

VICE CHAIRMAN PAPADIMITRIOU: Thank you very much.

We don't have a fourth panelist, so I would like to now invite my fellow colleagues here to begin their questioning.

Commissioner Lewis?

MR. LEWIS: Mr. Barfield, I'd like to ask you a question. You said that the intervention to protect certain industries like automobile or steel, or to slow imports like automobiles or steel, have had a negative effect. Had there been no intervention, what would have been the result of the lack of intervention?

MR. BARFIELD: It depends on -- let me -- I said steel and semiconductors.

MR. LEWIS: Steel and automobiles.

MR. BARFIELD: I think what you would have had -- the major -- you would have had a trajectory that we have had for two decades in which the integrated steel companies have found themselves, even with I would -- let me say immediately, certainly in the last decade, some capital infusions, some upgrading, they have found themselves less and less competitive. But the so-called mini mills, which have come from -- what was it -- two percent, or something like that, in the early '80s to now almost half, have been more -- of equal -- equally

efficient with firms around the world.

So I think what you would have had was a -- you would have speeded that trajectory, where the real competition to the integrated mills has come, I think, from the mini mills and not so much the out -- from the outside. That would have gone a little bit faster, and you would also have had -- which is traditional. This is not endemic just to steel -- increasing specialization as we moved up the higher -- in specialty steel, into steel products, away from basic steel, I think.

And, in semiconductors, it is hard to --

MR. LEWIS: Automobiles was the other question.

MR. BARFIELD: I don't think I mentioned automobiles. If I did, I didn't --

MR. LEWIS: No, I'm asking. My question was: what would have happened to the automobile industry --

MR. BARFIELD: Well, in the 1980s --

MR. LEWIS: -- had there not been intervention?

MR. BARFIELD: -- we did not have -- let me say, we had a kind of -- we were lucky. We had a kind of leaky -- what I would call leaky protection. It

didn't protect a lot, and the key in the 1980s was we allowed investment, and we allowed the Japanese to come over here to invest.

And so, in effect, we kicked our automobile companies in the tail, and they became more efficient because we kept -- we kept -- even though we had at times under President Reagan -- and I don't think they lasted under President Bush; Carla Hills would know that. But even though you had some protection --

MR. LEWIS: Aren't there voluntary restraints on the exports of steel and automobiles from Japan today?

MR. BARFIELD: Yes, but that's been -- yes, that has been sporadic.

MR. LEWIS: Okay. What would have happened had there not been --

MR. BARFIELD: I said I -- my point was that you would have had the trajectory within the things that were happening move a little faster.

MS. HILLS: Just for the record, Commissioner, the Bush administration abolished voluntary restraints on automobiles. And I don't --

MR. BARFIELD: I thought it ended at the end of Reagan -- the end of the Reagan administration.

MS. HILLS: Yes. And I don't believe that

they have been reimposed by the Clinton administration.

MR. BARFIELD: But our automobile -- our big three -- the big two, and the third is now, you know, certainly a multi-national company, were always multi -- they competed not just here but around the world. So the -- I think the impact -- I would go back, though, to the point that I was making that the impact of what was a fairly loose and not very efficient protection -- thank God -- for the consumers, and because we allowed investment, was to keep them more competitive.

I would suggest that you compare that with French and Italian automobile companies.

MR. LEWIS: I guess the question I'm coming to is, if it's more efficient for the steel manufacturers and the automobile manufacturers to close the plants here and build them in other countries, because the ultimate price would be less if we imported the steel and the automobiles, would that be good for the American economy?

MR. BARFIELD: It would depend. It could be good for the American economy. I don't think the American economy is affected particularly one way or the other by the opening or the closing of a particular steel plant or a whole group of them.

I mean, I think the -- if you look at the way industries have developed, you can move -- what would have happened is that the -- we would have moved to those areas within the industry, within steel, where we had a comparative advantage, which is where you had higher R&D going into it, higher capital input going into it as opposed to the kind of basic steel that we had -- that the integrated companies kept trying to balance all along.

I don't think -- my answer is, I don't think -- you'll get a better answer, I'm sure -- from Mr. Scott, to your liking at any rate -- but my answer is, I don't think you would have -- you would have accelerated processes that were going along in any case.

VICE CHAIRMAN PAPADIMITRIOU: Mr. Scott?

MR. SCOTT: Yes. I think I would make two comments on this issue focusing on steel. First of all, my colleague Robert Blecker and I prepared a study of the costs of protection and the costs or benefits of the steel VRAs, which we published in the academic journal in 1997 (International Review Applied Economics.)

And what we found in that study is two things. And it is, specifically, a review of the estimates developed by Mr. Hufbauer mentioned earlier on the cost of the steel VRAs. And what we found had two

results. First, there was a technical error in the Hufbauer estimates that reduced -- if were corrected, reduced the consumer costs of the VRAs.

And second, and more important, the Hufbauer study had left out the impact of the unfair steel imports on workers who were actually displaced in many cases, or would have been displaced in the absence of the VRAs. And there were two kinds of impacts. First, workers lost their jobs and they were out of work for many months in the case of the steel industry. And number two, when they went back to work they took lower wages.

In the model used in Mr. Hufbauer's study, he assumed that labor markets are perfectly competitive and they adjust instantaneously, and that these workers don't suffer any losses. But in the real world, when we look at the actual impact on workers and compare that with the cost to consumers, we found that the VRAs actually generated a net benefit to the domestic economy.

So I think that we have to be careful to distinguish the theory of how these kinds of short-term trade remedies work from the actual empirical impact of the policies on the domestic economy.

Secondly, I would just mention the recent

steel dumping case as an example. I was involved in that case, by the way, as a witness for domestic producers at the ITC. And what we found was that unfair dumping of steel in the hot-rolled case from Russia and Japan and Brazil cost domestic producers approximately a billion and a half dollars a year in lost revenues, and that this was found by the Commerce Department to be unfair competition, that prices were lower than the market conditions would dictate, and so this is another measure, the kind that industry suffered.

It was the efficient mini mills that were being hardest hit in that case, I believe, not the domestic integrated firms. So the new high tech sector was the one hardest hit by this form of unfair competition.

CHAIRMAN WEIDENBAUM: Can I follow up?

VICE CHAIRMAN PAPADIMITRIOU: Sure.

CHAIRMAN WEIDENBAUM: Have you made any analysis of what the impact of the restraint on steel imports was on steel-using industries in the United States?

MR. SCOTT: That would be included in the consumer costs. There were no indirect impacts calculated in terms of the jobs lost. That wasn't in either the Huffbauer study or ours.

CHAIRMAN WEIDENBAUM: Thank you.

VICE CHAIRMAN PAPADIMITRIOU: Mr. Scott, I have a question, which is more of a general nature. You seem to be a lone ranger in terms of your testimony or your commentary vis-a-vis the relationship between the trade deficit and the downward pressure on wages and also on prices.

And yet besides yourself and Professor Blecker every other member of the two panels that we've had -- and this is the second technical briefing -- seems to believe that, there is no such causality between wages and the trade deficit. What kind of data do you read?

MR. SCOTT: Well, for example, on the question of the impact of trade on wages, I think that I'm not alone in this regard. There has been vast literature which has been surveyed by my colleague John Schmidt that is summarized in several papers in the reference section that we'd be happy to provide you copies of.

But to cite one example, Bill Klein, who was at the time at the Institute for International Economics, has prepared a survey of this literature and did his own empirical estimate of the impact of trade on wages. And he found that trade explained -- and he

looked, by the way, at only one of the six channels that I mentioned, the price channel.

He found that trade explained roughly 29 percent of the increase in income inequality that has occurred. I believe -- I think he was looking at the period '79 to '89. I'm just recalling that off the top of my head.

And, in fact, if you look at the share that was explained, it was more on the order of 40 percent of the amount of increased income inequality that was explained. So this is not coming from my institute; this is coming from the Institute for International Economics, which is generally regarded as an institute I think that most economists would view as supporting trade liberalization.

So I think the mainstream of the profession is -- is, I think, producing a substantial amount of research in support of my position. I don't think the mainstream of the profession has been active in talking about the policy implications of that research. I think that is perhaps where we differ.

MR. LEWIS: Very good.

VICE CHAIRMAN PAPADIMITRIOU: Thank you.

MR. LEWIS: Can I ask Mr. Barfield a question in response to --

VICE CHAIRMAN PAPADIMITRIOU: Mr. Lewis?

MR. LEWIS: Mr. Barfield, your article said, "Recent research indicates that only 10 to 15 percent of the increase in wage inequality in the 1980s can be traced back to the effects of international trade." Could we get the citation for that?

