves most of the business community's key objectives. Under the agreement, 95 percent of trade in consumer and industrial products and more than half of current U.S. agricultural exports to Korea will become duty free upon implementation of the agreement. This agreement will eliminate significant non-tariff market access barriers in Korea to U.S. goods, services, and investment, and it includes robust provisions on transparency, intellectual property rights, competition, and other rules that will protect U.S. interests. Moreover, the agreement would also strengthen the important political relationship and alliance between the United States and Korea, further contributing to security and stability in the Asia-Pacific region.

The Chamber-administered U.S.-Korea Business Council is serving as Secretariat of the U.S.-Korea FTA Business Coalition. This coalition already embraces over 200 leading U.S. companies and business associations that strongly support the conclusion and passage of a U.S.-Korea FTA to advance the interests of the U.S. business community and promote further bilateral trade and investment.

Malaysia: When U.S. and Malaysian officials announced in March 2006 that the two countries would undertake negotiations for a FTA, the initiative won immediate broad support. Malaysia is the largest U.S. trading partner in Southeast Asia and the 10th largest U.S. trading partner in the world. Two-way trade between the countries in 2005 surpassed $44 billion. The United States is Malaysia's largest export market, purchasing more than 20 percent of Malaysia's exports, and the sum of U.S. direct investments in Malaysia surpasses that of any other country. Unfortunately, this agreement will not be concluded under the current Trade Promotion Authority (TPA).

The Doha Development Agenda

While the FTAs the United States has negotiated represent an ambitious and comprehensive way to open markets one country or region at a time, the Doha Development Agenda (DDA)—the global trade negotiations currently being conducted under the aegis of the World Trade Organization—offers the remarkably broad opportunity to lower barriers to trade globally. By leveraging both the breadth of the DDA and the depth of FTAs, U.S. business can attain important new market opportunities in the years ahead.

In essence, the DDA represents a unique opportunity to unlock the world's economic potential and inject new vibrancy in the global trading system by reducing barriers to trade and investment throughout the world. The round was launched on the premise that both developed and developing nations alike share in the economic gains resulting from global trade liberalization, particularly by addressing unfinished business in the agricultural sector.

Ambition is the key to the DDA's success. As one of the most open economies in the world, the United States must be ambitious in its approach to liberalization of trade in manufactured goods, services, and agricultural products if we are to convince our more reluctant trading partners to share our goals. Of course, we cannot lead alone. The European Union and the G20, in particular, need to demonstrate that they, too, are committed to the success of the DDA and willing to make the concessions necessary for a balanced result that can win the support of all WTO member countries.

The Chamber and its member companies are working with the Administration, Congress, and their counterparts around the world to ensure that the negotiations advance. On October 25, 2005, the Chamber, in partnership with other leading U.S. business organizations and a broad range of companies and agricultural groups, launched the American Business Coalition for Doha (ABC Doha) to ensure that the U.S. private sector is coordinated, mobilized, and focused on achieving success in the DDA. The recommendations that follow represent the Chamber's priorities for the DDA, and we will be working actively with our trading partners around the world in the weeks and months ahead to build support for the objectives set out below.

Trade in Agricultural Products: In 2001, the WTO member countries committed to making "substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support." We are encouraged that last fall's proposals set forth by the United States and the G20 seem to have re-energized negotiations with respect to agricultural reforms. We hope these advances will stem what we had perceived before the 6th WTO ministerial conference in Hong Kong last December to be an emerging lack of ambition on the part of some key parties to the negotiations.

In a World Bank paper, Kym Anderson concludes that 92 percent of developing countries' gains in agricultural trade will come from reductions in market access barriers. The paper finds that such tariff reductions will not only improve the trade climate between developed and developing nations, but more importantly will yield significant gains in trade among and between developing countries. This outcome mirrors what we have witnessed in improved market access provisions in the areas of manufactured goods and services—the most robust gains are seen in trade among and between developing nations.

The United States is uniquely positioned to press for success based on the highest levels of ambition. Bold positions can help break what appears to be a stalemate between developed and developing countries over who should make the first move. We cannot fail to deliver steep reductions in both trade-distorting domestic supports and tariff rates. In the end, success will only be achieved through mutual recognition that comprehensive trade liberalization is an opportunity that will yield enormous benefits to farmers and consumers worldwide.

Trade in Manufactured Goods: Manufactured goods represent 75 percent of global merchandise trade, and the manufacturing sector is a strong driver of U.S. economic growth and employment. In 2001, the WTO member countries made a commitment "to reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries." While some progress has been made toward this goal, much work remains to be done in the non-agricultural market access (NAMA) negotiations.

In order to deliver on its development promises, the DDA must provide genuine new market access by substantially reducing or eliminating tariffs among, at minimum, the developed and developing countries through a formula that focuses on making meaningful reductions in tariffs across all product segments, particularly peak and high tariffs. A final agreement must also allow for a voluntary sectoral approach to tariff elimination. Above all, achieving a "level playing field" requires an approach that recognizes the current differences among countries' tariffs, and mandates reductions in tariffs that will reduce and eliminate those differences, so as to avoid an outcome where countries with high average tariffs are only required to make relatively small reductions.

While tariff elimination is a critical component of the round, non-tariff barriers are increasingly becoming as important, if not more important, as tariffs in constraining global trade. The DDA should focus on removing these hindrances to international trade, using both horizontal and sectoral approaches. In addition, the WTO should strengthen, or create where necessary, problem-solving mechanisms specifically focused on addressing and removing non-tariff barriers.

In order to ensure that the NAMA negotiations lead to substantially increased opportunities for trade, growth, and development for all countries, flexibilities should be built into the process that can provide some room for less developed and small economies to take part without shouldering the same burden as their more developed counterparts.

Finally, the Chamber recognizes that the NAMA negotiations are impacted by progress in the broader negotiating environment. It is important that negotiations on agriculture, services, and NAMA move forward on parallel tracks to ensure that success in the broader round is achieved.

Trade in Services: The services sector is the backbone of the economy in developed and developing countries alike. In total, it represents about two-thirds of world GDP, or $35 trillion in 2004. Further liberalization of this critical sector will allow WTO member countries to attract greater foreign direct investment and take full advantage of the growth and employment that this vital sector provides.

In 2001, the services liberalization work that had been conducted under the General Agreement on Trade in Services (GATS) was incorporated into the DDA mandate. WTO members endorsed the existing negotiating modalities and set a schedule for successive market access requests and offers. Progress has been unsatisfactory to date: few offers and even fewer revised offers have been tabled, despite the fact that the May 2005 deadline is long passed. While new methods that hold promise are being explored to revitalize the process, the objective of achieving substantial new liberalization commitments within the next few months should guide U.S. efforts.

In mode one (cross border supply of services), the U.S. should seek full market access and most-favored nation (MFN) treatment for all cross border services trade. This level of ambition should apply for mode two (consumption of services abroad) as well. In mode three (commercial presence), the U.S. should seek the abolition or, at the very least, substantial easing in equity limits for services investments and allow for the incorporation of services businesses in whatever legal form makes the most business sense. In mode four (temporary movement of professionals), countries should commit to screen temporary workers, ensure they will leave when their visas expire, and generally commit to containing illegal migration in return for their professionals' access to host countries.

Trade Facilitation: The Doha Declaration recognizes the case for "further expediting the movement, release and clearance of goods, including goods in transit, and the need for enhanced technical assistance and capacity building in this area." Trade facilitation initiatives provide significant opportunities to achieve real, nuts-and-bolts improvements for businesses of all sizes. Progress in such areas as port efficiency, customs procedures and requirements, the overall regulatory environment, and automation and e-business usage are important for all companies but are especially valuable to smaller and medium-sized enterprises.

Major world regions are already embracing trade facilitation. In 2002, the 21 member economies of the Asia-Pacific Economic Cooperation (APEC) forum launched a Trade Facilitation Action Plan that included a commitment to reduce trade-related transaction costs by 5 percent within 6 years. In November 2004, the APEC leaders were proud to announce that they had reached their goal 3 years ahead of schedule. And in the Western Hemisphere, the countries negotiating the Free Trade Area of the Americas committed in 1999 to implement a package of nine customs-related "business facilitation" measures that covered much of the same ground as the APEC action plan. In November 2005, a group of over 100 of the Western Hemisphere's leading business organizations released a declaration favoring an ambitious stance in the trade facilitation negotiating group of the DDA.

These efforts have served to raise the profile of trade facilitation as an opportunity for the DDA, but much more can be done. Trade facilitation can bring great benefits if adopted unilaterally, but a global rules-based approach also offers the advantages of certainty, stability, and enhanced commonality to customs measures and port administration. This is the promise of the DDA's trade facilitation negotiations.

Trade, Labor and Workforce Development

The opportunities trade presents are clear, but there are challenges as well. In recent years, Congress has engaged in a dialogue about how to ensure that U.S. workers and workers in developing countries can benefit from increased trade and investment flows. The U.S. business community encourages these discussions as well as efforts to provide American workers with the tools they need to raise their productivity. The Chamber welcomes new ideas on ways to improve Trade Adjustment Assistance programs, and hopes that Congress will also consider new programs that will assist American workers in remaining competitive and highly productive.

In addition to the benefits for the United States, there is powerful evidence that deepening economic ties with developing countries promotes their growth, fosters job creation, and promotes improvements in worker conditions in markets where American companies are active and engaged. Numerous studies show that American companies operating in foreign markets lead the way in driving improvements in working conditions and act as stellar examples of responsible corporate citizens. U.S. companies promote ethical and responsible business behavior, market-oriented business practices, and respect for the rule of law. They also operate under high environmental, health and safety standards in developing country markets, and they encourage local suppliers to adopt and adhere to similar practices. Compared to employees in local companies, employees in U.S. companies enjoy competitive to superior compensation, benefits, and training.

The Chamber is hopeful that Congressional discussions with the Administration on trade and labor will reflect the goals we all share for promoting working conditions and creating jobs in developing countries. The Chamber is optimistic that Congress will develop a way forward on trade legislation that will enable the U.S. to continue to pursue an active and engaged trade policy, opening markets to U.S. goods, services, and agricultural products. The U.S. business community stands ready to support those discussions on the way forward, and we want to work in partnership with Congress and the Administration in developing substantive, comprehensive strategies that will bolster America's competitiveness and improve America's workforce.

Conclusion

The Chamber believes that trade expansion is an essential ingredient in any recipe for economic success in the 21st century. To make the case more clearly, the Chamber recently issued a landmark report entitled *Global Engagement: How Americans Can Win and Prosper in the Worldwide Economy.* It maps out the benefits of trade—as well as challenges to America's ability to compete that have been laid bare by globalization.

The Chamber also recently published *Impact of Trade,* which lays out in the clearest fashion possible the benefits that the 50 states of the union are already deriving from international commerce. The Chamber is pleased to present these documents for the record, and they are available on our website (*www.uschamber.com*) as well.

If U.S. companies, workers, and consumers are to thrive amidst rising competition, new trade agreements such as the DDA and the various FTAs cited above will be critical. In the end, U.S. business is quite capable of competing and winning against anyone in the world when markets are open and the playing field is level.

