

Testimony to the U.S. Trade Deficit Review Commission

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Thank you, Mr. Chairman, members of the commission, and President Becker, for the invitation to address you. I am speaking on behalf of the 1.3 million members of the American Federation of State, County and Municipal Employees including over a half million who work for our New York affiliates, New York City District Council #37 and the New York State Civil Service Employees Association (CSEA).

The work of this commission has important consequences for all American workers, whether they work in the private or the public sector, as well as for workers in other countries. The negative impact of U.S. trade policy on workers in the U.S. and abroad – most forcefully exemplified by the enormous and steadily growing U.S. trade deficit – has consequences that go far beyond the widely acknowledged problems associated with the dramatic erosion of the U.S. manufacturing base.

According to recently released U.S. Commerce Department figures, the goods and services trade deficit increased in 1999 by 65 percent to \$271 billion – a record high.

This massive U.S. trade deficit is not an abstract accounting figure. Proponents of our present trade policy tout the role of increased U.S. exports in created U.S. jobs. But just as exports create jobs. imports destroy jobs. Our \$271 billion trade deficit means that far more jobs are lost due to our present trade policy than are created by it.

Increased imports hurt not just workers who lose their jobs, but those still employed who must now compete with goods made in Mexico for a dollar an hour or in China for a dollar a day. Unfair competition from low-wage imports and the threat of corporate relocation to low-wage countries makes workers less secure and less able to seek and obtain higher wages. Our trade policy goes a long way toward explaining why, despite our marathon economic expansion, workers' wages have yet to catch up to the level of the mid-1970's.

What does this mean for the public sector. where most of AFSCME's members are employed? The public sector cannot prosper and grow if key industries are dying as a result of misguided trade policies that place corporate interests above those of workers and communities. As industries shed high-paying jobs, the state and local tax base that supports public services also narrows. Sometimes. the economies of entire communities are undermined.

Case in point: the U.S. government has designated over 207 counties across the country as casualties of NAFTA-related job loss and capital flight. To be designated as such requires not only company- or sector-specific job loss. but major damage to the economy of the entire area.

This poses an obvious policy question: why does the U.S. continue to pursue trade policies through trade agreements like NAFTA and the WTO that have proved so harmful to workers and communities? Quite simply, our trade policy favors corporate interests, and corporations benefit from the ability to move to where labor costs are lowest and workers are least empowered.

Corporations also benefit when U.S. workers wages are suppressed due to unfair competition with foreign workers earning poverty wages. While workers wages have grown by 0% since 1973, corporate profits have increased by 88%. So much for the “rising tide lifts all boats” theory of trade economics.

It is significant that this panel is addressing the role the service sector can play in U.S. export growth. This focus reflects the conventional view that the U.S.’ economic future lies in the service sector. Along these lines, supporters of corporate-managed trade policy increasingly look to the service sector as a solution to the U.S. trade deficit. They note that the low unemployment rate is largely a result of rapid job creation within the U.S. in the services sector. They also point to the consistent U.S. trade surplus in the service sector and argue that growth in services and continued opening of global service markets can offset the U.S. trade deficit in goods.

However. the most recent trade data cast serious doubts on the notion that U.S. trade in services is the solution to what ails us: between 1997 and 1999, the U.S. trade surplus in services shrank by 18%, and now stands at its lowest point since 1994. And services trade has not grown as a share of U.S. exports since the mid- 1990s, remaining at 22% since 1995.

Moreover. advances in telecommunications and internet technology ensure that services can be provided halfway across the world and exported to the U.S. with the mere push of a button. Trade Agreements like NAFTA and the WTO's General Agreement on Trade in Services (GATS). which aim to make services just as mobile as goods, are progressively eliminating barriers to service sector mobility. As a result. public and private sector service jobs in the U.S. are increasingly vulnerable to flight to cheap labor markets overseas.

A number of hospitals in the U.S. have outsourced data transcription services to workers in Bangalore, India who make \$1.30 per hour – one tenth of what their U.S. counterparts make. Even high-paying jobs – like accounting and computer programming for instance – have been shipped to “electronic sweatshops” in the third world. Information technology industry analysts estimate that overseas outsourcing of computer programming has grown by 30% annually since 1993.

Indeed. the fastest growing segment of Mexico’s maquiladora industry is services. NAFTA’s procurement rules ensure that the public sector as well as the private sector can shift jobs there. For instance, the Navy Medical Center in San Diego pays 30 cents a pound for laundry services outsourced to Baja California, Mexico.