MR. BARFIELD: Yes, you certainly may.

MR. LEWIS: Thank you.

MR. BARFIELD: I would say that I -- let me first say that I am -- wages and jobs are not my specialty. But I would argue that at least from what I know, and I'll defer to Sidney Weintraub on this, that I would say that -- I mean, it's very hard to say a consensus, but it seems to me Mr. Scott's point about 29 or 30 percent is at the high end.

I think most studies end up 10 to 15 percent, as far as I understand it. And that was what I was talking -- I think that's pretty much --

MR. LEWIS: Okay. Well --

MR. BARFIELD: -- the work that we've done, it's work that Brookings has done, and work of the universities. I think that's where you -- I think the preponderance of thinking is that technological change is much more important.

MR. LEWIS: Ultimately, our staff will

analyze it, so I would just --

MR. BARFIELD: Sure.

MR. LEWIS: -- appreciate --

MR. BARFIELD: I'll be happy to --

MR. LEWIS: -- getting that citation --

MR. BARFIELD: -- supply that.

MR. WEINTRAUB: Just let me add a comment.

I didn't give you the full citations. But in my prepared remarks, I gave you seven or eight or nine authors who actually tried to deal with that subject.

And the variation as to what part of the wage gap -- that's what they were looking at -- is explained by imports and, in some cases, by immigration. Cline did that.

The estimates varied among restricted economists. Cline, Richardson, Leamer, who are at the high end, are respected professionals. But so are Krugman, Lawrence, and Slaughter, who come down to almost a nil or minor effect. And so are others like Bahgwati, who come out at the low end.

In other words, you will get -- on this point as to how much of the U.S. wage disparity is the result of imports of low wage -- from low wage countries, you'll come out anywhere in the range from nil to about 25, 30 percent. These are all by

economists for whose judgment I personally have a high regard.

MR. LEWIS: Thank you very much. Thank you.

VICE CHAIRMAN PAPADIMITRIOU: Thank you.

MR. THUROW: Can I make a technical comment here? One of the problems you have in this literature is exactly the phrase you used. Some of it focuses on imports from low wage countries. And, of course, an import from Japan or Europe can have a big impact on wages, but they are left out of those studies because they aren't coming -- and if you look at the effect on steel and automobiles and those kinds of industries, it was imports basically from Europe and Japan that was having the impacts, not the imports from the low wage countries.

VICE CHAIRMAN PAPADIMITRIOU: Thank you.

Commissioner D'Amato?

MR. BARFIELD: Well, you'd have to keep it -- that with the sort of wildcard of Eastern Europe and Russia recently, so --

MR. SCOTT: Can I make one followup comment?

VICE CHAIRMAN PAPADIMITRIOU: Sure.

MR. SCOTT: Let's begin by accepting that

trade is responsible for 20 or 25 percent of this increase in income inequality that we've experienced.

The total increase in income inequality has amounted to about seven percentage points. That is, the gap between production and non-production workers has increased by about seven percent.

So, if we take roughly 20 to 25 percent of that, we're looking at one and a half to two percentage points difference in the wages of production workers relative to what they would have been in the absence of these trade effects.

And I ask you, can you name one other economic policy that you can think of that could reduce the wages of production workers that make up about two-thirds of the American labor force by one and a half to two percent? I can't think of one as an economist. It's an enormous impact. So I think it's important to ask yourselves what is meant by these allegedly small amounts, in terms of real impacts on American working families.

CHAIRMAN WEIDENBAUM: Is that a rhetorical question, or is it --

MR. SCOTT: Pardon? I think it's an important --

CHAIRMAN WEIDENBAUM: Social Security

taxation.

MR. WEINTRAUB: I don't want to get into a debate here because there are so many other things that affect this and affect wages and affect the disparity.

And if you take these actions, how do you change this?

And most of the economists I cited are not protectionists. So, therefore, they don't recommend that. And as a consequence, you don't really know what they recommend.

VICE CHAIRMAN PAPADIMITRIOU: Commissioner D'Amato?

MR. D'AMATO: Thank you, Mr. Chairman.

Mr. Scott, let me ask you this. Do you have any numbers about -- I'm looking at families workers. What percentage of family households in the United States today, say in the last 20 years, the period for which most of which time we lost real wages, according to your testimony, what percentage of those families have become two wage earner families as opposed to single earner families? Do you know?

MR. SCOTT: I don't have numbers to precisely answer that question. I can give you a rough proxy for that impact. In a report we released just a few days ago for Labor Day at my institute, we did cite figures on the increase in average working hours per

family. And by my recollection, in the last decade the average working family has put in about 256 hours of additional work. That works out to about six weeks of additional work time, on average, for working families in the U.S.

MR. D'AMATO: So to make ends meet working families have to put in longer hours.

MR. SCOTT: That's right. And in that period since -- between '79 and -- or, I'm sorry, between '89 and '97, we have seen essentially flat median family income. So although income has increased by only a few hundred dollars, working families are putting in about six more weeks a year just to essentially run in place.

MR. D'AMATO: Do you agree with that, Mr. Weintraub?

MR. WEINTRAUB: I don't know the exact data, and I don't know how many two worker families -- husband and wife workers -- are working only to run in place, because they need the income. A lot of them are doing it because women want to be in the workforce. A lot of them are doing it because the jobs are available in the United States.

I am having a hard time understanding exactly what is being alleged here, and what the

argument is. And if I -- if I knew that, maybe I could respond to the question.

MR. D'AMATO: Well, my question is, is it necessary for families -- for both members of the family -- the husband and wife both to work in today's environment to make ends meet as opposed to 20 years ago? Is that more -- is that the trend? That is my question.

MR. WEINTRAUB: I doubt that the situation is worse today than it was 20 years ago.

MR. D'AMATO: It's not worse today than it was 20 years ago?

MR. WEINTRAUB: That's my -- that's my impression, but I can't give you all of the data.

MR. D'AMATO: Do you agree that real wages have declined over the past 20 years?

MR. WEINTRAUB: Real wages have been declining -- have declined until quite recently when they started to increase again. That's right.

And disparities in the U.S. economy have grown a great deal. But I don't blame most of these on imports. Remember, imports have been a small proportion of our total economy over this period of time. The proportion has grown in recent years, but trade itself is still a relatively low proportion of the U.S.

economy.

In other words, the big job machine in the U.S. economy is not trade. The big job machine in the U.S. economy is an \$8-, \$9 trillion economy. And the U.S. economy is capable of creating full employment, even almost under any conditions of trade.

I would argue the difference that trade has made is to help increase the wages of the people who have developed the appropriate skills. We do know that export wages pay more than other wages, but that -- that really is not an explanation. That really is -- it's, in a sense, a redundant statement. We know that people with higher skills, people with more education earn more money.

We know that the United States competes in world markets in those industries where there are skills. And we know there's a world market, and we know we can't cut ourselves off from it. So I keep asking myself, what is it that you are suggesting to be able to deal with the problem? And the answer I come to is not protection; the answer I come to is education and training and more education and more training on end.

MR. D'AMATO: Well, let me ask you, do you think it's true that the jobs that have been lost over this period of time have been replaced by lower paying

jobs?

MR. WEINTRAUB: No, I don't believe that at all.

MR. D'AMATO: Have not?

MR. WEINTRAUB: No. There's no evidence of that fact. As a matter of fact, a good many of the service jobs today pay better than manufacturing jobs. The jobs that have been created recently have not all been the lowest paying jobs. You'll get all kinds of conflicting data on this, but, no, I don't agree with your statement.

MR. D'AMATO: Well, I'd like to ask you, Mr. Scott, if you agree with that. But I'm curious, then, why we have more two working members of the family if the replacement jobs have not been a reduction in wealth to those families. I don't know a lot of families who willingly want to go out and work. This is a change in culture which may be driven by some value other than the economic necessity of the reduction in the wages of the primary wage earner.

MR. WEINTRAUB: I don't have the full answer, but I would imagine the majority of two-worker families are doing it out of a desire to work.

MR. BARFIELD: I think you have to also keep going back -- I mean, you've got -- we went

circular and then forgot where this whole thing started, and that is for what -- without having the answers to these questions, it is -- you have to keep coming back to the fact that imports are such a small part of our economy.

MR. BARFIELD: So that we ought to look in -- I mean, not -- don't look to the stars; look to ourselves for whatever problems we've got, it seems to me. I mean, you make a case that you need to do something about income distribution in the United States, or whatever, the taxes, or whatever.