Mr. Chairman, Mr. Ranking Member, Members of the Committee, we greatly appreciated the opportunity to testify today before Senate Commerce Subcommittee on Interstate Commerce, Trade and Tourism to provide testimony on the critical importance of advancing the U.S. international trade agenda. The Chamber stands ready to work with you on these and other challenges in the year ahead. Thank you very much.

Senator DORGAN. Mr. Wenk, thank you very much and finally we will hear from Mr. Gresser. Edward Gresser is the Director of the Trade and Global Markets Project of the Progressive Policy Institute. Mr. Gresser, welcome.

STATEMENT OF EDWARD GRESSER, DIRECTOR, TRADE AND GLOBAL MARKETS PROJECT, PROGRESSIVE POLICY INSTITUTE

Mr. GRESSER. Thank you very much, Senator. Thank you, Mr. Chairman, Senator DeMint. Your question today, is free trade working is a timely and very important one. The answer, of course, depends on the goals we hope free trade or I would say, freer trade because we don't have and the world doesn't have an academic ideal of free trade.

The goals we hope this achieve—let me start there, noting the mere remarks of personal observations and thoughts—not formal positions of the PPI.

Our modern trade policy in the sense of negotiations with foreign countries to reduce trade barriers rests on the conclusions that President Franklin Roosevelt drew from the collapse of trade between 1929 and 1931. He believed disadvantage, sparked by a worldwide cycle of retaliations beginning in the U.S. had deepened the Depression, closed avenues of escape and ultimately helped to open politics to radical nationalism in Europe and in Asia.

A 1936 speech given in Buenos Aries explains—this is Roosevelt speaking: "Every nation of the world has felt the evil effects of recent efforts to erect trade barriers of every known kind. Every individual citizen has suffered them. It is no accident that the nations which have carried this process furthest are those which proclaim most loudly that you require war as an instrument of policy. It is no accident that because of these suicidal policies and the suffering attending them, many of their people have come to believe with despair that the price of war seems less than the price of peace."

At the end of the war in 1945, Roosevelt hoped that reopening trade could do the same thing in reverse—could restore growth, could create safeguards against a second crisis and depression—ultimately, as he suggested in announcing the first multilateral trade negotiations, which concluded in 1947, give nations a greater stake in one another's security and prosperity and help to create what he called the economic basis for the secure and peaceful world we all desire.

Since then, the world has opened up. Policy is a big part of it. We've had 12 major multilateral agreements, a string of more recent bilateral agreements and preferences programs. Powerful structural changes outside policy get less attention but are equally important. These are geopolitical changes, with reintestation of Germany and Japan and then Russia and China in the global economy; container shipping and air cargo cut the cost of goods trade; fiber optics, broadband, satellite beams and the Internet are doing the same to create a global services industry. Trade has accordingly grown fivefold relative to the U.S. and world economies since the end of the war.

Is it working? This is the right question, I think. Taking Roosevelt's hopes as a guide, on the whole, the answer is yes. Open markets abroad let us sell $1.4 trillion in airplanes and wine and high value commercial services and more to the world last year.

Our own openness to imports, often a cause for anxiety and stress, also raises living standards through wider choice and better prices. And by keeping inflation low, it gives us lower unemployment with higher growth.

This is not an academic theory. We can look back and see that since the NAFTA and the creation of the WTO and the launch of the World Wide Web in the early 1990s, American unemployment has fallen from an average rate of 7.1 percent to 5.2 percent, which is probably the longest stretch of sustained low unemployment we've had in many, many years.

Overseas, an opening world economy has helped foster development and to reduce poverty. Two recent cases that I consider particularly important—one is the African Growth and Opportunity Act, which has helped to create nearly 200,000 jobs in low-income African states, like Lesotho, Swaziland, Kenya and others.

Then there was trade normalization with Cambodia in 1996. This has helped to create an urban manufacturing industry in Phnom Phen that now employs 300,000 young women, has helped to ease the threat of rural hunger as they send money back to their families, and it has helped an almost destitute country get back on its feet and play the role it should have in the world economy today.

Most important, the crisis of the 1930s has never been repeated and economic integration seems to be fulfilling its hopes as a guaranteer of peace. No two great powers have come into conflict since the 1960s, which is the longest such period that I know of and a major study last year found wars rarer than at any time since the 1820s, suggesting that this is in part because the world is more open. To quote, "an open global trading regime means that is always cheaper to buy resources from overseas than to use force to acquire them."

The work is incomplete. Major markets remain closed or partly closed to our exports. Some imaginative thinking could make the trading system far more effective in promoting environmental protection. Trade policy has largely missed the greater Middle East and a bit more controversially, our own policies have some flaws.

The tariff system, for example, is the most regressive of all the major Federal taxes, with tariff rates on clothes and shoes and some foods rising to 32 percent for acrylic sweaters and 48 percent for cheap sneakers. As a tax and life necessities, the tariff is toughest on poor families with children and especially on single mothers. Abroad it is the same.

Last year, Cambodia, which makes largely cheap clothes, faced the same $370 million tariff penalty on $2.2 billion worth of cheap clothes that France faced on $37 billion in wines, medicines, airplane parts and other sophisticated goods.

Trade liberalization has brought powerful anxieties as well. In some areas, though, these are misconceptions, which need a calm rebuttal. The U.S. is not losing jobs overall. Since the early 1990s, we've added 20 million and since the 1970s, 50 million private sector jobs. The U.S. is not de-industrializing. Our manufacturing sector is growing and has a stable real dollar share of the U.S. and global economies, nor are factories fleeing *en masse* for poor countries, as U.S. manufacturers invested $56 billion in foreign plants and acquisitions last year. Foreign manufacturers invested $67 billion here.

The dismal experience of the shoe and clothing industries, where job loss has been fastest of all, shows that preserving trade barriers is no way to preserve jobs. In other areas, anxieties can be well founded. Our trade and financial imbalance, the balance since last year—problems need attention. Low savings in the U.S., hyper saving and inflexible currencies in some Asian countries, reliance on imported energy with volatile prices.

As we face powerful new competitors in India and China, we have competitive weaknesses at home in finance and support for science and in some visa policies. And our social contract in which the businesses are the main suppliers of health and pension coverage, while government steps in mainly to support the elderly and poor, is visible eroding as businesses recede from this role.

Our new social contract must start fresh, not guaranteeing jobs but using government supports, tax incentives, new rules for unions and other measures to ensure that for people affected by trade competition, domestic competition, technology, change and recessions alike, layoffs and career shifts no longer mean lost health insurance and pensions, threats to college and mortgage payments and in a broad sense, family catastrophe.

In summary, Mr. Chairman, the world is moving quickly. Some American policies are no longer adequate and we need some careful and ambitious thought in our finances, our competitiveness and our safety net. But these problems are not unsolvable and we can approach them with some confidence. And I believe the basic goals Mr. Roosevelt set for trade policy—open markets, growth, safeguard against global crisis, support for peace, remain the right ones today. Thank you.

[The prepared statement of Mr. Gresser follows:]

PREPARED STATEMENT OF EDWARD GRESSER, DIRECTOR, TRADE AND GLOBAL MARKETS PROJECT, PROGRESSIVE POLICY INSTITUTE

Chairman Dorgan, Senator DeMint, Members of the Subcommittee, thank you for inviting me to testify before you today. By way of introduction, I am Director of the Project on Trade and Global Markets at the Progressive Policy Institute. PPI is a nonprofit think-tank based in Washington, D.C., which conducts research and policy development in areas ranging from trade and the global economy to defense, foreign policy, health, energy and environment, social policy and other issues. My testimony will reflect personal views and opinions rather than any official views of the Institute.

Introduction

Today's hearing poses an interesting and important question: "Is 'Free Trade' Working?" In fact, neither the U.S. nor the world has achieved an academic ideal of 'free trade.' Sixty years of trade liberalization, combined with technological change and logistical innovation, has created a far more open and integrated world. Flows of goods, services and ideas—into our country, out of it, and around it—are larger than ever before, certainly in absolute terms and almost certainly relative to the U.S. and global economies. But trade policy has also exempted some industries and missed some important parts of the world. A look at both the changes liberalization has brought, and the experience of the industries and regions where trade has not been liberalized, helps to shed some light on the Subcommittee's question.

Overall, as economic theory and foreign policy principles suggest, the opening of the world economy has brought us many benefits. The policies and technological advances that ease exchange of goods and services have helped to raise living standards, allow American businesses and farmers to serve larger markets, keep inflation and unemployment low, and promote global growth and political stability. In each of these areas more can be done. But the same policies and technical changes can bring stress and anxiety, as new competitors arise and workers and businesses feel sometimes intense pressure. Some fears rest upon misconceptions that need calm and factual response. But others are real and justified, reflecting problems that are not insoluble but require us to reshape domestic policies related to national competitiveness, improve adjustment programs and international financial policy, and strengthen the national safety net through a new "social contract" to replace one now visibly outdated.

My testimony today will cover each of these topics, examining first the original purposes of American trade policy; then the results it has brought and the gaps it has left; and finally the stresses many Americans now feel and policy options that might help.

Franklin Roosevelt and the Purposes of Trade Policy

An appropriate place to begin an evaluation of U.S. trade policy is with its goals. Trade policy has many facets, from trade remedy laws to export and investment promotion, intellectual property enforcement and more. But its center, since approval of the Reciprocal Trade Agreements Act in 1934, has been negotiations with foreign governments to reduce trade barriers.

This is by now a very familiar approach to trade. In the 1930s it was something of a radical innovation. Trade policy in the 19th and early 20th century had revolved instead around legislative increases or reductions of tariffs and other trade policy instruments, and the approval of the RTA thus reflected the judgment of Franklin Roosevelt and the 73rd Congress that this approach had gone badly wrong.

The impetus for their change of strategy was the collapse of trade in the early years of the Depression. Convinced that America, as a high-wage country, could not compete with lower-wage rivals in Europe, China and Japan, the Hoover Administration had overseen a sharp increase in tariffs in 1930, coinciding with the onset of the Depression. Most foreign countries quickly retaliated. The worldwide tariff hikes and retaliations, augmented by falling demand, cut U.S. trade from $9.6 billion in 1929 to $2.9 billion by 1932, and total world trade from $68 to $24 billion. Roosevelt and his contemporaries believed the event had deepened the Depression and made it harder to escape. As years passed, he concluded that it had helped discredit liberal politics and encourage radical nationalism in Europe and Asia. His address to the 1936 "Inter-American Conference for the Maintenance of Peace" in Buenos Aires explains:

> The welfare and prosperity of each of our Nations depend in large part on the benefits derived from commerce among ourselves and with other Nations, for our present civilization rests on the basis of an international exchange of commodities. Every Nation of the world has felt the evil effects of recent efforts to

> erect trade barriers of every known kind. Every individual citizen has suffered from them. It is no accident that the Nations which have carried this process farthest are those which proclaim most loudly that they require war as an instrument of their policy. It is no accident that attempts to be self-sufficient have led to falling standards for their people and to ever-increasing loss of the democratic ideals . . . It is no accident that, because of these suicidal policies and the suffering attending them, many of their people have come to believe with despair that the price of war seems less than the price of peace.

