

DR. STERN: Thank you so much for inviting me here today. I'd like to make six points and I would like to relate them to the realities of the political situation with particular reference to the collapse of the World Trade Organization's ministerial last week in Seattle. There are basic themes that I've raised over the course of my career in trade politics policy and administration and they are:

One, to recognize that competition from overseas is a major reason for the U.S.'s extraordinary economic performance over the past decade. Open market countries like the U.S. are growing. Closed market ones are stagnant. The U.S. is open.

Secondly, we should analyze the composition of the trade deficit. You've been hearing some other points about analyzing what the trade deficit is buying, consumption versus investment, but I would also like to say that you should analyze the deficit to look at its composition and not just consider it in its pure

aggregate form. We do have problem areas and we ought to understand where they are in order that we shape, when the government does step in, proper solutions to be implemented.

Thirdly, we need to establish a realistic agenda for trade liberalization and adopt new institutional modalities, both at home and overseas, that recognizes the developments that have occurred in the last 30 or 40 years. The GATT system has impelled liberalization, but it's time to think more outside the box and develop some new constructive paradigms including on a regional and bilateral basis. In short, we must do the do-able. We should not oversell. We should not over promise.

Fourth, we should use the existing escape clause law which is on our books now. When specific industries are being seriously injured by imports, the neglect of the WTO legal safeguard law is costing all of us. It's costing workers in those industries, for

example, the steel wire rod case where the Administration is 10 weeks overdue in determining whether they're going to give import relief under the law. But it's costing every Administration in the sense that it's undermining the trust and integrity in the whole system of a rule of law leaving us, frankly, with the option of rule of the jungle and I don't think that's the alternative that we would like to see.

Fifth, we ought to reorganize the structure of our own government -- I described this in an essay called "Getting the Boxes Right" -- to create a Department of Economic Industry and Trade Affairs so that we can better implement our laws. The fact that we've had this slip in the deadline I think is a good example of problems. There have been a number of problem areas, which suggests we could be doing things at home better as well as overseas better at the WTO.

And finally, we should effectively utilize our human resources through retraining and retooling of

the labor force. Everyone knows that job changes are going to happen and we have to better equipped and flexible at accommodating these changes.

These six points reflect my own trade policy philosophy which has guided my professional work in Washington. If we don't face the domestic political imperative, we will not have the necessary domestic and political constituency to underpin our trade policies.

This sounds obvious, but failure to heed this domestic political imperative imperils U.S. trade policy or any policy for that matter. Congressional and public criticism of the operations of the old post-World II Bretton Woods institutions, including the WTO, the IMF and the World Bank is a reality we must heed.

The collapse last week in Seattle is also an undeniable reality, as is the failure to achieve fast-track authority for Congress that is needed to initiate any new multilateral or regional trade pacts.

Years ago I wrote a book which basically talks about the intertwining of domestic politics and trade policy; and that phenomenon when I wrote the book, Water's Edge, is just as true today as it was when I described how the Jackson-Vanick Amendment to the Trade Reform Act became the law of the land back in 1974.

Now it is a good time today in our economy. You've heard numbers of economists here testify to that, and I think the consumers appreciate that as well. This bright picture of the economy underlies my first basic point, if I could elaborate now on those six points. First, competition is a good thing and liberalization of trade is an important contributor to the increased competition in the U.S.

It is driving and helping drive our good performance. The government has played a strong supporting, but not starring role in this dramatic shift from the bad old days when I was at the Commission in the 1970s and 1980s to this very rosy picture now. And trade

has been an important part of that story, good story.

And before adopting any recommendations to shrink our trade deficit, policy makers should appreciate that, standing alone, the trade deficit is not a threat. Rather, we should look and focus our energies and attention on just those industries that need help. And I elaborate on that in my longer testimony.

Related to that realistic message is that in our trade negotiations we should only try to do the doable. We have, I think ample warnings from Seattle of the need to move back. I suggest in its place that we look at things that do work; for example, the Transatlantic Business Dialogue, particularly dialogues with those developed countries where we share labor standards and health standards and other standards, but where there are real burdens to liberalized trade. There, we should focus, I think, our attention and it would be more acceptable to Congress and those Congress represents.

I understand that the light is on. I just suggest that you look again and redouble the appreciation of what we do have available in this government now to deal with the problem areas, specifically the escape clause action, Section 201 of the law.

Thank you for your attention.