But you're not going to get at it, given the small part that trade plays --

MR. D'AMATO: I think you have to look at those areas where the jobs are being lost and whether they relate to the areas where we're having increased imports from areas where --

MR. BARFIELD: Let's just take textiles, a large -- a large sector that is always under pressure.

The estimates that I have seen say that 80 percent of the changes in the job loss came from internal technological change in that industry, not from pressure from the outside.

This is not to say there wasn't some -- there was some of that. But that industry has changed

dramatically, and that was an industry where you -- you probably didn't have job losses that -- so that you had to take a lower paying job. But there were industries that there were, but then you get into questions, which, again, I am not -- this is not my area, so I'm not going to -- don't want to go deeper into this.

But if you get into questions about the steel workers' pay or the automobile workers' pay in the '60s and '70s -- and I don't just blame the union -- but you have to deal with pressure from the outside. Every time you get a strike the companies passed on the wages, increasing -- that is, they agreed to increasing the wages, so the wages got all out of kilter with productivity.

And so it gets to be a very complicated matter. But in that case, one could say probably in the short term steel workers who left U.S. Steel, let's say, in 1979 and did not -- and had to find something else probably did go to a lower paying job. But the economy then, irrespective of that, was creating jobs -- I mean, here was the dawn of this, you know, the semiconductor, the software, the high end electronics, which is occurring at the same time.

MR. D'AMATO: Well, Mr. Scott, but -- I mean, I would say at the same time, as we pointed out

earlier, real wages were declining in that period. So I find that perplexing.

Mr. Scott?

MR. SCOTT: I have several comments here. With respect to what happens to workers when they are displaced, that is an empirical question. And the Department of Labor has been tracking displaced workers for a number of years. They have produced a number of surveys, based on detailed microeconomic data, on the labor market performance of individual workers.

These studies have shown that when workers are displaced from high wage manufacturing jobs, they almost uniformly move to jobs that yield lower levels of income, even in what we think were low wage sectors like textiles and apparel. Those workers also earn lower wages when they leave those manufacturing industries, and the averages support this.

Manufacturing wages, on average, are higher than wages in services, and particularly in the service sectors where we are having the most employment growth -- restaurants, health care -- and sectors of that type.

I want to just make one point about the technology question, the broader argument about whether it's technology or is it trade. My colleague Larry Mishel has looked at this argument in some detail in

some of the papers he has written recently. And one of the points he makes in looking at the evidence is that, where is the evidence that there has been an acceleration in the "technology effect" that it can explain this decline in wages?

He points out that the productivity growth economy wide has actually slowed down dramatically. Productivity growth averaged about three percent a year between the 1950s and the 1970s. It slowed down to I believe about one percent a year in the 1980s. It has picked up slightly in the 1990s, but there has not been a strong enough recovery in productivity to explain this long-term trend of declining wages for production workers.

So it has got to be something else, and, in our view, there are other key factors. One is globalization. The second is deregulation, broadly speaking, including the weakening of labor unions and deregulation of regulated industries. The third factor is macroeconomics, maintaining loose labor markets and high interest rates.

MR. BARFIELD: If I'm wrong and some of the economists, we're informal here. So if I'm wrong, come back at me. But isn't -- where you're normally worried is in manufacturing. Hasn't manufacturing productivity

been fairly strong? What? It's over three percent over the last decade?

And that is where you have had tremendous increases. And then you have this wildcard of services, which is so very difficult to -- where you have productivity so difficult to measure, and services is, what, four-fifths, 75, 80 percent of our economy. I mean, that's another -- I mean, that's another issue, I guess, that we are focusing on as part of the economy. That is a much smaller part of the economy.

It has always been -- again, I won't go back historically as to when services outdistanced manufacturing; it was some time ago. But for certainly the last decades we are talking about, we have been overwhelmingly a service economy. And admitting again with a footnote that at the high end, if you're talking about electronics or an IBM, what is a service and what is a product? Or what is a manufacturing part of the economy is very difficult -- or the business is very difficult. I understand -- I concede to fathom.

VICE CHAIRMAN PAPADIMITRIOU: Commissioner Becker?

MR. BECKER: Thank you, Mr. Chairman.

I want to follow Murray's lead from this morning. I want to set the record straight on a couple

of things. I don't want to make this a steel worker discussion, but it seems like steel keeps coming into this at every level of the discussions we have.

First of all, let me say that before we went into the Asian crisis the U.S. steel industry was the most efficient steel industry in the world. This is from our standpoint as trade unionists representing workers and from a management level.

We produce steel using fewer man hours per ton than anywhere else, product line by product line, in the world. We could stand with any of them. The man-hours per ton over the last decade and a half came down from about 11 or 12 man-hours per ton to in some cases below one man-hour per ton.

However, when we were hit with this crisis, wages were not a factor in the competitiveness of U.S. made steel. U.S. Steel told us that if we worked for nothing, zero wages per hour, that they could not compete against the imports coming in. I mean, there were too many other factors at play. Wages were not a factor.

I also want to tell you that mini mills also -- union and non-union mini mills -- lined up with us because they were under the same kind of pressure. They could not compete against hot bands and slabs

coming into the United States. It was coming in at \$100 and more per ton under the cost of anything that was being produced here in the United States. So when you took the wage factor into account, it just was completely wiped out.

The companies told us that we were in danger of losing the entire industry. There was no way that they could compete over the long haul. Now, these are the facts that we had to contend with.

We have about 150,000 members directly employed in steel. We have another 600,000 that are employed in every other industrial endeavor that you can possibly think of in the United States.

But the fact of the matter is a lot of steel workers, many of them, do work as many hours as they can. We Americans work more hours than any other nation, they tell me, in the world. I don't know if this is true or not -- more hours than any other nation.

A lot of workers do hold two jobs, but it isn't because they are well-paid jobs.

It isn't that they can't live on one job.

Certainly they could. However, they want to maintain the standard of living that they have had for years and years and decades. And so this is the trap people find themselves in, trying to maintain a certain standard of

loving: two automobiles in a family, being able to educate their children, being able to take a vacation.

They strive to maintain this quality of life; you do, I do, everybody else does. You don't want to go backwards, and this leads to workers holding multiple jobs.

But a lot of others work two jobs as a matter of necessity, which leads me into the question that I really wanted to talk about. I just wanted to set the record straight in this respect.

Let me state the jobs and the deficit problem as seen through the eyes of workers today. I mean, we are living in an expanded economy. I hear this all the time. I hear it from members who appear before this panel. I've heard it in other forums. Since the early '90s, we have had an expanding economy that is the envy of the world. This is absolutely true. Times couldn't get any better in the eyes of most people and most economists. This is great. This is what we have wanted all of our lives.

We have low unemployment. There is no doubt about that. Unemployment is as low as anything that I have ever remembered in my life. Inflation is as low as any other time that I can remember coming out of World War II.

We have a raging stock market. Records are being set continually. People become wealthy overnight, and the whole thing. But there is a flaw in all of this.

Working people, working Americans, don't believe that they are sharing in this. I mean, something is wrong with this whole thing. Both spouses -- it is very common -- both spouses work today. I mean, this is the fact of the matter, to keep things going. They work more hours, I said a little bit earlier, a record number of hours.

And they are burdened with a heavy debt load. We talk about savings as a key to the deficit, personal savings. I think that's out of the question.

The problem is that workers have three and four credit cards, and they carry debt on each to the limit. Everything they can borrow is borrowed. We have record debt there, personal debt is very high.

And then you tie into this the skyrocketing loss of jobs in industrial America, industry after industry. I am not referring to steel. Steel lost all of their jobs, lost everything in the '80s. There is nothing else to lose. If we go under this time, we can't cut anymore. Forget steel. It's gone. But the other industries are also losing places out -- textiles

is just barely hanging on, the electronics industry is failing; the shoe industry is long gone; glass is going; the tire industry is under assault.

Manufacturing generally is being sacrificed in America. And at the same time, we have this soaring deficit. In the eyes of working people, they are attached. They see their jobs going overseas. They see the material that they used to make coming back in.

In Celina, Ohio, we had a bicycle factory - - it was Huffy. It had been around for a hundred years, I guess. You know, Huffy was a mainstay in the community. However, Huffy bicycles are not made anymore in Celina, Ohio. Huffy bicycles are made down on the Mexican border. They get the parts from China, they assemble them down there, and they bring them across the border. Then, under the NAFTA, they ship them to Celina, Ohio, and the rest of America.

And this is great? Workers are supposed to feel good about this? The economy is booming. But somehow or other we are missing something. Right or wrong, the perception is that there is a linkage between the deficit and job loss.