Since then—especially since the end of the Second World War—the principal focus of U.S. trade policy has been to reduce trade barriers. Again one can quote from Roosevelt in a message sent to Congress in March 1945. Announcing the opening of the first multilateral trade negotiations, this defines the purposes of modern trade policy: to encourage growth and rising living standards, create a set of rules and binding agreements that would prevent a repetition of the 1929–1932 experience, and ultimately "lay the economic basis for the secure and peaceful world we all desire."

Trade Liberalization 1945–2006

Each of the eleven succeeding Presidents has built trade policy on this foundation. Over sixty years, their policies have joined structural changes arising from geopolitics, technological change and logistics to create a far more open world.

1. Trade Negotiations Since 1945

Trade negotiations have proceeded, with only a few gaps, since Roosevelt's letter to Congress in 1945. A brief review of the record is as follows:

- *GATT/WTO agreements:* Since 1945, the U.S. has participated in twelve multilateral agreements, including eight through the General Agreement on Tariffs and Trade between 1947 and 1994 and then four at its successor, the modern WTO, in the late 1990s.[1] Cumulatively, they have cut average tariffs by well over 90 percent in rich countries—for the U.S., trade-weighted tariffs have dropped from an average of 40 percent during the Depression-era peak to about 2.0 percent, or to 1.4 percent including the effects of free trade agreements negotiated over the last 20 years—and abolished them altogether in industries such as information technology, toys, scientific instruments, and others. These agreements have also eliminated most quotas and import licenses outside agriculture, eliminated most industrial subsidies and limited subsidies in agriculture, developed an international agreement on intellectual property; created agreements on technical standards and government procurement, begun liberalizing some services industries; and invented a dispute-settlement system that has considered 361 complaints since the creation of the WTO in 1994.
- *GATT/WTO membership expansion:* Simultaneously, the trading system has broadened as "accession" agreements added 127 new members to the original 23 GATT founders. These have included first Japan and Germany, then dozens of new countries emerging from colonial rule, then the new democracies in central and Eastern Europe, and most recently some least-developed nations and large trading economies such as China, Taiwan, Vietnam and Saudi Arabia. At present, 30 more countries, ranging from Bosnia and Afghanistan to Russia, are negotiating on their terms of membership.
- *FTAs and Preferences:* Finally, the U.S. has developed a set of tariff "preference" programs which exempt poor countries from tariffs, and a series of free trade agreements with individual countries. Most significant is the North American Free Trade Agreement with Canada and Mexico, which in 2006 covered about $900 of America's $2800 billion in two-way goods trade, and $100 billion out of $750 billion in services trade. The preference programs for Africa, Latin America, Haiti and the Caribbean apply to about 5 percent of goods imports, and the FTAs apart from NAFTA to about 4 percent of two-way trade.

2. Structural Change: Geopolitics, Logistics and Telecommunications

Meanwhile, powerful structural forces independent of government policies—in particular geopolitical change, logistical innovation, and new telecommunications

[1] The eight GATT agreements are the Geneva I Round in 1947, the Annecy Round in 1949, the Torquay Round in 1951, the Geneva II Round in 1956, the Dillon Round in 1961, the Kennedy Round in 1967, the Tokyo Round in 1979 and the Uruguay Round in 1994. The four WTO agreements are the WTO's Information Technology Agreement in 1997, the Financial Services Agreement in 1998, the Basic Telecommunications Agreement in 1998, and a "duty-free cyberspace" principle in 1999.

technologies—have been accelerating the opening and integration of the global economy by opening major economies and making trade in goods and services cheaper and more efficient. Their effects are probably harder to measure than those of government-to-government negotiations, but some estimates suggest that they have been as important to trade growth and "globalization" as trade negotiations and tariff cuts. Since no major multilateral trade agreement has been concluded since the late 1990s, they have probably been the most powerful forces for integrating the global economy in this decade.

- *Geopolitics and internal reform:* Shifts of political orientation and changes in the domestic policies of big economies have self-evidently powerful effects. The end of the Second World War returned Japan and Germany to the global economy in the late 1940s; more recently, the end of the Cold War and the discrediting of economic planning has accelerated the integration of China, central and eastern Europe, Russia, Cambodia, Laos and Vietnam. A similar shift may now be underway in parts of the Muslim world, in particular through reform in Pakistan and Egypt.
- *Logistics:* The invention of container shipping in 1956 and the development of large-scale airborne express delivery services in the 1990s, have drastically cut the time and cost of moving manufactured goods among continents. Both continue to progress rapidly. For example, the average capacity of a container ship has risen from 1,500 TEU's[a] in 1996 to 2,500 TEUs in 2006, and the large new container ships now under construction or newly launched carry 12,000 containers and sometimes more.
- *Telecommunications:* The global telecommunications network and the Internet, in particular the launch of the World Wide Web in 1993, the replacement of most of the world's copper submarine cables with fiber-optics, and the continuous deployment of new and more powerful communications satellites are now speeding the integration of many services industries. One indication is the fact that the average price of an international phone call from the United States has fallen from $1.00 per minute in 1990 to fifty-three cents per minute in 2000 and fourteen cents as of 2004.

Results

Altogether, sixty years of trade negotiations, logistical innovation and improving telecommunications have created a vastly more integrated world economy than the one in which Roosevelt and his administration launched today's trade policy—or, for that matter, than those in which Presidents Kennedy and Clinton formed trade policy.

1. Integration to Date

The WTO's release last week found world goods and services exports rising to $14.4 trillion in 2006, in a global economy of $66.2 trillion. This means exports are the equivalent of 22 percent of global GDP, as compared to roughly 5 percent in the late 1940s, and records for the United States are much the same, with trade rising continuously and roughly quintupling relative to GDP. Table 1 illustrates the trend, using a few watershed years for trade negotiations and technical change as markers.

Table 1.—Trade vs. GDP, 1947–2006 [2]

Year	Trade Event	Real GDP in 2000 Dollars	Import/GDP Ratio	U.S. Private-sector Employment
1947	1st GATT Agreement	1.57 trillion	3.3%	39.0 million
1956	Container shipping invented	2.23 trillion	4.5%	45.3 million
1968	Kennedy Round implemented	3.65 trillion	5.0%	57.1 million
1974	1974 Trade Act	4.32 trillion	8.3%	63.1 million
1980	Trade with China re-opened	5.16 trillion	10.4%	74.6 million
1994	NAFTA implemented, WTO created, World-Wide Web launched	7.84 trillion	11.3%	96.7 million
2006	Today	11.05 trillion*	16.6%	115.1 million

*Actual GDP in 2006 dollars was $13.246 trillion.

2. Exemptions and Exclusions

Nonetheless, trade liberalization is partial, not complete. A look at the U.S. tariff system shows that some industries remain little touched by trade negotiations. As Table 2 shows, while average tariffs are low, consumer goods and some types of food

[a] Twenty-foot equivalent units, the size of a 20′x8′x8.5′ container.

remain covered by tariffs roughly twenty times higher than those on most other goods, and occasionally other forms of trade restrictions.

Table 2.—The U.S. Tariff System Today

	2006 Tariff Receipts	Imports	Rate
Total Tariff Collection:	$25.2 billion	$1.845 trillion*	1.4%
Light consumer goods/assorted foods	$13 billion	$122 billion	10.7%
Clothes	*$8.9 billion*	*$79 billion*	*11.3%*
Shoes	*$1.9 billion*	*$19 billion*	*10.0%*
Luggage/Handbags	*$0.9 billion*	*$6.8 billion*	*12.9%*
Household linens, silverware	*$1.0 billion*	*$15.4 billion*	*6.5%*
Plates, glasses, watches			
Cheese/orange juice/tuna	*$0.2 billion*	*$2.0 billion*	*10.5%*
Cars	$2.1 billion	$138 billion	1.6%
All other goods	$10.2 billion	$1.586 trillion	0.6%

*Includes all products imported duty-free under FTAs and preferences.

In addition, trade liberalization has missed much of the Muslim world, with the states of the greater Middle East participating less in the WTO and retaining higher trade barriers than Europe, the Americas, Sub-Saharan Africa or East and Southeast Asia.

Both exceptions have important and unpleasant effects, which I will come to in a moment. But the modern American economy is certainly closer to "free trade" than was the America of the 1940s, 1960s, or 1980s. As Roosevelt intended, we export more, we have a broader choice of the world's goods and services, and we compete more against foreign producers. We can assess the consequences in three ways: the positive results, the areas in which too little has been done, and stresses successful policy has brought.

Assessment 1: Positive Results

First, we can judge the results against Roosevelt's original goals—a stronger peace, long-term growth and rising living standards, a defense against a repeat of the Depression. Here, the record looks very good.

Politically, despite the high tension in the Middle East, the world is more peaceful than at any time in the 20th century. None of the world's great powers—the U.S., Japan, Germany, U.K., France, Russia, China, India—have come into direct conflict with one another since the 1960s. This long peace has no parallel in modern history, or for that matter, apparently, in medieval history. On a broader scale, a study last year at the University of British Columbia found a "radical" decline in warfare almost everywhere in recent decades, with the 1990s "the least violent decade since the end of World War II." The authors suggest a mix of causes—ideological conflict has waned since the Cold War, decolonization has removed a grievance, U.N. peacekeeping missions are often effective in preserving calm in tense regions—but credit the global economy as well:

> The most effective path to prosperity in modern economies is through increasing productivity and international trade, not through seizing land and raw materials. In addition, the existence of an open global trading regime means it is nearly always cheaper to buy resources from overseas than to use force to acquire them.[3]

Economically, no crisis like that of the 1930s has recurred. Even during the moments of greatest stress—the oil shock of the 1970s and the Asian financial crisis of the late 1990s—respect for agreements and rules proved strong enough to prevent a tariff war and a second Depression. Instead there has been a long period of growth, during which in real terms the U.S. has tripled private-sector employment and raised GDP in real terms about eight-fold.

This reflects in part the fact that with more open markets, American exporters can serve larger markets and take advantage of economies of scale. Last year's exports totaled $1.2 trillion worth of goods and services abroad in 2006, the largest figure in the world and $200 billion above second-place Germany. American aircraft plants sold 418 big civil aircraft abroad last year, with China the largest buyer; vineyards exported about 376 million quarts of wine last year, in particular to Britain, Canada and Japan. American medical equipment, high-performance computers,

[2] Bureau of Economic Analysis for GDP, Census Bureau and Almanac of Statistical Abstracts for goods and services imports; Bureau of Labor Statistics for private-sector employment.

[3] Human Security Report 2005, *http://www.humansecurityreport.info/HSR2005/Part1.pdf*.

oranges, and grains all do well in foreign markets. It is especially heartening to note last year's $100 billion in manufacturing export growth.