The eradication of technological and legal barriers to services mobility, therefore, condemns our public as well as private service sector jobs to the same insecurity as those in the manufacturing sector. Corporate beneficiaries of public services outsourced or privatized by state and local governments will not necessarily keep these jobs in the community; rather, our trade and investment agreements give corporations every incentive to shift these jobs to low-wage locales in the third world.

Recent trends in services trade delivery reveal another limitation: since 1996, the majority of U.S. service sales have not been made by U.S.-based service providers, but by U.S. corporations that have established a commercial presence overseas by acquiring foreign banks, utilities,

hospitals and other facilities. The GATS agreement and proposed investment agreements like the Multilateral Agreement on Investment are designed to increase this direct investment mode of services delivery. However, service sales of U.S. overseas subsidiaries do not generate significant income for the U.S. economy, and in fact can destroy U.S. jobs if the overseas affiliates are supplying services to the U.S. market. Simply, foreign investment in services does not lead to appreciable job growth in the U.S. and does not generate enough income in the U.S. to help offset the trade deficit.

The only way to reverse the deficit is to pursue a trade policy that emphasizes respect for the rights of workers in the nations with which we trade. As long as we continue to encourage unfair competition, as long as goods and services made with repressed labor continue to flow unimpeded into the U.S., the net effect of our foreign trade will be to destroy good jobs and deepen inequality. At the same time, until workers in the developing world are empowered to demand decent wages and improve their standard of living, markets for U.S. exports will not prosper.

If we are serious about eliminating trade deficit then we must get serious about promoting the enforcement of internationally recognized labor rights. This would eliminate unfair competition between workers in the U.S. and abroad, protect good jobs and promote exports. At the same time, the right to organize and bargain collectively, the right to a safe workplace, and freedom from forced and child labor must be secured for workers in the developing world if they are to enjoy the fruits of full participation in the global economy.

While workers' rights figure prominently in the rhetoric of our trade officials, they have yet to become a fixture of our policy. The misguided trade deal with China and the push for permanent normal trade relations are prime examples.

Another major problem with our present trade policy is our posture on privatization. Our trade officials advocate a global agenda of indiscriminate privatization of state-run services, including banking, telecommunications, utilities, healthcare, education and other public services – a policy that actually discourages job and income growth in the developing world. Privatization is, however, a good deal for U.S. corporations, who gain the right to compete against weaker domestic industries in those sectors.

The U.S. promotes this policy through financial institutions like the International Monetary Fund and the World Bank, global commercial rules like the WTO and NAFTA, and proposed trade agreements like the bills now before Congress addressing our trade relations with Africa and the Caribbean basin. All of these agreements and institutions promote privatization and international competition across the services sector. Not a single one promotes strong labor rights enforcement mechanisms.

As a member of Public Services International, AFSCME is concerned that all countries have a thriving public sector that ensures that vital services are provided to communities that need them. Privatization has been cloaked in the rhetoric of eliminating “the bloated public sector” in favor of more efficient private competition. U.S. experience in recent years, however, reveals a litany of problems related to privatization of the public sector: low quality of service, higher rather than lower costs for consumers, less accountability to the public, and declining wages and working

conditions for service providers. The increasing degradation of healthcare delivery in the U.S. is but one glaring example.

The privatization pushed by the U.S. on behalf of multinational corporations is even more painful for poor and developing countries that lack the political, regulatory and legal infrastructure to ensure that corporate providers of public services are held accountable to social goals.

For example, according to the United Nations, privatization of water in many developing countries has had a perverse effect that ensures that only the wealthy can afford to be hooked up to public water systems. Meanwhile the poor – who have the biggest need for public access to potable water – are forced to purchase water from vendors, paying 83 times more than the rich in Pakistan, 60 times more in Indonesia and 20 times more in Peru.

In eastern European transition economies, privatization of public utilities has led to massive worker displacement and skyrocketing consumer prices: In Poland, with the elimination of subsidies for poor and rural communities, average domestic tariffs were projected to rise by an estimated 600% by 1997. In Lithuania, electricity prices rose by 400% after privatization. In Hungary, the much-ballyhooed purchase of state-run Tungsram lighting company by General Electric led to the lay-off of 25,000 of Tungsram's 35,000 employees, most of whom were forced into early retirement.

Despite the demonstrated failures of indiscriminate privatization and the mounting toll in terms of human suffering, the U.S. has explicitly targeted the health and education sectors for further trade liberalization in the WTO.

Our international push for privatization has consequences for the U.S. as well. International service sector agreements like the GATS lock in privatization undertaken by our trading partners – meaning that once they have committed to privatize services and allow foreign firms to compete in their services sectors, international trade rules prohibit them from reversing course.