We lost 336,000 jobs, industrial jobs, last year in the United States. This was a record year. And the year before was a record year, and the year before

that was a record year. We are already being promised that the figure is going to be near 700,000 manufacturing jobs lost this year; at the same time the deficit keeps skyrocketing.

There is an indifference to workers. This is the perception, and this perception is leading to the kind of political pressure that moves congressional leaders into looking to what you call "protectionism" for the solution. What is protectionism? You know, I was in the military twice. I think most everybody in this room has had somebody in the military, some connection -- family, son, today daughters, wives in the military. We protected America at the time it was needed, and now we see that something is going terribly wrong with America.

And when you involve yourself in this, all of a sudden you are a protectionist. I don't know if protectionism carries over to Lockheed when we bailed it out, or the savings and loan associations when we bailed them out. These were not workers. This was the elite who benefited.

Or how about the hedge fund? I mean, there you got the Fed into it, and we bailed it out, right?

We did all of these things. But it was a different class of people.

Workers are responding, and this is the dilemma. I think this is what we have to recognize. The workers are responding. Twice Fast Track legislation was denied the President and the administration, right? Two times -- out of frustration, out of anger, that we were on the wrong track, that something was wrong. When everybody was saying things were fine, they didn't believe it. It didn't carry through.

This same frustration carried through when we sought steel import quotas and got it through the House, because the legislators worked with the people back in their states. They had to be responsive to their constituents, and, of course, it was denied in the Senate. We almost got it through the Senate.

This was unheard of before it happened. And the reason the quota bill was defeated in the Senate was because everybody believed the crisis in steel was over. It's not over, and it is accelerating again.

If I have a question out of all of this -- I mean, I'm laying out to you the frustration, so that we can put this in perspective. Everybody tells me that the linkage to the deficit is simply savings. Workers can't save more money. Even if they were relieved of the debt load, they can't save more.

If the job market gets tight, and there starts to be a pressure to raise wages, then the Federal Reserve raises the interest rate in order to accelerate a downturn and to create a larger pool of unemployed workers, to depress wages. How are they going to save to get out of this? They can't save. They are lucky if they can handle the debt that is out there.

We believe that there is a linkage between the deindustrialization of America, the loss of manufacturing jobs, and the rise in the deficit. We may be wrong. I'm not an economist. I'm here to listen and to learn and to get the benefit of your thinking.

I would be very interested in any comments on, the linkage between job losses and the deficit, for example, whether job losses are causing the deficit to go higher because people are searching for cheaper goods that they can afford rather than American-made goods. Or is the deficit in itself causing the job losses? What is happening in this whole exchange?

VICE CHAIRMAN PAPADIMITRIOU: Mr. Weintraub, do you want to --

MR. WEINTRAUB: Let me make a brief comment. I'm not going to be as eloquent as you are in your arguments, but let me just make one or two brief comments to lay out some of my thinking. I have no

doubt that the perception among workers is as you describe it. I don't quarrel with that one bit, that there is a -- that a linkage has been made in the mind of a good many workers between imports and job loss. I accept that, and that's one of the reasons it has been very difficult to get Fast Track and to further liberalize trade.

The argument I'm making gets a little bit more complicated. I suspect, therefore, that's why it's not getting out there in the public domain very effectively. You have a bunch of economists on your panel, and they can deal with this and you can get into the complexities a lot more deeply in your internal discussions.

The argument that Claude Barfield made at the outset, the argument that I made at the outset, is that there is no way in an economic structure you can divorce the capital part of our balance of payments from the current part of our balance of payments, which includes the trade balance. And as long as we're importing the kinds of capital we're importing, we're going to have a trade deficit.

Or put it the other way. If we could not import that capital, if people weren't willing to finance the trade deficit, we wouldn't have a deficit.

In other words, it has to be financed. And people are importing capital because we are not -- as a nation, we are not saving enough to make the kinds of investment we need to keep our economy going at the rate it's going.

We look at that at the macro level. I didn't deal with that in my comments because I was asked not to -- to stay out of the macro area. But it's in the back of any economist's mind. If we didn't have this capital inflow, you'd have a lot less jobs, because you wouldn't be making the necessary investment.

Of course we always lose and gain jobs. We have a turnover of eight million jobs a year in this economy. Trade is a very, very small proportion of our turnover, but it's mostly a turnover. It's mostly a turnover when the economy is performing well. The reason we have unemployment of 4.1 percent is because the economy is performing well.

The estimate that I cited to you before by the International Trade Commission economists is that if we got rid of all of our protections, the loss of jobs would have been 135,000 but most of those losses would have been made up elsewhere in more competitive parts of the economy.

Is the ITC model any better than others? No, it's just another model, and I'm not going to live or die by that figure. In other words, I

guess it's also a little unfair to impute to economists like myself, like Claude, like I suspect some of those who are sitting around the table with you, that we don't care about low wages or that we don't care about workers or that we care only about industry.

Most of us didn't grow up that way, and most of us do care a good deal about inequalities. Most of us do care a good deal about substandard wages. Most of us do care about productivity increases because that's how we can deal with these problems.

And what we're arguing is that the solutions that some of the people who are protectionists are advocating will not improve things but make them terribly, terribly worse. In other words, we're arguing not against the worker; we think we're arguing for the worker. And that is -- maybe that's the biggest difference we have.

MR. BARFIELD: I'd like to pick up on that and keep it on the level of social policy. It seems to me -- or I would start with the proposition -- and whether you think this is positive or negative in terms of what you said I'll leave to you to judge -- that there is a social obligation of the government of our public resources to workers.

But where you get into trouble and where

this comes back, actually, to trade, I think you are in the disastrous situation when you try to protect a particular job in a particular plan or a particular industry. And that brings me back to where we may not -- we may or may not be far apart.

It is perfectly legitimate, it seems to me, to argue that our social system, whether it's our education -- and I included in there education or retraining, or whatever, is inadequate today. And we can argue about the level of that. But that, it seems to me, is the place to argue, because to try to keep a particular worker in a particular plan, somewhere in Pennsylvania or in Atlanta or in Georgia, or someplace, I think will -- it's just not cost beneficial and not possible.

So I am perfectly willing to -- and this causes some -- I've seen this one sometime in my own institute. It causes some heartburn.

I am perfectly willing to have the government even waste money in worker retraining, waste money in adding -- not so much to increase unemployment insurance because that begins to come back and haunt you -- in these areas. Even knowing that it's probably not -- and let's be honest, in a lot of areas, particularly in -- let me just take steel as an example. I

suspect in a lot of those western Pennsylvania towns, when you are beyond a certain age, you are not going to move, and that you may end up in a welfare in some situations. You're perfectly willing to do that, as long as we don't have policies that are in the main directed at saving that job in that place.

And there's a second thing -- let me lay on the table. And this is more something that you all ought to think about in terms of if you agree with this tradeoff. I think you do have two examples here. We have traditionally had, certainly in the last couple of decades, not in the '50s and '60s -- Europe as they were coming back -- the pattern has been that we have generally had more people participating in the workforce and we've had lower unemployment rates.

And we've had a much looser workforce, and some of that -- out of that may have come the kinds of inequality you're talking about, that we would argue against it because of domestic situations. And you have a situation in Europe where you have much more regulated labor markets, where you have protected jobs, and where you have less inequality, but you have more unemployment. And you have more unemployment often in a place -- and this is where it's coming back to hurt them -- among youth.

Now, those are two particular models. They are not perfectly asymmetric, and they are not -- I mean, I'm -- and I don't want to exaggerate here. But I think that's -- if you look at the history of the last several decades.

For all of our problems, and also given the fact that I am perfectly willing to concede that we -- that one can make a case that there is not enough public resources going into retraining or education, or whatever, I would argue that the American model, by and large, is not only economically beneficial but more socially beneficial because it brings people ever more into the workforce. And it is better for more people to be working than not working, even given the problems that you have cited about inequality.

And I would argue that if you wanted to do something about that, and then I'll shut up, you ought to do something about that internally and not externally.

VICE CHAIRMAN PAPADIMITRIOU: Thank you.

Mr. Scott?

MR. SCOTT: Thank you. This is a broad-ranging discussion, going from the causes of the trade deficit to the appropriate policy solutions. I'll try to restrict my remarks just to a couple of issues I

think that Mr. Becker has raised regarding the linkage between savings and investments whether that does or not destroy jobs and what that means for American workers.