Imports also have an important place in the U.S. economy. Import competition, especially when—as it is today—accompanied by structural change in the global economy, can create stress and anxiety which require well-designed safety nets and adjustment programs. But overall, openness to imports not only helps raise living standards by giving consumers broader choice and better prices, but can keep inflation down and thus facilitate faster rates of growth with lower unemployment. A striking example is very recent: since the early 1990s and the conclusion of the Uruguay Round, passage of the North American Free Trade Agreement and the launch of the World Wide Web, the U.S. has added over 20 million private-sector jobs, and reduced unemployment rates from an average of 7.1 percent between 1980 and 1993 to 5.2 percent in the years since.

Abroad, trade policy can be remarkably effective in helping to promote development and reduce deep poverty. Overall, economic growth spurred by trade liberalization has combined with science, medical advances, and public health and education to reduce poverty. Since the 1950s, for example, global infant mortality rates have dropped by more than two-thirds; and the ILO's recent report "The End of Child Labour: Within Reach" [4] suggests that child labor rates are falling rapidly as well.

U.S. policy has made important contributions to this. The African Growth and Opportunity Act, passed during the Clinton Administration and extended last year, is an excellent example, helping create nearly two hundred thousand urban jobs in low-income African states like Lesotho and Swaziland since 2000. Another is the reopening of trade with Cambodia in 1996, which has created a national export-garment industry that now provides jobs for 300,000 young women—a fifth of the capital's population—and through them, cash income for hundreds of thousands of nearly destitute rural families.

ASSESSMENT 2: WORK UNDONE

Second, these achievements have gaps. Trade policy can be bolder and more ambitious in opening closed markets abroad, reforming outdated and regressive American policies, and addressing the deep economic crisis of the Muslim world.

1. Opening Foreign Markets

To begin with, many significant barriers to U.S. exports remain in place. Some are matters already covered by agreements and require vigorous enforcement, to ensure that Americans receive the full benefit of market-opening agreements and to defend the rule of law in the global economy. Examples now subject to dispute settlement are the European Union's Airbus subsidies and some aspects of Chinese intellectual property piracy. Others require negotiation; representative but hardly exclusive examples include high agricultural trade barriers in the European Union, Chinese and Indian tariffs and limits on services trade and tariffs on semiconductors and other information technology manufactures in Brazil.

I might note that a trade policy focused on bilateral free trade agreements is unlikely to address these effectively. Two-thirds of U.S. trade is with the EU, Japan, China, Canada and Mexico. The only present forum in which to reduce trade barriers in these countries (and large developing economies like Brazil, Egypt, India and Indonesia) is the WTO, most immediately the Doha Round. WTO negotiations also offer the most important opportunities to use trade to promote environmental goals. The fishery subsidy reduction proposal in Doha is a path-breaking example of use of the WTO to reduce subsidies that threaten the environment, and there may be options for multilateral ways to reduce mining, timber and similar subsidies. APEC also has a ten-year-old list of tariffs on environmentally beneficial goods, where liberalization can reduce the cost of environmental protection; environmental services are also an important opportunity.

2. U.S. Tariffs and the Poor

At home as well, American trade policy needs reform, with the tariff system in particular tilted sharply against poorer Americans and also many poor countries.

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[4] ILO, "The End of Child Labour: Within Reach," April 2006, Part I, page 8. This suggests that the total number of child workers in the world fell by 28 million between 2000 and 2004, with the most rapid drops among the youngest workers and among child workers in hazardous jobs; especially rapid drop in Latin America, where Brazil, Mexico, Chile and other countries have implemented innovative plans based upon stipends for low-income families trying to keep children in school. The report is available on-line at *http://www.ilo.org/public/english/standards/ipec/about/globalreport/2006/download/2006_globalreport_en.pdf*.

Since the early 1940s, the tariff system has been the smallest of the major Federal taxes, raising about 1 percent of national revenue. As such, it has received little attention from Congress or the Treasury Department since the 1960s or 1970s. But it continues to raise $25 billion per year—about as much as the estate tax and half the gasoline tax—and does so in an extraordinarily regressive way.

America's highest tariffs, as Table 1 above showed, are on shoes, clothes and some kinds of food. Shoes and clothes alone, which account for about 6 percent of American imports, raised nearly 40 percent of all tariff money last year. Given the roughly three-fold markup between border and store-shelf, shoe and clothing tariffs probably cost the public $35 billion a year, and—like any life-necessity tax—hit poor families with children much harder than wealthy or middle-class families.[5] Even this understates the system's tilt against the poor, as tariffs on cheap and simple goods are far higher than tariffs on luxury goods. For example, sterling silver forks have no tariff while cheap stainless steel forks get 20 percent. A long-sleeved men's silk shirt has a 1.1 percent tariff and its polyester equivalent 25.9 percent. A cashmere sweater has a 4 percent tariff and an acrylic sweater 32 percent; a cheap drinking glass valued at 30 cents or less gets 28.5 percent, and a luxury drinking glass valued at $5 or more only 3 percent; and the tariff schedule is filled with similar inequities.

The effect abroad is much the same. U.S. tariffs are now minimal for wealthy countries and energy producers, but very high for low-income countries in Asia and the Muslim world. As Table 3 shows, the high tariffs on cheap clothes sewn in Cambodia and Bangladesh mean goods from these countries face higher tariff penalties than the much larger volume of imports from their old colonial powers, France and Britain.

Table 3.—U.S. Tariff Collection from Selected Countries, 2006

Country	U.S. Imports 2006	U.S. Tariffs 2006	Average Rate
Cambodia	$2.2 billion	$367 million	16.9%
Bangladesh	$3.3 billion	$496 million	15.2%
Pakistan	$3.7 billion	$368 million	10.0%
WORLD	*[$1.84 trillion]*	*[$25.3 billion]*	*1.4%*
France	$36.8 billion	$367 million	1.0%
U.K.	$53.5 billion	$430 million	0.8%
Saudi Arabia	$31.1 billion	$48 million	0.2%

[International Trade Commission dataweb]

Despite their regressive effects, most U.S. tariffs seem to have little relevance to employment. Between 1974 and 2005, clothes were protected not only by tariffs but by a unique "quota" system capping imports by country. When this system went into effect in 1974, about 1.2 million Americans worked at clothing jobs. By the time it was abolished in 2005, only 270,000 were left.[6] Shoes are even more striking, with $2 billion in tariffs raised on products—like cheap sneakers, where tariffs range from 37.5 percent to 60 percent and are higher than tariffs on any other manufactured good—not made in the U.S. for decades.

3. The Greater Middle East

Finally, trade policy has largely missed the greater Middle East—the region stretching from Morocco to Central Asia, with about 600 million people across about 25 majority-Muslim states. China's widely debated boom in trade has been matched by an almost invisible collapse in Muslim-world trade. Between 1980 and 2000, the region's share of world trade and investment fell by fully 75 percent, from 13 percent to 4 percent of world exports, and from 4.8 percent to 1.6 percent of foreign direct investment. Meanwhile, the region's population is booming, with the total population of Middle East and Muslim South Asia rising by 250 million. The International Labor Organization regularly now finds this region with the highest unemployment rate in the world.

Here we have, on a smaller scale, a replication of the economic patterns—closed markets, natural resource dependence—of the world of the 1930s. It may be a coincidence that wars and political extremism have faded from Central America and Southeast Asia, but have persisted and spread in the greater Middle East. But it

[5] According to the Bureau of Labor Statistics' most recent *Consumer Expenditure Survey,* single-parent families spend about three times as much of their income on life necessities as wealthy families. See BLS, "Consumer Expenditures in 2005," at *http://stats.bls.gov/cex/csxann05.pdf.*

[6] See Bureau of Labor Statistics, Employment Hours and Earnings surveys, at *http://stats.bls.gov/ces/home.htm.*

is likely that economic stress and falling living standards contribute to a climate of anger, frustration, and openness to radicalism.

The explanation for this is complex, as is any cure. The economic crisis principally reflects conditions and choices in the greater Middle East region as opposed to policies in other regions. Until quite recently, few of the region's major economies were WTO members—in 2004, 11 of the 22 Arab League members remained outside the group—and its major economies were variously walled off by high tariffs and import bans, or isolated from one another by sanctions and boycotts.

The cause of the Muslim world's economic decline rests largely in policies pursued within the region. These must accordingly change if the region is to recover, and it is encouraging that the underlying structure is beginning to change. Three Arab states have joined the WTO since 2000, and three more along with Afghanistan, Azerbaijan and three Central Asian republics are applying for membership. Both Pakistan and Egypt have been revising economic policy to encourage investment and integration with the world economy. An imaginative U.S. and European trade policy can help by removing tariffs on light-industry goods and farm products from these countries, as has been done for Africa and much of Latin America.

Assessment 3: U.S. Competitiveness and the Social Contract

Third, an ambitious and energetic trade policy needs to be matched by policies in international finance, domestic competitiveness, adjustment and safety nets that allow Americans to remain confident about their ability to succeed in a rapidly changing world. In all these areas the U.S. is falling badly short. Let me focus, in my conclusion, on two areas: national competitiveness and the eroding social contract.

U.S. Competitiveness

The opening of the world economy has brought Americans export opportunities and wider choice of the world's goods and services. It has also encouraged the emergence of new competitors. This is not a novelty of the 21st century: John F. Kennedy's trade program and domestic economic policy in the early 1960s was in part a response to the formation of the European Community, and Clinton's to the strength of Japan thirty years later. But the size and rapid emergence of China and India is understandably a reason for concern to many Americans. Anxieties, about the ability of the U.S. to remain the world's leading economy and the ability of workers to succeed in a more demanding world, are not only easy to understand but often well-founded.

We should, of course, start from an accurate diagnosis of the problem. As we have noted, the U.S. is not losing jobs in the aggregate. Nor is American factory industry contracting or fleeing to poorer countries. The Bureau of Economic Analysis finds U.S. manufacturing's real-dollar share of the U.S. economy roughly constant over the past twenty years.[7] The U.S.' share of global manufacturing industry remains stable as well. Direct investment patterns are roughly balanced, with American manufacturers investing less in foreign plants and acquisitions than foreign manufacturers invested here in both 2005 and 2006.[8] Foreign direct investment in U.S.-based scientific, technical and professional services and information industries likewise outpaced the foreign investments of American companies in these fields.

But anxiety about American prospects in the new century are justified nonetheless. We do enter a period of transition and structural change with considerable strengths. America's open society, world-class university system, high quality of life, strong intellectual property laws and other national assets are powerful advantages in global competition. But our new competitors have great strengths as well, in low costs, financial resources, and wealthy and well-educated diasporas around the world—and the U.S. has weaknesses that are widely recognized but still unsolved.

One example is the return of structural fiscal deficits, which has joined with high energy costs and inflexible currency rates in China and other developing countries to create a trade and current-account imbalance with little historic precedent. Another are shortcomings in the human-resource and science policies important to our leadership in technology and innovation. These include low graduation rates in science and engineering, restrictions on the ability of innovative companies to recruit the best international talent, and long-term declines in Federal commitment

[7] See Bureau of Economic Analysis, tables for "Real Value-Added By Industry," at *http://www.bea.gov/industry/gpotables/gpo_list.cfm?anon=807&registered=0*.