However, these trade agreements also lock in any commitments the U.S. makes to privatize and open our services sector. These commitments **become**, in effect, a permanent part of U.S. law. The more the U.S. opens its own healthcare, education or utilities sectors to international competition, **the more difficult it is for the U.S. to reverse its own ill-advised privatizations.**

Another matter of significant concern for AFSCME is the U.S.' stance on the international regulation of e-commerce. E-commerce is an exciting high-growth service that presents lucrative opportunities to U.S. companies who clearly enjoy a competitive advantage vis-a-vis foreign companies. In its zeal to exploit this advantage the U.S. has pressed for international rules that keep e-commerce as open and deregulated as possible, and has indeed called for a global ban on new **internet** taxes in the WTO e-commerce working group.

What does this mean for states and localities, which depend on sales taxes for a significant part of their revenue? At this time, the U.S. has a moratorium on state taxes on internet sales in effect until 2001. If the WTO adopts the U.S.' "no new tax" proposal before then, would state governments be foreclosed from treating internet sales the same as traditional retail sales for tax

purposes? U.S. trade policy makers must make sure that their advocacy on behalf of the e-commerce industry does not lead to trade policy that undermines the fiscal health of state and local governments.

Other questions arise that underscore the necessity of engaging in a serious, inclusive and balanced trade policy discussion on the tax treatment of e-commerce with state and local stakeholders. For instance, goods like music and books are not only sold over the internet, but can be sold in digitalized versions and downloaded onto computers as “virtual products.” If the U.S. presses for these digital products to be defined as services rather than goods in WTO rules, state and local sales taxes would be pre-empted by international law. However, the doctrine of tax neutrality demands that international tax regulations on e-commerce not favor the sale of digital goods over their physical equivalents.

International trade rules are more visible and invasive than ever, impacting the whole diversity of policies that affect peoples’ everyday lives – from environmental protection to food safety to government procurement. It is this last subject – government procurement – that I would close my testimony with today.

When federal, state or local government plays a role in the economy by procuring products or contracting work, these government actions should promote decent pay and fair treatment of workers. Purchasing decisions should also take into account the values of the community. These principles underlie long-standing policies like prevailing wage and affirmative action in government contracting.

More recently, these principles have inspired efforts across the country to ensure that workers at firms receiving state or local government contracts or subsidies pay their employees a living wage – efforts in which AFSCME has been proud to play a part. And increasingly, state and local governments in the U.S. are taking human rights issues into account in their procurement decisions – for example, denying government contracts to firms that do business with the dictatorship in Burma.

Unfortunately, while social and moral concerns are becoming a more important part of the procurement process domestically, our trade **officials** are negotiating international agreements designed to move government procurement policy in the opposite direction. The GATT Agreement on Government Procurement, which binds over 25 U.S. states and cities, says that the only criteria that a government can take into account when making purchasing choices is the bidders’ ability to perform the contract for the least amount of money.

Governments cannot screen out corporations that invest in dictatorships, that have abused workers in overseas subsidiaries, that outsource with companies that do not respect basic labor rights, or even use child labor. These rules make it more difficult for governments to make enlightened purchasing choices and more difficult for citizens to hold public officials accountable for the use of tax dollars. Already, this agreement has been used to challenge a Massachusetts law designed to use government procurement as a tool to promote human rights and worker rights.

As demonstrated by the variety of subjects I've addressed here today, international trade policy has extraordinarily broad implications for policy making on the state and local levels, as well as the federal level; for government regulators as well as corporate CEOs; for public sector employees as well as workers in the manufacturing industry. There is one central flaw that underlies all of the primary failures of U.S. trade policy – from the giant U.S. trade deficit to anti-labor, anti-environmental and anti-public interest biases in institutions like NAFTA and the WTO. This flaw is that multinationals corporations, one of society's narrowest stakeholders, continue to wield enormous influence over the shape of our trade policy, substituting the perceived needs of their executives and major shareholders for the concerns, values and interests of ordinary working Americans.

There are encouraging signs that things are about to change. The enormous outpouring of grassroots concern in Seattle last year sent a clear message that working people must not and will not be shut out of the economic decisions that affect our lives. The overwhelming public opposition to permanent NTR for China and the global calls for an end to the IMF's mandatory privatization and structural adjustment policies for poor nations are further evidence of an increasingly engaged public. The trade policy debate, long the private preserve of corporate executives and official experts, is being democratized – heralding an end to the kind of trade rules that undermine living standards, destroy jobs and threaten the quality of life for ordinary people in the U.S. and abroad.