I sat through a good portion of the last briefing session that you held in August on the causes of the trade deficit, and I've heard some of the discussion here today. And I am very familiar with the prevailing view that you've heard expressed that the trade deficits are caused simply by a shortfall of savings. Or, as Mr. Barfield put it, we've had a tremendous inflow of -- to paraphrase -- investment into the U.S., and it has been good for this economy.

I would first point out that the linkage between savings and investment, or between the current account and the capital account as Mr. Weintraub has been putting it, is simply an accounting identity. It is logically correct that if we spend more on imports than we receive for exports, we have to finance those extra imports somehow.

This says nothing about the causation of those imbalances, and that's where we get to the interesting questions about where policy can affect the economy. If we accept the assertion that the trade deficit is entirely caused by the shortage of savings in the U.S., implies that trade policy can have no impact

on the deficit.

And that would suggest, for example, that all of the good work that Ambassador Hills did -- and when you were at USTR -- to reduce, for example, Japanese barriers to U.S. penetration of the Japanese auto market and other industries that you worked on there was irrelevant and could have no impact on our trade -- pardon me?

MS. HILLS: Not irrelevant.

MR. SCOTT: Right.

MS. HILLS: But perhaps not, in effect, reducing the trade deficit. Many good things can flow from opening markets and creating efficiencies.

MR. SCOTT: Right.

MS. HILLS: One of them may not be reducing your trade deficit.

MR. SCOTT: Well, I think that there's a good chance that those policies did reduce the trade deficit, and I think they were effective. I don't think we should disregard them.

I would argue that barriers to U.S. trade, in fact, reduced our exports and increased the trade deficit. If we adopt policies to balance our trade, it will also, by definition, raise the level of national savings. It will raise income of working families and

allow them to save more.

So I think that the causation can run from the trade deficit to the savings imbalance and not the other way around. And my colleague Mr. Blecker has made that point in a book he wrote several years ago called Beyond the Twin Deficits. So I think it is important to keep that point in mind.

MR. BECKER: Well, good. Let me just pick up just a little bit on the social aspect of this and the cost-related barriers. I mean, we saddle our employers in the United States, across the board, with a lot of social legislation that we think is absolutely essential to be able to protect society, to be able to protect workers, to leave a decent planet on board for our children who will come behind us, right?

We have clean air and clear water legislation. We have OSHA to protect the workers because we feel an obligation to protect them. And we know all of these things increase the cost of the product which we're going to buy. I mean, if you talk to industry, they're going to say it increases costs a hell of a lot. But we have also got Social Security and Medicare. These costs are paid by industry.

We've got a minimum wage. We've got wage hour laws. We've got unemployment compensation,

workman's compensation, toxic chemical laws. We've got a Family Disability Act that was just passed. All of these increase the cost of producing a product in the United States.

Would these be judged as barriers to the ability to compete? And, if so, would we be within our rights -- I say rights -- to impose a tax, for example, on anybody that's importing into the United States, or exporting from other countries into the United States, that don't provide these -- that don't provide for these things? Should there be some kind of a leveling tax in there in order for our companies and workers to be able to compete on a level playing field?

MR. BARFIELD: I would say certainly not because -- let me go back to your point about you mixed up things that you count as regulation and things that are social policies. It's certainly true that in some cases regulations, and in some cases social policies, it seems to me, could be argued in the United States or any other advanced country is going to increase the efficiency of that economy, increase the efficiency of the worker, increase the working conditions.

This is not to say that you cannot have -- with some of the early environmental legislation that we passed in the '70s and '80s -- command and control kinds

of legislation are very inefficient in the way they work out. But it is also true that one looks -- when one looks back at the -- I mean, this is actually -- in increasing the productivity, this is what was left out of your point about vis-a-vis other countries, and I assume you meant mostly developing countries.

They are -- number one, their workers are not as productive as ours. It is also -- one can trace historically that as they move up the economic ladder, they have increased their regulations, whether they are worker safety regulations or whether they are environmental regulations. So there is a convergence.

But where you really get -- where it would be difficult because of political economy reasons as much as anything else is that once you open the Pandora's Box that a country can tell another country what level or what kind of regulation it has, then that is a field day for protection.

And it seems to me that the -- when you look at what is happening, you are finding a convergence in the kind of regulations that you are talking about.

You also have gradually begun to find this is true of wages as well as regulations. It's not one to one. It's not every year.

But there is that, and the difference is

what -- I will send you a study that we've just done, Steven Gollub up at Swarthmore, in which he showed that it doesn't work on a half-decade basis, or not year to year. But over time, wages and productivity, in a whole group of countries that he looked at, move together.

I mean, that's a -- you had a mixed bag there, but I'll be happy to send you that study. It was just published in the last six or nine months.

VICE CHAIRMAN PAPADIMITRIOU: Commissioner Weidenbaum?

CHAIRMAN WEIDENBAUM: Just a couple of questions. One, a very short one. We have been talking about the erosion of manufacturing employment in the U.S. Can anyone tell us, in what year did the number of non-manufacturing jobs first exceed the number of manufacturing jobs in the U.S.?

MR. BARFIELD: I asked that question earlier. I remember -- I wasn't sure as -- it was a fair time ago, I would imagine.

CHAIRMAN WEIDENBAUM: It was prior to the '90s; that is, prior to the 1890s.

MR. BARFIELD: 1890s, right.

CHAIRMAN WEIDENBAUM: But a longer question. You know, I thought a little perspective is useful. A lot of the members of the Commission weren't

around back in the 19th century. I appreciate that.

My second point is: are you demonstrating that Carlyle was right when he referred to economics as "the dismal science"?

(Laughter.)

The reason I offer this contention is that the last several decades we have seen a massive reduction of the traditional employment barriers to women. We have seen women, not just Rosie the Riveter, but joining professions -- occupations and professions all through the range, up to the board room itself.

And how is this described in this discussion this afternoon? You bemoan the rise of the two-earner family. In other words, good news is bad news.

Does anyone want to straighten me out on this? I think that opening up job opportunities for women is a good thing.

Yes, sir?

MR. SCOTT: I heartily agree. I think that we would certainly want to -- it's wonderful that we open up job opportunities for women, but I find it has been --

MR. BARFIELD: He wouldn't have dare taken the negative --

(Laughter.)

MR. SCOTT: But what I find very disconcerting is that despite working harder, real media income levels have not risen to be more precise. That's what I find troubling. I would think that -- that as women enter the workforce, that the family income should rise and it hasn't.

CHAIRMAN WEIDENBAUM: Let me help you out, then. As we know, in other discussions, over this period from the '70s on, and that you show in your Table 1, for example, fringe benefits are a rising share of the compensation dollar. Just eyeballing your curve, if you added in the rising array of fringe benefits, wouldn't the curve of real wages, i.e. comparing it to a curve -- I think a much more comprehensive curve on real labor compensation show a somewhat different picture?

MR. THUROW: I'll answer that question. It goes down that way, too, not as much.

CHAIRMAN WEIDENBAUM: Not as much. Not nearly as much, Les.

MR. THUROW: But see, isn't this the heart of the issue in some sense? Several people have used the phrase "a good economy." And then if you look at median real wages, or median real compensation, how can

it be a good real economy when it's negative, right?
And then you've got the worker, he knows his wage is down, and he knows he just lost his job because his employer said, "I'm moving my plant to X," wherever, right?

Now, it's not surprising in that situation that the worker says to himself, "Trade must have done it." Right? "I know my real income is down. I know my family income is down, and my wife is working more. And my employer just told me I lost my job because he is going to Taiwan."

Now, you would have to be a very strange worker not to believe trade has hurt you. And, see I made the argument, I think the same thing would be true of economists. Suppose in the aftermath of the --

(Laughter.)

-- Asian crisis, half of all of the economists had been laid off, like steel workers. And the President of MIT had written me a letter and said, "You're laid off because of international trade."

(Laughter.)

I don't think I'd feel exactly the way the economics profession generally feels. And I think, you know, you've got the -- you know, this is one of the issues you've got here. It's very hard to say "good

economy" when median real wages are down, or median real compensation is down.

And I think -- and then you get this -- my employer just told me I was fired, and I've got to move from job X paying \$10 an hour to job Y paying \$8 an hour, and I was fired because of international trade.

MR. WEINTRAUB: Yes. But how many employers are writing letters and say, "You have your job because exports, like in information technology, are" --

MR. THUROW: If we have a trade deficit, we know the number of jobs in the export industry is smaller than the number that -- in the -- that have been lost in the import competing.