[8] The figures for 2006 are $67 billion in foreign manufacturing investment in the U.S., and $56 billion in U.S. investment abroad. Data are available at *http://www.bea.gov/international/index.htm*.

to basic research in chemistry, physics, computers and other hard sciences. None of these problems are insoluble, but none are likely to solve themselves.

New Social Contract

A still larger issue—probably the fundamental question in sustaining public support for open-market policies—is the need to reshape America's "social contract" for a 21st century economy. The very success of American businesses in meeting a challenge from low-income countries illustrates how important this is. Between 2001 and mid-2003, with the U.S. in recession, American factories shed 3 million workers. Since then, despite their steady growth, they have hired none back. A shift of 3 million men and women from factory work to other jobs would be traumatic at any time. It is even more so with the Internet creating a global services industry as it drives down the price of international telephone calls and data transfers.

This experience, of course, is not unique to America. All countries must grapple with the rise of new economic powers and the intrusions of the Internet. But the stress may be more acute here than in it is in other wealthy economies. This is because the postwar American safety net was unusual among big countries: in Europe and Japan government is the principal guarantor of health benefits and pensions, while in the U.S. large businesses served as the principal providers, with government stepping in principally to support the poor, the elderly and the disabled.

The consequence today is that as businesses adapt to low-cost competition, most workers in Japan and Europe need not fear that loss of health insurance or pension guarantees will come with a layoff. By contrast, Americans have no national healthcare system and no pension guarantees beyond Social Security, and businesses are visibly retreating from their postwar roles as providers of health coverage and pensions. Threats to the ability to pay high mortgage payments and college tuition during periods of job dislocation add further dimensions of insecurity.

Thus, even with unemployment rates low by historical standards, and several years of economic growth, the American public is not wrong to be anxious. A rational individual may well believe that open-market policies are good for the Nation, but also that the personal cost of job loss is unacceptably high. These concerns are reasonable and need to be met through a comprehensive rethinking of adjustment and safety nets that goes well beyond earlier upgrades to the Trade Adjustment Assistance program. Ultimately this should mix government programs, tax incentives for businesses, tax credits and vouchers for individuals, direct spending, and new roles for unions to ensure that layoffs no longer mean lost health insurance and pensions, threats to college tuition and mortgage payments, and in the broad sense financial catastrophe.

Conclusion

This leaves us a bit removed from "free trade" or "U.S. trade policy" *per se.* To return to the Subcommittee's original question, one might make three points.

First, trade policy has brought the United States and the world a long way toward the realization of Roosevelt's hope of a strong "economic basis for the secure and peaceful world we all desire."

Second, it can do more—to create export opportunities by reducing trade barriers; to help the poor by reforming outdated and regressive policies at home, and to strengthen hopes for peace by supporting reform and growth in the Muslim world.

And third, to yield its full benefits, it must be accompanied by new and ambitious reforms at home, which blend open markets with the domestic and financial policies that promote growth and give workers the tools they need to succeed in an ever-more demanding world.

Once again, I am grateful to the Subcommittee for inviting me to testify, and look forward to your questions.

Senator DORGAN. Mr. Gresser, thank you very much. Well, this has been most interesting to hear different views of the same issue. It's like eyewitness accounts of the same activity and seeing something very, very different.

I want to start with something that Senator DeMint, I think, said and I want him to correct me if I have it wrong because I think it also goes to the center of some of this discussion. I happen to think that big trade deficits, by and large, are detrimental and also relate to the number of jobs that are lost and I believe Senator DeMint, in his opening statement, said that the trade deficit is really not a deficit—do I have that correctly?

Senator DEMINT. Can I clarify?

Senator DORGAN. Yes, please.

Senator DEMINT. It's not a debt that we have to pay back.

Senator DORGAN. Not a debt.

Senator DEMINT. But if I could—the point is, again using the example before—wealthy people are always going to buy more than poor people, just as wealthy nations will. It's probably something America will deal with for a long time but if you send $100 overseas to buy something and you get something that is worth $110 in American dollars. You end up with more wealth. So we didn't lose anything and there is no effective deficit.

Senator DORGAN. Well, I want to focus on that. That's what I thought you said: that there is no effective debt. That's going to be really bad news to the Chinese and the Japanese who hold close to a trillion dollars of our currency as a result of the trade deficit.

But it seems to me and I'll ask this question generally, it seems to me that if you are consuming 6 percent more than you are producing and you are purchasing from abroad those products and giving them American IOUs, which means that we owe them money, it seems to me, ultimately, you're going to pay them back with a lower standard of living in this country.

Mr. Hindery, what's your reaction to that? Is there no trade debt here at all?

Mr. HINDERY. Senator, I think the question comes to the core of these hearings today. Some of my colleagues on the panel speak of past periods and even conditions today that would suggest we're in surplus as opposed to deficit. We are the only nation acutely in deficit on trade, and to hark back to President Roosevelt 60 years ago and the conditions of that time makes no sense to me when the deficit is being caused by illegal and inappropriate trade behaviors by our largest trading partners.

We cannot sustain a deficit in trade of this magnitude into the foreseeable future. All trade theory, as Ms. Wallach can comment, all trade theory is predicated on trade balance. That is the whole theory of trade, and we are the only nation in imbalance. She can speak more capably than I that we have, in fact, had the tipping point when the benefits, Senator DeMint, in my opinion, from lower cost products coming into the United States have now been dwarfed by the costs to the women and men who have lost their employment or seen their employment downgraded.

None of the statistics dating back over the six past years give me any comfort that our employment quality and our employment numbers are improving—in fact, quite the opposite. If we were to calculate unemployment, Senator Dorgan, as the Europeans do, which talk about under-employed individuals, people who have left the labor force, and people who are part-time of necessity, our numbers are deeply at risk here.

Senator DORGAN. Let me ask Mr. Wenk—you and Mr. Gresser largely ignored the question of the trade balance or the trade deficit and described areas where we have actually increased our exports, one of which would be China, for example. We have, in fact, increased exports to China but we have dramatically increased imports, sufficient so that now with China, we have a $232 billion imbalance in a year. Does the U.S. Chamber find that troubling from an economic perspective?

Mr. WENK. Well, Senator, thank you for your question. There is no question that there is a lot of hype about the trade deficit and I think that some of the concerns that are raised are valid concerns but, first, a couple things.

First of all, trade deficits tend to be pro-cyclical. If you look over the last 25 years, when the economy is expanding, the deficit seems to go up. So I mean, right now, we have unprecedented growth in this country and the deficit is high. There is no question about it. But there are some good things that are happening because of the deficit in terms of some of the products that we're importing are keeping costs low.

I think the other important point to raise is that if you look at our free trade agreements and the deficit, there is an important point to make there. If you look at the manufactured goods trade deficit, for example, it is $530 billion, which is obviously very substantial but of that amount, only $30 billion is with our FTA countries, including NAFTA and further, our deficit with our FTA countries has not risen in the last 5 years. So I mean, certainly there are concerns about the debt, Senator, but that——

Senator DORGAN. I want to get the facts on the table here and I think your facts are wrong, Mr. Wenk. I mean, the trade deficit has increased generally across the board. Ms. Wallach, why don't you respond to that? But I think the facts need to be the facts. We all have our own opinions but we can't have our own facts. Ms. Wallach?

Ms. WALLACH. Well, first the trade deficits aren't cyclic. They are the result of particular policies. We had a total balanced trade in the huge boom period after World War II, one of our greatest expansionary periods. So that's just not held up by the facts, actually. Our trade deficit increased during the recession, during the Reagan Administration. I mean, it's unrelated. The fact is, we have a set of rules that are causing particular results, which gets to the actual outcomes, which is what Mr. Wenk has described as increased exports but he hasn't described the imports. So the net for our free trade agreement partners has been a catastrophe.

I mean, with NAFTA, we went from a surplus with Mexico to a huge deficit. We went from a small deficit with Canada to a huge deficit and systematically, with our free trade partners, our trade balance has gone negative or is going negative unless you sort of play with the numbers. Like for instance, he mentioned CAFTA. Well, for the first—it's only partially implemented but for the first year data, which was only actually nine months of the agreement, there was a sort of false inhibition on U.S. imports, imports into the U.S. because we'd messed up the rules of origin for textiles and apparel and everything was stuck at the docks.

But when you now look at the data, once that problem has been cleared, we have—our free trade agreements are the source of a major part of our deficit. The data is with the government, not me.

Senator DORGAN. Mr. Johnston, some would say you just can't seem to compete. Tough luck. It's a global economy, my friend. If you can't compete in a global economy, what's wrong with you? I mean, as you know, that's some of the discussion here and around the country. I don't share that but those are nonetheless the allegations. So why as American businessmen, can't you compete, according to those who allege that?

Mr. JOHNSTON. Well, Mr. Chairman, I think—if you look at it from a scale of, from a business standpoint, a small company. I deal with small companies. I deal with large companies. What is happening in this economy, as we see it, large multinational corporations are outsourcing everything—basically when you say pieces and parts that are being made, they are being outsourced. The large multinational corporations—their idea, in today's economy, is to design, to engineer and to assemble. They don't want to manufacture, all right? And the question becomes, who can do it competitively? Can it be done here locally in this country? Or is it going to be outsourced to China or other countries? The question is, it becomes strictly a price issue of who can do it for the least amount of money.

What happens there, from a small business standpoint, trying to compete, you lower your margins. You try to be competitive, however as your margins shrink, it's very tough to remain competitive, to be able to cover all your costs of doing business.

Senator DORGAN. Mr. Hindery, do you want to respond to that?

Mr. HINDERY. Mr. Johnston's difficulties are not because of the manner in which he or his counterparts run their companies. There clearly are some things, Senator, that I believe this Congress should do to make his task easier around his income tax and worker advantages that might flow to his company. But Mr. Johnston is losing his business because our trading partners are cheating.

I think attention has to be paid not to the time-worn debate about labor costs, which is tragic, and we need to have ILO labor standards. The Chinese, the Indians and the Japanese, however, are using currency manipulation and subsidies that by anybody's measure dwarf by several factors the advantages they continue to have from low cost labor and poor environmental practices, both of which are inexcusable. But the subsidies and the currency manipulation now, tax or capital or whatever you want to call them, in the aggregate are factors more than the predicament that he faces in Akron with his labor force and his productivity.

Senator DORGAN. It seems to me if you can't learn from experience, you're destined to repeat whatever that experience was. I want to ask about Canada and Mexico. Mr. Gresser, I'll ask you the question. We went through a free trade agreement with Canada and then one with Canada and Mexico called NAFTA. With Canada, we had a small deficit that has turned into a very large deficit. With Mexico, we had a relatively small trade surplus that has turned into a very large trade deficit. Would you agree that that has been the case with both?

Mr. GRESSER. That's certainly true.

Senator DORGAN. And if that is the case, would you agree that at least that trade agreement or those two trade agreements haven't worked out very well?

Mr. GRESSER. No.

Senator DORGAN. So explain to me how it is successful if you turn a surplus into a big deficit or a small deficit into a much larger trade deficit. How is that beneficial?

