MR. BARFIELD: Okay. Thank you very much. Thank you for inviting me to testify here today.

Let me say, several people have asked me, the piece that I submitted from Barrons is -- the date is not on it. It's May 11, 1998, if anybody is looking for it. I did not in that piece, but let me start today with a quotation from a colleague and friend who died yesterday -- you may have mentioned this already today -- Herb Stein.

And in another piece that I did more recently for the International Economy -- and maybe there has been some mention of this because they asked a group of us to talk about the sustainability of the trade deficit -- I began with a quote from Herb, and I'd like to start today with this.

I'd point out that some years ago Herb Stein said the following: "The United States has a trade deficit because people in the rest of the world invest in savings here, and, therefore, the stock of productive capital is higher than what it otherwise would have been. The inflow of capital has been mainly of benefit to American workers who, as a result of it, work with larger capital stock and have higher productivity and higher incomes."

And as I said in my piece, Stein's

explanation then, as today, explains a lot.

Murray asked me to talk a bit -- a little bit about impact on high technology industries. I will argue that there is very little impact one way or the other of a trade balance, whether you're in surplus or deficit, on high technology industries, with one -- I said with one exception -- it goes back to macro things that I know you already talked about -- and that is there is a reflection, as Herb pointed out, of the increase in capital flows.

The United States has been at an enormously attractive place to invest in the 1980s, and particularly in the 1990s. The stock of capital of fixed business investment between 1991 and 1998 rose from $547 billion to $962 billion. Now that is investment across the board, but there has -- given our comparative advantage, and given other things that I think are important, a good proportion of that, probably not the majority portion of it, but a good minority percentage of that went into industries that we would count as high technology industries.

And I would argue that that is the extent, or largely -- the greatest extent that you -- these larger economic and capital flows have in the United States. It is still true that I -- let me point out that in terms of U.S. trade, over 90 percent of the goods and services that are sold or used here are made in the United States. Or just under 90 percent I should say.

So we are largely an internal economy, but there has been an increment to our ability to invest because of investment from abroad. That said, then I would argue that such things as our higher education system, our investment in research, the fluidity of our capital markets internally, basically deregulated with some exceptions in relation to 1930s legislation, financial capital markets, has been the key, I think, to the technological growth that we have had in the 1990s.

And I would just point out one other thing, and I will -- won't even go to my five minutes -- would rather go to questions -- and that is that the -- particularly, both in the '80s, but particularly in the '90s where the United States has, at least in the world -- and I think there is a good deal of truth in this -- gone from strength to strength in -- whether you're talking about higher end electronics or you're talking about biotechnology or a number of fields.

This has been done with open markets and with a trade deficit. Now, as I say, I don't think a trade deficit has much to do one way or the other. It has to do with other things. But it cannot be argued that I think -- that we are somehow leaking to the world because of trade policy or trade deficits, our patrimony.

There are two exceptions, I would argue, that have to do more with trade policy than with trade economics, and that is interventions, it seems to me -- and this will be my final point -- interventions to protect particular industries or interventions to slow imports, as we have done, for instance, in steel or semiconductors at times over the last 10 years, either through anti-dumping or whatever, I think do have a negative effect.

And that brings me to my final point. And one of the things that I would like to do is to introduce -- we will send you -- Professor Douglas Irwin, who is now at Dartmouth, wrote a nice pamphlet for AEI a couple of years ago called "Three Simple Principles of Trade Policy." It had to do with capital flows and the fact that exports and imports rise together.

But a third point that he made -- and it’s the point I want to end with -- is that people think about imports going only to consumers. But as he points out in the pamphlet -- which he takes the middle years in the 1990s, but this is still true today -- almost 60 percent of U.S. imports actually are not final products. They are products that go to business and capital goods or industrial supplies.

And when you dam that up, or when you do something to raise the price of that, as we did, for instance, with DRAMS in the late 1980s, you then create a less competitive situation for end users such as computer companies, who in the late 1980s -- and here I will end -- as you know collected together to a group of computer companies to go against the semiconductor industry because of the impact that this was having on their final products and their ability to compete with other nations, the companies of other nations.

I think I'll stop there.

VICE CHAIRMAN PAPADIMITRIOU: Thank you very much, Mr. Barfield.

Mr. Robert Scott?