MR. WEINTRAUB: I do notice --

MS. HILLS: I would disagree with my colleague that you do not have a correlation of job-for-job export or import. Many of our imports are providing component parts, technologies and goods that we don't have. Remember, we fought a war over the right to continue to have oil come into this country. So it is not a fair comparison to say every import that comes in negates a job.

MR. THUROW: That is certainly right. But it's also true that import competing industries, on

average, have higher wages than domestic industries. So, on average, when you lose a job in an import competing industry, and the person is forced to move into services wherever, outside of the exporting or the importing sector, their wages go down.

On the other hand, the exporting industry is also --

CHAIRMAN WEIDENBAUM: The export industries have way above average earnings.

MR. THUROW: The interesting thing is their wages are below those of import competing industries, however.

MR. WEINTRAUB: I don't know what import competing industries you're talking about.

MR. THUROW: Automobiles.

MR. WEINTRAUB: Well, do you think auto wages are higher than wages in information technology?

MR. THUROW: Yes.

MR. WEINTRAUB: I doubt it.

MR. THUROW: Go look up the numbers, because --

MR. WEINTRAUB: I'll have to look it up. I don't --

MR. THUROW: -- if you look at semiconductor factories, they pay very low wages.

MR. WEINTRAUB: No, I know that. But there are other elements of that industry where employment has just been booming.

VICE CHAIRMAN PAPADIMITRIOU: Commissioner Angell?

MR. ANGELL: Mr. Scott, I congratulate you for -- even though you seem to be the least consensus in regard to the economics of international trade, at least you were wise enough not to suggest a protectionist remedy. You very clearly disavow that, but you seem to be saying that there is some type -- new type of regulation to prevent self-destructive market participants.

And I'm just trying to think, what -- what new regulation do you propose that you believe would have altered appreciably the wage -- real wage patterns?

I really can't believe that you believe that there is any regulatory effort that would have done that.

I can't help but believe that you believe that when a country expands its labor force as rapidly as we did during a period of time where regulations in the Tax Code were very detrimental to the savings rate and to capital formation, that when you raised the workforce as fast as we did, and didn't add the capital stock, that you would find that the productivity of

workers would be adverse and real wages would go down.

And now that we are at the point where capital technologies increased the rate of return on capital so dramatically, and where borrowing from the rest of the world at a five percent rate to invest in technology capital that produces a 15 percent rate of return, and that drives equity prices up. And yet I hear you saying, "Well, American workers," you agree, "couldn't possibly save very much."

But please tell me, how in the world do low income Chinese people have a savings rate in the 20 to 40 percent range? How do people in Taiwan, how do people in Thailand, how do other people around the world save so much? And where in the world have we been not educating people that are working to save more in this period of capital shortage, and thereby not to have such income inequality?

MR. SCOTT: Well, thank you. That's a very interesting set of questions. I am not a macroeconomist, and I think you have done much more work in those fields. But my recollection of the literature on savings and public policy is that it's very difficult to identify public policies that have a distinct, measurable effect on savings.

As I recall, changes in demographic

structure and other factors tend to have much larger effects on savings. But I leave that issue to macroeconomists.

My concerns are with the effect of trade on the economy. And you asked at the start of your question what regulations I could possibly envision that could have an impact on the income problems that we've been discussing, short of protectionism. This is an important question because these debates often describe the alternatives as either free trade or protectionism.

In my view, we face a third path that gets inadequate attention, and perhaps you can address these issues in more depth in your briefing on policy approaches to the trade problem.

For an analogy we have to go back to the era of the late 19th century and early 20th century when we had essentially unregulated and rampant monopoly capitalism, which dominated our economy. That was the last period in which the U.S. experienced tremendous increases in income inequality.

The only thing that solved those problems was the creation of the New Deal, which put in place many regulatory institutions that helped raise the incomes of working people and reduced income inequality generally in the U.S., while also reducing some of the

market power of the large companies that dominated the economy.

In my view, broadly put, I think what has happened in the 1980s and '90s is that multi-national companies have escaped the bounds of that New Deal regulatory state. The challenge that we face is to find ways to extend a system of market regulations to more countries than just the U.S. One example of that is the idea of achieving international agreement on common labor standards that would be enforceable through trade sanctions, if necessary.

That is a measure which would increase the bargaining power of workers around the world and allow incomes to rise more rapidly for working people than they have been in the past several decades. So that's a specific example. We could probably discuss others.

MR. ANGELL: Well, Mr. Scott, I have yet to find an economist who really thinks that saving is very easy to influence by policy. And yet I have never found an economist that did not agree that if we moved from an income tax system to a national retail sales tax system, as proposed by the Americans For Fair Taxation. Everybody knows that our rate of saving would rise dramatically and our trade deficit would fall.

MR. SCOTT: I am not convinced that it

would have that large an impact on savings. But, again, I am not an expert in this area. I defer to Professor Thurow.

MR. ANGELL: So you're saying that a zero tax rate on income that is saved would not alter the behavior of people on saving?

MR. SCOTT: I think it might at the margin, but I'm not sure how large the impact would be.

MR. ANGELL: Well it's nice to know your view.

VICE CHAIRMAN PAPADIMITRIOU: It seems we have exhausted the --

CHAIRMAN WEIDENBAUM: I have a question. Could I ask a question?

VICE CHAIRMAN PAPADIMITRIOU: Yes.

CHAIRMAN WEIDENBAUM: Just one more question. The labor standards that Mr. Scott suggests, if you took a backward look in the early part of the 19th century, when the United States was a poor, developing nation, if Western Europe had followed your advice and imposed on exports their higher employment and related standards, would we still be a poor, struggling, developing country? Or would not that have had some negative effects on our development?

MR. SCOTT: I think it would have reduced

income inequality in the U.S. and would have accelerated the rate of development of the U.S. economy.

CHAIRMAN WEIDENBAUM: What would be the mechanism by which it would accelerate our development?

MR. SCOTT: I think it would shift income from owners of capital to workers to -- and particularly in the emerging manufacturing enterprises, and would raise their income levels and allow them to -- to increase their levels of consumption. And I think that would stimulate growth.

CHAIRMAN WEIDENBAUM: Rising levels of consumption stimulate growth.

MR. SCOTT: Yes.

CHAIRMAN WEIDENBAUM: So unlike what we've been hearing, saving and investment aren't key factors in economic growth? It's consumption --

MR. SCOTT: Well, I think that they contribute, but I think consumption certainly has a large impact on the level of aggregate demand in the economy.

CHAIRMAN WEIDENBAUM: And this wouldn't affect our competitiveness? Adversely, that is.

MR. SCOTT: Perhaps at the margin. But trade has never been a large share of U.S. GNP, as many people here are fond of pointing out.

VICE CHAIRMAN PAPADIMITRIOU: Commissioner Lewis?

MR. LEWIS: Mr. Barfield, I have a -- I would like you to help me with this dilemma I have. Listening to George Becker talk about the laws that America has imposed on manufacturers here, like OSHA and environmental protections, and so on, which aren't imposed on other countries on those companies, and when they export to us, they're at a competitive advantage over American companies that produce the same things, because they don't have to spend the money for those protections that we do.

I have a difficult time reconciling this. I don't want to put up barriers, and yet we're putting our own companies at a disadvantage here.

MR. BARFIELD: Well, the first place to start would be stop putting our own companies at a disadvantage.

MR. LEWIS: I beg your pardon?

MR. BARFIELD: The first place to start would be stop putting our own companies at a disadvantage. I mean, some of the regulations we have, as I said, are efficiency reducing, and they do hurt the United States. So I'd start looking here first.

But secondly, it seems to me that the other

side is I'm not arguing that all regulation is bad, whether it's -- and here you mixed -- Mr. Becker mixed up Social Security or unemployment. I would argue that that is -- that is -- ultimately, some of these, if you have a regulation that is efficiency enhancing, it could be -- it could help our productivity.

And the point is that the other nations that you're talking about basically, for a variety of reasons, are less productive in terms of worker productivity than ours. And what I would go back to is that what you have seen -- the trajectory you have seen, if you're talking particularly about environmental regulation, is that beyond a certain point level of income nations begin to add those on, too. I mean, this is a part of their internal process.

But it gets very complex. Think of a -- and here I go back to a point that Mr. Scott was -- he didn't want -- he hasn't said anything about internationally mandated regulations or sanctions. Think of a -- the WTO or the United Nations, or whatever, trying to decide among the regulations in a particular group of domestic -- over a hundred countries' domestic economies, which made sense in terms of mandating and which did not. I mean, this is part of the internal political and social process of each

country.