Mr. GRESSER. The trade deficit the U.S. has in general, I think reflects three basic factors. One is the very low savings rate of the U.S. We are the world's shoppers. We buy things.

Senator DORGAN. You're describing the cause of the deficit. I'm asking whether the deficit is a success or a failure.

Mr. GRESSER. I don't think the deficit is a success or a failure of trade policy. It is a macroeconomic phenomenon aggravated by the very sharp increase in oil and energy prices. So I don't attribute the increase in surplus with Australia and Singapore to the FTA with Australia and Singapore, nor do I treat the increase in deficit with Mexico or Canada or Chile as the result of those FTAs.

Senator DORGAN. Do you believe the trade deficit is a debt that will have to repaid?

Mr. GRESSER. We've been running a trade deficit since 1974 so—we've built up liabilities. Up to now, we've been able to handle them quite well.

Senator DORGAN. What you do mean, handle them? What's that mean?

Mr. GRESSER. We've been able to grow and create new jobs and manage the deficit without any noticeable stress on our economy.

Senator DORGAN. Does handle mean paying your bills without forfeiting?

Mr. GRESSER. Yes. I suppose that's what it means.

Senator DORGAN. So that's a debt that has to be repaid. Mr. Wenk, do you agree with that?

Mr. GRESSER. It is a build up of liabilities that requires us to pay back in the future. So far, it has not been unsustainable or unmanageable one.

Senator DORGAN. I understand that. Mr. Wenk?

Mr. WENK. I would agree with Mr. Gresser. Just to expand a little bit more on NAFTA because I know this is an issue of strong interest to you, Senator Dorgan. Forty-six out of the 50 states in this country—Mexico or Canada, is their top export market. There are a lot of companies that export to Canada and Mexico and U.S. manufacturing exports to Mexico and Canada have been growing 50 percent faster than they have to any other parts of the world. So NAFTA has been a success story for a lot of companies and further, I would like to raise the fact that if you look at our trade deficit with NAFTA, Mexico and Canada, 70 percent of that is oil imports and you never hear about that, Senator. Seventy percent of our deficit with NAFTA is oil imports and I know there is a lot of talk about what we want to—in terms of energy independence from the Middle East—we have our oil from Mexico and Canada and I don't think that's such a bad thing.

Senator DORGAN. Mr. Wenk, just quickly, the U.S. Chamber of Commerce, when we passed NAFTA, said the following and paid some pretty expensive economists to say it for them as well: the result of a trade agreement with Mexico will mean that high wage, high skill jobs will remain in this country and we will be importing the product of low wage, low skill jobs from Mexico. Do you have any idea of what type of products are coming from those types of jobs in Mexico that rank in the top three imports from Mexico?

Mr. WENK. I know if you look at our trade relationship with Mexico, most of our imports are in autos and auto parts.

Senator DORGAN. Auto parts and electronics.

Mr. WENK. And I know that was one of the main purposes for NAFTA was to integrate the auto market in North America—if you take out autos and auto parts, we actually have a trade surplus with Mexico.

Senator DORGAN. Automobiles, automobile parts and electronics are the top three and the fact is, it is exactly the opposite of what the U.S. Chamber and its consultants said would happen with Mexico, exactly the opposite. The reason I ask that question is that if we can't learn after 10 years of failure, we're going to repeat the same mistakes. That's the dilemma here.

I'm going to allow Senator DeMint to ask some questions and then I have some additional questions. Senator DeMint?

Senator DEMINT. Well, thank you, Mr. Chairman and again, I think this is a great exercise. We've got to figure out what the real facts are here. I appreciate all the panelists. I do think we need to make some distinctions. The trade deficit, as you refer to it, is basically a private sector phenomenon and I don't think my friends here on the right have stated this correctly.

When we import, consumers are buying things, companies are buying things. The Federal Government is not buying things generally although that's a small piece of it. But the trade deficit is not something that is paid back. We have to pay for what we buy. But the money you talk about that China is holding is government debt and that comes from the government spending more money here than we're taking in, in revenue. It's not related to the trade deficit.

Now, I would ask Mr. Gresser and maybe Mr. Wenk, just quickly, do you think that the trade deficit is a debt that we have to pay back? I'm not talking about do we have to pay for the stuff that we buy but there is no accumulated debt and certainly the government debt is not related to the private sector trading and the imports. So would you wish to clarify or are you holding to this that a trade deficit is a legal liability that hasn't been paid?

Mr. GRESSER. Overall, a trade deficit, as I understand these things, reflects an excess of consumption or production, where you're buying more than we make and grow.

Senator DEMINT. Right.

Mr. GRESSER. Over time, we have to pay for what you buy. If you have high growth——

Senator DEMINT. You pay for it when you buy it, don't you? Like I go to the grocery store, I pay for something, take my groceries home. I have a trade imbalance with them because they never bought anything from me but I don't owe them anything.

Senator DORGAN. Maybe, Senator, if you might yield, if you take $80 to the grocery store and buy $100 worth of groceries, you're going to owe somebody $20. That's the issue.

Senator DEMINT. But that's not what's happening.

Senator DORGAN. That's exactly what's happening. That's exactly what's happening. We're buying six percent more than we produce.

Senator DEMINT. Well, the government debt that you talk about as being held by China—is the government spending too much and can't pay its bills. The trade deficit issue is a separate issue and if companies are buying on credit, you're right. We owe something.

If the trade imbalance is partially bought on credit then we need to look into how much of it is being paid for with credit and how much is being paid for with cash.

But generally, the companies that I've done a whole lot of work with that trade all around the world, they buy something, they pay for it. And maybe there are some that are leaving huge debts overseas but that's something we need to look at.

But let me just make a couple of other points because I think all of you made good points on both sides of this. I have to say, though, I have a degree of disappointment with all of the testimony. It seems that we all put on our glasses—either we're for trade and we try to find everything good with it and nothing bad, or we put on our glasses and we're against trade and we just try to find everything wrong with it that we can. Like Ms. Wallach has built her whole baseline on right after the World War II economy where we had a war economy and we bombed out our trading competitors and so we had a surplus.

You would expect that after what we went through in World War II, but I think what we're not talking about is just the reality that we are trading. We are going to trade. We have to trade. We must compete with our trading partners. We're not going to be able to dictate the rules of other nations. Certainly we can write better agreements, hopefully getting a more level playing field but we can never expect it to be the same. The cost of business in South Carolina is different than the cost of business in North Carolina or North Dakota. We're not going to be able to get agreements where everything is the same. So we have to be competitive.

I'm disappointed in my Chamber and business friends over here that they didn't talk about more of the competitiveness issues and the employment issues. I think on this side, if what you are saying is true, half of the Americans would be out of jobs. The fact is, we do have one of the best economies and the lowest rate of unemployment. Wages haven't grown as much as we'd like but consumer savings, if you add in that, the American dollars are buying more. We do have growing exports and manufacturing output is going up. Certainly we don't employ as many in the manufacturing sector as we have because of productivity, but manufacturing output is going up across the country.

What I hear and I wonder who is really actually talking to employers, because I talk to a lot of them. I don't hear that they don't have jobs for people. I hear that they can't find the workers they need at every skill level. They can't find low wage workers in the hospitality business in South Carolina.

The high tech industry—when they come in my office and say we need to expand visas so we can get more qualified workers from overseas. What we need to be talking about is why aren't we bringing more people into math and science and training them to be engineers; so that we can do research and development in this country and talk about the failure of our education system where China and India are out-pacing us.

We do know that a large part of our trade deficit is energy related yet as a Congress, we won't open up our own oil supplies or even for low emissions natural gas. I've had company after company in South Carolina say I can't produce here. I can't produce plastics. I can't produce fertilizers when I can go right across the border and get natural gas for less than half of what we have to pay here. I can't compete with the world.

Yet here in Congress, we still refuse to open up known natural gas reserves. We know our tax rates are the second highest in the world. When you've got countries with half our corporate tax rate, how in the world are we going to compete? And we talk about, let's put up barriers because other people are cheating. And we're cheating on ourselves with a regulatory and legal environment that makes it hard for us to compete.

So I agree that we need better trade agreements. We need more enforcement of trade agreements. I think we have been too quick to sign agreements and not quick enough to enforce them and to get after them. But we can't take the strategy that hey, let's don't have any more agreements because for the most part, as it's already been stated, our markets are open.

Every time we go to do a trade agreement, generally we're coming out better than we were before. It may not be where you want but we're opening up their markets more to our products. I don't think we've done enough, but I think we need to work both sides of this. We need better agreements but we need to be competitive as a nation and recognize those obstacles to competition that we're not hearing enough of on the Chamber side and we're certainly not hearing enough on this side. We've got a skill level problem in this country where businesses are demanding workers that we don't have in this country and we can't keep saying we're losing jobs. Jobs are going away. We're losing jobs in different sectors. We're gaining them in others but the fact is, we're not producing a workforce that can compete in a global economy and certainly not at the volume levels.

I'll tell you, Mr. Hindery, I can tell you want to say something and then I'd like to get some on the other side to say something here.

Mr. HINDERY. Senator, I find your comments about education and energy policy comforting and very appropriate. None of us, I believe, would take any exception to any effort by this Congress to improve education in this country, to make it more responsive to the needs of the employers, worker skills, a more informed energy policy. You and I and Mr. Johnston do share some backgrounds. We've drawn paychecks from our corporate lives. We've had the privilege of running companies.

The concern that I have and I would ask you to think about is, you and I know how to compete. Mr. Johnston certainly knows how to compete. But competition has to be fair and the point I would make to you to reflect on perhaps, is that I believe passionately that we are losing in this trade deficit and jobs issue because of unfair and illegal behaviors. I know all the issues about productivity and under-educated and poorly educated workers. I'll stand with you as I know this entire Congress will, to address those.

The issue that has to draw attention quickly is that certain of our major trading partners are using illegal practices. When you commented in your statement that the trade deficit is a private phenomenon, a corporate phenomenon, it is not. Mr. Johnston does not compete against a Chinese manufacturing company. He competes against the Chinese government and a Chinese manufacturing company.

Most of the burden he has to confront competitively is unfair subsidy, illegal subsidy under the WTO—very verifiable. It's capital grants. It's loans. It's tax policies and it goes on to currency manipulation. There has been much testimony——

Senator DEMINT. I don't argue with the government competition but that does not create a long term liability that has to be paid back. I mean, we were just talking about the deficit then. I don't disagree with you that China is cheating and particularly in a manufacturing type of metalworking environment. We have a very difficult time competing with their subsidies. We do need to address subsidies.

At the same time, we can't say our corporate, our tax rates are going to be 39 or 40 percent and that China is cheating by not having a tax rate at all, or Europe is cheating because they have a value-added tax that they rebate at the border. The fact is, we're doing some of it to ourselves and we need to talk about both sides of it.

Mr. HINDERY. Well said, Senator. We are doing a lot of it to ourselves and that is the point we're trying to make. There are very positive, remedial actions around corporate income taxes and around the way we address our own employer force in this country. I'm just hoping that attention will be drawn quickly to the fact that the loss of jobs is greatly exacerbated by illegal behaviors.

Senator DEMINT. Yes, good. Anyone? Mr. Wenk?

Mr. WENK. Senator, I just want to say that you did hit the nail on the head about competitiveness and I'm sorry I didn't mention it more in my testimony, but this is absolutely critical and all the issues that you raised are issues that the Chamber is working on, on a daily basis. There is no question. You mentioned the skilled workforce issue. When Tom Donahue is out talking to our companies, there is no doubt that this is a critical issue. So I just want to reiterate that we are right with you. This is a competitiveness issue.

Senator DEMINT. What I hope I can hear from you guys is not just pushing Fast Track or more trade agreements. We've go to push these other things. We've got Sarbanes-Oxley but it's about to run us out of business as a nation and we're not doing anything about it. But when the Chamber and other business groups and pro-trade groups come up and say, we want Fast Track, we want more trade agreements, you've got to have in that package—we've got to have things that are going to make us more competitive and get the government off of our back and I'm not suggesting that we are talking about things that reduce fairness to workers.

But it's going to be hard to compete with gold-plated health plans and things like that, that we have on some of our companies. But we need a balanced approach here. It doesn't help at all to have a completely anti-trade position when most of our economy is intertwined with trade. Even in South Carolina where we were a huge textile state that now the textile companies that remain are completely dependent on exporting the fabric they make so it can be cut and sewn in another country and sent back here without tariffs so that they can stay in the loop.

And if we start getting protectionism on the border, first of all, the other countries aren't going to take ours without a tariff and when it comes back in, it's going to have tariff and our fabric people are going to be out of business. Ms. Wallach, I can tell you want to say something.

Ms. WALLACH. Well, I want to challenge the notion that one has to be either for trade or anti-trade. The discussion is about under what rules. I'm for trade. The thing that concerns me is the actual performance of the current rules. So under the current rules, there is a labor arbitrage. The question of where you're going to invest—you could whack every tax, Social Security cost, healthcare cost and it still is a dollar a day for a manufacturing worker in China and there isn't anyone in America who is going to work for that.

So investment, going to the cheapest dollar to get the highest return under these rules, which allows that, no matter what you do for what you describe as competitiveness, is not going to fix the situation unless you change the way the trade rules work.

Senator DEMINT. But you would agree that increasingly, fewer and fewer manufacturing companies are actually relying on a dollar a day worker. The fact—the more technically advanced that manufacturing gets, the higher the skills level that are required. And it makes it harder and harder for our trade partners to compete with cheap labor. It's technology and it's a lower cost of doing business.

We see that all over my state. It's not so much a matter of the cost of labor anymore. It's other factors. There are very few manufacturing companies now that the cost of labor is nearly as high as it was 20 years ago so what we're trying to do is look at those factors that make us less competitive and a lot of them are outside the companies' control here in this country.

Ms. WALLACH. Well, the kinds of costs, though, that you're talking about are those no one wants to live with the results of. I mean, in China, it's not just the higher paid worker gets $10 a day. You still can't compete with that as a U.S. company or a U.S. worker, but it is also being able to dump your toxics into the air or on the ground—no health or safety costs that obviously are the bargain you make to live in a comfortable and healthy country.

Senator DEMINT. That's not what I'm talking about, though. What I'm talking about is the cost of energy. There is no reason our cost of energy should be two or three times as much as they pay in China. There is no reason our corporate tax rates should basically keep us out of the market—not just with China and India but with our European allies as well. We're not ready to change and there is no reason that as much as we spend on education, which is more than any other country in the world—that we lose ground every year with skill levels of our workforce.

These are the things—but less and less, it's labor costs. More and more, it's these other things.

Ms. WALLACH. The energy costs, for instance, are exactly what Mr. Hindery is talking about. The government subsidizes it. The government provides the cheap energy so relative to competition, we're talking about different rules.

Senator DEMINT. Yes, we do exactly the opposite. We say we're not going to produce our own even though it's here. We're going to buy it from countries that are gouging us and we're going to be less competitive. And unless we're willing to bring all of this to the table and say, OK. We can keep ANWR off the table. We can keep the Gulf natural gas off the table but the fact is, that's more of a cost to most manufacturers than labor.

Ms. WALLACH. I just want to——

Senator DORGAN. Let me just—let me make a couple of points and then ask some questions as well. First of all, being competitive with what? Should we compete with someone in Shenzhen, China, who is working for 20 cents an hour? Should we compete with someone who is working in an unsafe plant? Should we compete with a 12-year-old working for a dime an hour? Should we compete with a country that says to the employer, if your people are trying to organize, you're welcome to throw them in prison? Should we compete with a company in China that dumps its chemicals into the water and its effluents into the air? Compete with what?

I'm talking now about regulations, the dreaded word, regulation. We have expanded the middle class. We have created regulations that have given us a better country over a century. Now some say, well you can't compete. Go compete with Shenzhen, China, some plant in Shenzhen that is hiring kids and dumping the effluents into the air and water and by the way, shipping off some folks that want to organize workers because they didn't get paid, shipping them off to prison for a couple of years.

I mean, that's competition I don't understand and don't want to be involved in because I think they ought to be competing with us by raising their standards.

The second point is this—I think it is very important for us to try to decide what kind of a country we want. Is this a race to the bottom? Or after a century of lifting our country and creating something no one else created, an expanded middle class where people had good jobs that paid well with benefits is that what we aspire to have happen in the future?

I mentioned in the opening statement the 3,400 people laid off by Circuit City. And it was interesting to notice that this was in the name of efficiency. They were apparently good workers but to be more efficient, you had to hire lower paid workers and someone said, well, this is breaking the social safety net that corporations have and they said, you get rid of healthcare costs and retirement benefits in the name of efficiency.

Well, I always thought that we created a country in which people negotiated for wages with employers and part of their compensation was a wage and benefits. And I think to decide somehow that the road to efficiency that has dumped the benefits of the American workers is exactly the wrong approach.

Having said all that, we're going to have a very interesting discussion in this Congress about these issues and should. But I want to go back to one of the central points at the start. I think our experience has been largely a failure in free trade because what's happened is that we ratcheted up very high deficits. Last year, we exported $55 billion worth of goods to China. We bought $288 billion from China, in goods from China. We sent them $55 billion. We bought $288 billion. The difference was $233 billion. That's a debt. We owe that to somebody. And what happened was——

Senator DEMINT. Are you saying we didn't pay for that?

Senator DORGAN. Oh, no. We sent them bonds and so they hold American bonds or American currency with which they can purchase——

Senator DEMINT. Is there a motive to send them bonds?

Senator DORGAN. With which they can purchase your business or perhaps part of your state, part of your real estate.

Senator DEMINT. That's a fact we need to figure out because that was not all done with bonds.

Senator DORGAN. Well, they are not holding fictitious pieces of paper, I guarantee you. If they shipped us $288 billion worth of goods, I guarantee you that they wanted something for it, either cold cash or instruments of debt. So that's where the debt is, Senator DeMint and the debt is real and I know of no economist that would suggest that all of that which is now held by China and Japan is somehow worthless. That is simply not the case.

Now I want to ask a couple of questions. Mr. Wenk said that the average household has been increased by $10,000—I forget the timeframe, which is an interesting statistic. Ms. Wallach, respond to that.

Ms. WALLACH. Well, my first response would be to propose that the American public bill the Chamber of Commerce for their $10,000 because most households certainly have not increased $10,000 of income under these trade agreements. In fact, the data—that number, just to understand it, that's the growth in our national income divided by the population. So that doesn't take into account distribution and the fact that our income inequality has increased to levels not seen since the Robber Baron era, with all the gains going to a very few on the top and the bottom falling out, shows that in fact, for the majority of Americans, not only have they not gotten the gain, but as I demonstrated and there is a long paper by the Center for Economic and Policy Research that shows the math. For most Americans who don't have a college degree, 70 percent of us, they've suffered net losses in income. That $10,000 has accumulated in corporate profits.

Senator DORGAN. Just a couple of other questions. You're all very patient and you're nice to come and make a presentation. Mr. Wenk, the U.S. Chamber—I want to put up a chart here. One of the problems that I see is businesses that wish to go access cheap labor are searching for, for example, the people that used to make Huffy bicycles, they all got fired and now Huffy is actually a Chinese company in Shenzhen, China; and so they wanted to make Huffy bicycles in China because they can pay 20 or 30 cents an hour and work them 7 days a week, 12 to 14 hours a day in that particular factory.

When there is an effort in China to increase and improve standards, here's what the result is, generally. This is a *New York Times* piece. "China drafts law to empower unions and labor abuse." It was probably more window dressing than it was substance, but that's what the Chinese government said because of very substantial complaints and pressure from us.

The move which underscores the government's growing concern about the widening income gap and threats of social unrest is setting off a battle with American and other foreign corporations that have lobbied against it by hinting they may build fewer factories there. Hoping to head off some of the rules, representatives of some American companies are waging an intense lobbying campaign to persuade the Chinese government to revise or abandon the proposed law. The American Chamber of Commerce sent in a lengthy response with objections to the proposals.

Mr. Wenk, isn't this a case where the American Chamber of Commerce, on behalf of businesses in this country who want to access cheap labor and conditions we would not allow in this country, conditions by the way, that if they existed a block down the street, you and I, I assume together, with every member of the panel, would call law enforcement and go down and shut it down. Isn't this a case of trying to see if you can continue to keep down standards abroad. I mean, why would the Chamber be involved in that?

Mr. WENK. Thank you, Senator. This whole issue raises the question of the race to the bottom argument, which we've heard a couple of times today. If you look at 2005 Department of Commerce data, 80 percent of U.S. manufacturing investment happens right here in the United States of America. If you look at——

Senator DORGAN. Eighty percent of what? I'm sorry.

Mr. WENK. Eighty percent of U.S. manufacturing investment takes place right here in the United States of America and if you look at the other part of that piece, 90 percent of that goes to high wage countries, namely Europe. So this whole issue of race to the bottom, we think that companies are lifting up and going to all these low wage countries. If you look at the data, it just doesn't show that. It shows that mostly the investment does happen here and the investment that goes abroad goes to high wage countries, not to low wage countries like China.

And with regards to China, there are certainly a lot of challenges with regards to the U.S.-China economic relationship. Clearly, the Administration has been heeding some of these concerns. As you probably are well aware, they have filed two or three WTO cases against China on subsidies and intellectual property and others recently.

There is no question that China has a long way to go in terms of meeting their obligations under the WTO, and we strongly support the process that is in place right now between the U.S. Government and the Chinese government, the strategic economic dialogue, the JCCT, to make sure that we get China to abide by all their WTO commitments and that's something that we are strongly committed to doing, Senator.

Senator DORGAN. But that didn't respond to my question. My question was, why would the U.S. Chamber weigh in—in opposition to the government of China's apparent determination to try to improve things for Chinese workers?

Mr. WENK. I have to say, Senator, that was the American Chamber of Commerce in China, which is a member of ours but I am not unfortunately familiar with this issue. I could get back to you in writing in terms of what the AmCham's position was on this but as the U.S. Chamber of Commerce here, I was not aware of this.