MR. LEWIS: But if --

MR. BARFIELD: And it has a lot to do with where the country is in terms of --

MR. LEWIS: But if we --

MR. BARFIELD: -- its education, the labor, the workforce, and its productivity, ultimately.

MR. LEWIS: But if we've said as a matter of national policy that we want the workers in the factories in America to have certain safety protections, we've established that as a national policy, and yet we allow goods of other countries to come in who don't have those same protections, I mean, isn't this really a --

MR. BARFIELD: Well, that's what people did with us for the whole 19th and early 20th centuries.

MR. LEWIS: No question. That's --

MR. BARFIELD: I mean, what is it we're talking --

MR. LEWIS: But isn't this a dilemma that we're --

MR. BARFIELD: I mean, think of child labor. The hypocrisy of the United States --

MR. LEWIS: Fair enough. Fair enough. Child labor is a perfect example. And now there is some --

MR. BARFIELD: Well, trade is about differences. I mean, some of them are government-imposed differences. Some of them are natural differences. Some of them are in terms of education or natural resources. That's what trade is about.

MR. LEWIS: Well, the question I --

MR. BARFIELD: You wouldn't have trade if you had everybody equal.

MR. LEWIS: The question I was asking this morning is, suppose you had a totalitarian regime that was selling us goods at very low prices, like Germany in 1939. Should we, as a matter of national policy, be trading with such a country?

MR. BARFIELD: Well, that's a different set of issues, it seems to me, than the kind of economic and social issues --

MR. LEWIS: No, it's -- it's the same issue in the sense of our values being imposed on other countries. Whether it's human rights or whether it's environmental protection --

MR. BARFIELD: Well, I think you have a wide variety of values that one can agree that are well short of either the Russians in 1945 or the Nazis in 1943.

MR. LEWIS: Right.

MR. BARFIELD: I mean, that gets us into a whole other ball game, it seems to me.

MR. THURLOW: Of course, you can put it the other way around. Should the world have traded with us when we had slavery?

MR. WEINTRAUB: May I add a comment?

MR. THURLOW: We did that for a long time.

VICE CHAIRMAN PAPADIMITRIOU: Mr. Weintraub?

MR. WEINTRAUB: Let me add two comments. Our per capita income, I don't know what it is now, \$30,000 or something? 32? What's the per capita income of Bangladesh? I don't know. \$1,000? I don't know what the numbers are.

MR. LEWIS: Maybe. Maybe.

MR. WEINTRAUB: Whatever it is. You're not really saying that they, Bangladesh, should have exactly the same standards all across the board that we have, are you?

MR. LEWIS: No, obviously.

MR. WEINTRAUB: But how do you determine what level -- at what level do they begin to become equal? In other words, what you're suggesting is understandable but immensely complicated, even if you wanted to do it.

Let me make one other comment.

MR. LEWIS: I remember my first trip back from China, and I was realizing that doctors are making \$40 a month but \$10 went for rent. I mean, sure.

MR. WEINTRAUB: You know, there's an awful lot that goes into U.S. wages in terms of productivity.

And part of the problem we had with the decline of real wages, starting about in the early 1970s, as I think all of the economists on the dais know, is that our productivity suddenly stopped growing. I don't know why. I've seen loads and loads of explanations that people are giving as to why it happened.

I just wanted to make one comment, if I may, on savings, current account, capital account, and what happens. I'm willing to admit that the current and capital accounts are an accounting identity. Okay. Fine.

I'm also willing to admit that I'm not sure which direction they go in, although I think I know. But let me, for the sake of argument, accept the argument that we have a trade deficit first, and that's why we need all of the capital, and not that we have a lot of capital coming in, and that's why we have a trade deficit.

All right. Let's say first comes the trade

deficit, and then we have to go out and search for capital in order to be able to finance this. And the argument I now hear is, but if we take all kinds of heroic, uncertain, unclear, regulatory measures, if we regulate the world in our way, that if we take those measures to regulate the world, and, therefore, eliminate our current account deficit, our trade deficit, we won't need the capital anymore. Fair enough. But somehow what I'm hearing, is that magically, savings, which are impossible to increase by any other means, I just heard will go up sufficiently to be able to deal with the investment.

In other words, I think when people argue this way they put themselves into a trap that's impossible to resolve. There is no answer to what he said. Savings are not automatically going to go up in the United States. There are techniques -- and you heard a few -- where I think we can influence the rate of savings, and we have not taken those measures.

And, therefore, what would be the state of the United States if the capital were not flowing in?

And my answer is: if the capital were not flowing in, the consequences on this country -- and the workers of this country -- would be disastrous.

MR. LEWIS: And so what is to stop the

total hollowing out of the American manufacturing base?

If Levi Strauss finally decides that they have to manufacture overseas, what is to stop every manufacturer in America from saying, "I can do it cheaper elsewhere"?

MR. WEINTRAUB: Well, some can, some can't.

You know, let me give you --

MR. BARFIELD: Nothing, if the --

MR. WEINTRAUB: Let me give you an example that was given to me once.

MR. BARFIELD: I mean, you're right, nothing. But why hasn't it happened before? We've been trading. We've had -- developing a small -- you know, low income nations, we've been trading with a lot since 1945, and increasingly with the world trading system when you had this explosion of trade.

And I forget the exact number again. Some of the economists may follow this exactly, but I think the number that I saw is that we are trade -- today -- in 1955 or just after the war, the decade of the war, only -- our trade with countries was less than half of the income of the United States. It was about two and a half percent -- or two percent of our trade. I think it is now up to two and a half or three percent.

In other words, you have not had this wave of movement out. You've had a lot of people investing

in the United States; we're a high income country. So it gets back to something we said before. It has to do with worker productivity and productivity across the economy.

And there is nothing to stop, you know, the jeans manufacturer, or whoever, from going anyplace. They will go. I mean, so they -- but I would argue -- if it's a better deal. But I would argue that the way to stop that is to just pay attention to what you're doing in your domestic economy.

MR. WEINTRAUB: Let me give you one example. I was arguing at a meeting one day with somebody about the complete loss to the U.S. of the VCR industry. We have to import all VCRs. We don't make any of them. And this is being --

MR. LEWIS: The VCR industry.

MR. WEINTRAUB: Yes. We don't have it. Production of the television, the VCR, etcetera.

And the response I got was, "Well, what the hell? We produce 90 percent of the videos, and they are, each one, considerably more valuable than the industry whose loss you're lamenting." In other words, begin to make your balance as to where your interest is in terms of jobs, in terms of income, in terms of equity, in terms of benefit to the United States.

I can go through a lot of service industries that way. I don't even -- I find it hard now to even separate manufacturing from services. I don't know how many services go into a steel industry.

MR. LEWIS: But what happens, then, when China says to Boeing, "If you want to sell us planes, you have to build them here in China"?

MR. WEINTRAUB: If Boeing is willing to invest I don't know how many tens of billions of dollars, they can do it. But there are certain economic reasons why they can't do that.

What Boeing -- what the Chinese will say would not be that. They'll say -- and I don't like that either -- you have to produce a certain number of parts here in China before you can sell airplanes to us. That they are likely to say, and other countries have been doing that for as long as I can remember in that way.

And we try to get trade rules to stop this, but we do know we have not stopped this.

MR. LEWIS: But that certainly is a country's policy interfering with free trade, isn't it?

MR. WEINTRAUB: Well, sure it is. Sure it is.

MR. BECKER: If I -- I'm going to pick up on this, Ken. The question is: what would prevent the

rest of the textile companies from moving out of the United States? I mean, there is absolutely nothing that would prevent that. We know that. That has happened in industry after industry. And Levis got criticized at least in the editorials I read, because they hadn't moved faster to do this, like three or four years ago. But this gets into the social cost. Now, why do they move? Why do they move?

Because, if they move to Mexico, the Caribbean Basin, Thailand or Indonesia, they don't have these social costs that I was relating, nor do they have many other costs.

So, what would prevent --

MR. BARFIELD: I think we've gone the full circle. I don't think --

MR. BECKER: Okay. So there's nothing to prevent that.

MR. BARFIELD: But why -- why are people moving here? Why are people investing in the United States? Why have we got new plants in new areas?

MR. BECKER: But this is the marketplace that they're after. So surely we have some say for companies that want to do business, or countries that want to do business in the United States. If they use child labor or prison labor, certainly restrictions on

those things are items that should be above reproach.

If they forcibly restrain workers from exercising their right to share in the wealth that they helped produce, this ought to be something that would weigh in there. Human rights -- if nothing else, human rights should be a criteria.

The advocates of complete open trade believe in no impediments. I've been told this too many times, that -- no self-imposed impediments on trade. Any impediments that we would enact ourselves are wrong.

I believe that we need to examine this in some way. Our leaders, I can't remember what level we were representing came back from the Free Trade Agreement group that met in South America a few years back. And one of the statements in their report about the harmonization of standards. So it is there.

Now, what is harmonization of standards? It's when you have some kind of equalization. It can go up or down. It doesn't have to be just what anybody else has that we have to either adopt to it or lose our industry. Under the harmonization, there should be some working out of that, and that's really all we're saying.

Then, at least Levi, who wants to do business in the United States -- that's where the market is -- and has fought year after year when their

competitors all moved out, has got a little bit of leverage to try to do what they believe is right and to keep the jobs in America, where they are going to sell their product. I think that should be weighed into this in some form or fashion.

VICE CHAIRMAN PAPADIMITRIOU: Commissioner Hills?

MS. HILLS: Mr. Barfield, I think you testified that our deficit is created by influx of capital and that the capital has been used for investment purposes.

MR. BARFIELD: Some of it; not all of it. We are consuming --

MS. HILLS: And consuming.

MR. BARFIELD: The question is, you know, after the fact and --

MS. HILLS: Am I correct in believing that the data does not document a hollowing out of America?

MR. BARFIELD: That's true.

MS. HILLS: And that, in fact --

MR. BARFIELD: I mean, when people used the phrase "hollowing out," they were talking about certain manufacturing industries. And certainly we have -- some of those, whether you're talking about steel or whatever, we've gone down, but then we've gone up in

other manufacturing and other services industries.

MS. HILLS: Doesn't that reflect what Mr. Weintraub has alluded to, that an economy is dynamic and that we have a turnover of eight million jobs every single year?

MR. BARFIELD: Yes.

MS. HILLS: Is it not a fact that Americans are investing very heavily in the United States today, and that is at least one factor of why the savings rate may be low?

MR. BARFIELD: Hmm. I'm not sure I see that connection. I mean, there are -- you're talking about business investment? Well, I think it has been argued -- and, again, I will defer to some of the economists -- that a lot of the reason for personal investment going down is that you've got this income effect from the increase in the stock market. If that's what you're getting at, that's --

MS. HILLS: Well, suppose we lose in the turnover of eight million jobs in one sector -- cut and sew -- and we attract jobs in another sector, such as Mercedes building a plant in Tennessee where the job per worker -- the wages per worker is higher, that that is not a bad effect --

MR. BARFIELD: That's right.

MS. HILLS: -- for the American worker.

MR. BARFIELD: For this particular expansion, as I recall, the increase in gross business -- fixed business investment has been larger than other expansions since the Second World War. I think this is -- I think it set a record.

MR. THUROW: There is a little thing that's peculiar here, because it went down from 12 to 9, and then back to 14 --

MR. BARFIELD: Yes, it could be you were gaining something. Right.

MR. THUROW: -- where you start, as to whether there has been a big increase in investment or not.

MR. BARFIELD: That's 15.2 now. Whatever. Right.

MS. HILLS: Thank you.

MR. ANGELL: There is no question but what non-residential capital investment has been on an upswing over a long period of time, and since 1990 has moved from nine percent of real GDP to 13 percent of GDP.

MR. THUROW: But it went down from 12 to 9 in the '80s.

MR. ANGELL: It really ran around seven

percent for a long, long period of time, as U.S. residential capital investment exceeded our non-residential. So if you look at the data -- I'll show you a chart. It's very clear.

MR. THUROW: I'm remembering in the late '70s it was up at 12 percent of GDP non-residential investment.

MR. ANGELL: I think that's incorrect.

CHAIRMAN WEIDENBAUM: There have been several mentions of prison labor overseas. Could someone reconcile our antipathy towards prison labor overseas with the procurement requirement that if you're a Federal Government contractor you have to buy designated supplies from the Federal Prison Industries --

(Laughter.)

-- and states using prison labor for license plates and all that sort of thing? Can somebody -- could someone explain the consistency of this?

MR. THUROW: The answer, Murray, is that Americans are --

(Laughter.)

MR. LEWIS: Oliver Wendall Holmes said, "Consistency is the hobgoblin of little minds."

(Laughter.)

CHAIRMAN WEIDENBAUM: Forgive the suspicious fellow here. But this is why some of us think some of these standards are trade restrictions in disguise.

MR. WEINTRAUB: Well, the point that he's making -- sure there are a lot of trade restrictions. But some trade restrictions are justified.

For example, I support trying to prevent child labor as much as we can. And I think in those terms, not so much in trade terms, but much more in terms of justice and educating populations, which is more important.

Sure, we regulate an awful lot, it's the point you've been making. We try to regulate a lot of things in our own economy and spend a lot of money that other countries do not in this field. We hope we can make up some of those costs because of the greater productivity of the U.S. economy.

I wanted to refer to the Levi Strauss issue for a moment. I think I'm right, but I'm not sure; some of the other people here can tell me. Our mill sector in the textile industry is apparently doing quite well because when all of the problems began to come on, concerns about how the mill sector would survive, the producers went on to fairly important capital

investment.

A lot of jobs went -- got lost in the process - much of that happened in the steel industry as well. Producers began to become more efficient, so much so that the mill sector of the textile industry is exporting.

Mexico is now the biggest clothing exporter to the United States, because of NAFTA, and the biggest exporter of raw material, the cotton, and the other goods that go to Mexico are produced up here.

In other words, the argument I'm making is that the interchange of intermediate goods takes place where the efficiencies tend to be greatest. The process of moving the needles trade out of the country has been going on for a long, long time. Will it end at zero? No, I don't think so. But there are compensations in other parts of the industry.

Are people getting hurt when this happens?

Sure they are. They get hurt very much.

And then I come back to what Claude said.

We have an obligation at that point to help out to reduce that hurt. I think a lot of the adjustment assistance we've used over the years, too, has been terribly inefficient. We gave a lot of it out where it wasn't needed. Much of it didn't work very well.

And I agree with what Claude said. I'd rather spend money that way and do it inefficiently than destroy the economy in the process.

VICE CHAIRMAN PAPADIMITRIOU: Commissioner Wessel?

MR. WESSEL: One of the approaches advocated during the last Fast Track debate was an approach requiring that future trading agreements mandate that other countries that we sign agreements with enforce their labor and environmental laws that they had on the books.

Rather than moving towards a higher standard, what would be your view of the inclusion of that kind of approach?

MR. WEINTRAUB: Well, in a sense, that's what's in the supplemental agreement in NAFTA. But you're really saying it ought to be -- there ought to be a penalty that goes with this.

MR. WESSEL: NAFTA only includes labor -- health and safety and child labor.

MR. WEINTRAUB: Your own laws. You're right.

MR. WESSEL: It does not include the other laws all through the enforcement process. Would you be willing to support full inclusion of enforcement?

MR. WEINTRAUB: And then have a penalty against countries who don't do it?

MR. WESSEL: If they fail to enforce, much as we do with our other trade laws.

MR. WEINTRAUB: And whatever laws we don't enforce, we get -- we get penalized as well.

MR. WESSEL: Clearly.

MR. WEINTRAUB: No. The answer to your question is no. I think -- I think what you would have is a wave of trade restrictions that would make some of the ones we have now in the anti-dumping field look like child's play.

MS. HILLS: Mike, the NAFTA provided that to not enforce environmental provisions for the purpose of gaining trade was the prohibition -- for the purpose of. Our Congress at that time, and our various interest groups, were extremely sensitive that our trading partners would seek to enforce our environmental laws as a ceding of our sovereignty.

And they were quite exercised that it might spread into the labor field, particularly into the enforcement of such provisions as children who are truants.

So that what we agreed to in the NAFTA was not a carte blanche of enforcement with respect to the

environmental laws, but a very focused waiver of the enforcement in order to gain a trade advantage. That, I believe, has worked adequately.

MR. WESSEL: We can have deep disagreements on that in the environment and the labor area and how well it has worked with Mexico, or how well that could be moved forward in other countries. Clearly, we understand the divisions in our own political system on that issue.

MR. LEWIS: I have to leave very soon. I would just like to thank the panel very much for taking your time to help educate us. Thank you very much.

VICE CHAIRMAN PAPADIMITRIOU: I think we probably should conclude the session. So with that, I want to thank you all for coming. I appreciate your thoughtful and thought-provoking commentaries.

This session is adjourned.

(Whereupon, at 4:27 p.m., the proceedings in the foregoing matter went off the record.)