Senator DORGAN. If you will send me a note on that, I'd appreciate it.

Mr. WENK. I'd be happy to, Senator.

Senator DORGAN. Mr. Hindery, I want to ask you a question but I want to preface it with a piece of information. When our government—this was under the previous Administration, by the way.

When our government negotiated a bilateral trade agreement with China, a country which is now ramping up an automobile export market because they wish to send a lot of Chinese automobiles into this country, we said to the Chinese, with whom we had a very large trade deficit, the following—when you ship a Chinese car to the United States, we will impose a 2½ percent tariff on it and when we ship a U.S. car to be sold in China, you may impose a 25 percent tariff. To a country with whom we had a very large trade deficit, we said, it's okay for you to impose a tariff 10 times the size of the one we would impose on bilateral automobile trade.

Now, I mentioned that fact, which I think is part of the ignorance with respect to the construction of trade agreements that causes many of these problems and I could go through chapter and verse of these types of things, giving away the store and not standing up for our country's economic interests.

My colleague, Senator DeMint, said that the trade deficit is a private sector phenomenon. It is not at all—in fact, when an American company is trying to compete in a circumstance on bilateral automobile trade and our government has said, you know what, we'll tilt the balance so that the Chinese can have a 10-time advantage with respect to this bilateral trade with respect to the tariff, that's a government issue. That's not a private sector issue and the resulting trade deficit that comes from it, it seems to me, is a direct result of government policy.

But respond to this general question that the trade deficit is a private sector phenomenon.

Mr. HINDERY. The trade deficit has almost never in the history of the world been a company-to-company phenomenon. All of the abuses, Senator, arise around the intervention of governments into what should be free trade and they make it unfair trade. And that unfairness can be as disappointing as the wage and environmental practices that Ms. Wallach spoke about or it can be the subsidies, the tariffs, the loans, the currency manipulation that you are referring to.

The point that I would continue to make to Senator DeMint is it's not fair trade any longer. It hasn't been for a very long time. The reason why TPA should not be approved in its present form is simply to not have a repeat of the horrible example you just portrayed. Congress needs to weigh in on these issues in some form or in some fashion. Congress should not be negotiating agreements per se. That can't be done in a body of this magnitude but the standards, the principles that Congress believes in has to be part of our trading practices.

The concern that I have about Senator DeMint's sense of this deficit is, it is in fact, a debt. If you want to put it into the context of one country versus another, the U.S. versus China, we produce much, much less than we consume of their goods. That has to be paid for. It's being paid for every day by our children and our grandchildren into the future and nobody believes, Senator no economists—none of that 6½ percent of GDP, year after year, 7 percent of GDP is a sustainable deficit that this economy can handle. It's left us—it's left China with $1.2 trillion of foreign reserves, $1.2 trillion. It's using them against our national interests in Africa. It's using them to buy our companies. That's the next threat that we should confront is those dollars are going to start coming back into the United States and buying up our companies. And we have to get our hands around these subsidies and these outcomes now before it gets even worse.

I really would call everyone's attention on this Subcommittee, Senator, to the reality that the job loss is only going to get worse from here. It's inevitably going to get worse. We're not crying over spilled milk, as horrible as those five million jobs are. We will lose 15 to 40 million more jobs with the policies in place that Ms. Wallach spoke to, those rules.

Senator DORGAN. Other than Mr. Johnston, will anyone else at the panel have their jobs threatened? Mr. Johnston's firm, he says, is suffering from a significant disadvantage but I assume——

Mr. HINDERY. I would have answered less likely and then I watched Citigroup move 9,500 jobs that were of the sort that I thought this next generation could take more comfort in. Tech jobs, service jobs of every magnitude and manufacturing jobs are now equally at risk by anybody's measure.

Senator DORGAN.—it used to be just the people who took a shower in the evening after they came home from work whose jobs were of concern. These were the people who went out and worked hard on a manufacturing line or an assembly line. So they are the folks that came home to find out that—or went to work to find out that—their jobs left and they came home and said, honey, I lost my job. It wasn't because I did a bad job, it was because somebody would do the work for 20 cents an hour and I couldn't.

But now, it is more than that. The threat, of course, is for engineering and design and a whole series of things I've described.

Mr. HINDERY. You know, Senator Cantwell was here from the State of Washington—you were here during the NAFTA discussions and expressed your concern rightly today. The Boeing Company was advertised in the NAFTA debate as one of the great beneficiaries of NAFTA and the Boeing worker. Today, 10 years later, Boeing has half of the American workers that it did at the onset of the WTO–NAFTA—half.

Manufacturing of aircraft by the Boeing Aircraft Company, Airline Company and aircraft company today—final assembly, which is what we do here, is about six percent of the value of that airplane. We have half the labor force in the Boeing Company in Senator Cantwell's home state.

Senator DORGAN. My point was that people from think tanks won't lose their jobs. The U.S. Chamber will be fine. Members of Congress, we all wear blue suits and wheeze all day. Nobody from Congress will lose their jobs. That might explain the lack of urgency here in the Congress to try to deal with some of these issues.

But another explanation is that there are people who believe this has been a resounding success. I happen to believe that the circumstances of our trade represent a failure, number one, and number two, a failure to stand up for our own economic interests, our own producers, our own workers and number three and more important, I think this causes some very significant future danger for our country, for our country's economic opportunities.

I have not been Alan Greenspan's biggest fan over many years because he usually sounds the alarm too late or takes action too quickly, one of the two and depending on the circumstances, with either interest rates or manufacturing health.

But Alan Greenspan has been warning about the long term consequences of this. Warren Buffet, of course—it would be hard to find someone at the table that has a much better trends seer or spotter than Warren Buffet. He feels like—the question isn't when. The question is what will happen and how much of it will happen.

If we were meeting here 2 years ago, people like Warren Buffet and others would have told us as well. The question isn't when the housing bubble bursts—all bubbles burst at some point and he will make the point, and has many times, that the question isn't when we have to come to grips with the danger and also the consequences of a trade deficit that is galloping along and is the highest in human history.

The question isn't when. The question is what will the consequences be for this country and will we take action soon enough? All five of you have offered interesting observations.

I have to leave for another engagement but if you want to make any additional pithy, immediate short points, I'd be happy to allow you to do that. Mr. Johnston, thank you for coming here from Ohio.

Mr. JOHNSTON. Thank you, Senator. I would like to add to Mr. DeMint's comments earlier in regards to trade. I am not against trade. I am for trade. It's just if you see it from a level of manufacturing and you see small businesses that are slowly going out of business because they can't compete and watching this over the last 16 years, I've seen good times and I've seen very bad times and I have to admit, the last couple of years have been fairly good.

However, what's down the road, I guess, is the question and I think we need to come to some kind of understanding from both sides to where we can bring this together so that we can compete fairly in the globalized economy. Thank you.

Senator DORGAN. I want to make one final point that has to be addressed before I adjourn this and that is the issue of tax rates. We are not creating tax rates in this country that put American businesses at a disadvantage. First of all, the issue isn't the rate. The issue is what tax is paid. And frankly, *The Washington Post* the other day talked about the 10,000 offshore subsidiaries in the Cayman Islands alone.

My notion is this—the biggest problem with corporate tax is not that they are over-taxed. It's that they are not paying their fair share and that's because of dramatic increases in foreign subsidiaries. I've used the example on the floor of the Senate many times, of the Ugland House, which is in the Grand Cayman Islands on a little quiet street called Church Street. It's a five-story, white building and it is home to 12,748 corporations. Of course, they are not there. That's an illegal fiction created by high-priced lawyers to allow the corporation to say, here's where we exist so that I can ship my jobs to China, buy the products in this country, sell them, make an income and run my income to the Cayman Islands and avoid paying taxes.

Not every company does that, but far more do than should, and we need to shut down those sorts of things and we need to expect those chartered American corporations to behave just like real people, those artificial people given life by charter, to be an American means responsibility and part of that responsibility is to help pay for our schools and our roads and our defense system and all the things we do together as Americans.

I do not buy for a moment the issue that there is some over-taxation. That is not the case. The effective tax burden of American corporations doing business around the world is not exceeding other countries at all. That is not a source of anti-competitive difficulty for American corporations. We will likely have robust discussions about that in the future.

My colleague, Senator DeMint is someone for whom I have great respect and obviously, we have disagreements on this issue and we agree on some others but it is my hope through hearings like this that we can begin to have a broader discussion about what is happening. What really is happening and what are the consequences of this for the American people, for America's economic future, for America's businesses? What are the consequences and what can we do about it?

So I appreciate very much all five of you traveling today to Washington, D.C. to be a part of this hearing. The hearing is adjourned.

[Whereupon, at 12:15 p.m., the hearing was adjourned.]

A P P E N D I X

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. MARIA CANTWELL TO LEO HINDERY, JR.

Question 1. My home state is one of the most trade dependent states in the United States. Both my state and the entire country need aggressive enforcement of trade laws to make sure our companies and workers have a more level playing field. Therefore, we must identify and carefully consider options to improve enforcement. Mr. Hindery, could you please tell us more about your proposal to create a new Trade Enforcement Division at the U.S. Department of Justice headed by an Assistant Attorney General? How would it help ensure that our enforcement efforts are better coordinated and more effective?

Answer. International trade needs to be rules-based if it is to be valuable to the all members of the international trading community. Accordingly, it is not good public policy or practice for the United States to conclude agreements governing international trade and then fail to ensure that the rules embodied in these agreements are strictly enforced. Based on recent experience, it is impossible to be confident that those officials in the Office of the United States Special Trade Representative who negotiate trade agreements for this country are and will be appropriately diligent in seeing that the agreements are then strictly enforced. That is why I strongly favor creating a new Division within the Department of Justice, headed by an Assistant Attorney General who would be charged with enforcing trade agreements. The sole function of this new Division would be to make certain that international trade agreements concluded by the United States are strictly enforced, and the Division would be managed by legal professionals whose training, experience and independence are consistent with this responsibility. America's economic interests would be advanced by this construct, as would the foundation of the entire international trading system, given the relative importance of the United States as a global trading partner.

Question 2. We should also welcome private sector input into the development of our trade policies. Both NGOs and CEOs have lessons to teach our government about the impact of trade policies and they have unique perspectives. Mr. Hindery, I know you participated in the Horizon Project. Can you tell us more about that effort and who was involved in it?

Answer. I chaired and organized the Horizon Project, which was initiated in August 2006 to develop legislative recommendations which the Project members believe would, if enacted, advance America's prosperity and global competitiveness, while maintaining the country's long-standing commitment to economic and social justice. The Project's eleven members are corporate CEOs and policy specialists drawn from a variety of economic sectors. The Horizon Project's legislative recommendations, accessible at *www.horizonproject@us.com*, cover four policy areas: (1) Trade and Economic Growth; (2) Education; (3) Healthcare; and (4) Public Infrastructure. The Horizon Project Report and recommendations were presented to the Senate Democratic and Republican Policy Committees in February 2007.

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