MR. HOWLEY: Good afternoon. My name is John Howley. I'm Public Policy Director for SEIU.

And I want to thank Chairman D'Amato and the other members of the Commission for this opportunity to present SEIU's views and also to convey the regrets of President Stern that he could not be here himself.

SEIU is not perhaps so well known as, say, the Steelworkers Union. So let me just take a moment and tell you what our members do. About half of our members are employees of state and local governments. About a third of our members are health care workers of various types. We're the largest union of health care workers in North America, and under our original jurisdiction we are building service workers. The folks who clean and maintain the World Trade Center down the street are SEIU members.

And lest you think that it's a strange mixture of SEIU and trade policy, let me just point out to you that we in the labor movement often criticize the NAFTA agreement for not containing any labor protective language. In fact, it does contain some labor protective language.

Chapter 16 on the temporary entry of business persons forbids the use of that language to bring strike breakers into the country, and I'm sure

Commissioner Hills remembers some of our discussions on that issue.

Our members work in a whole range of occupations, from janitor to physicians, but they're united by the same desire for economic security for themselves and their families.

SEIU believes that we need a bold, new approach to trade policy to insure that our economic prosperity continues and is broadly shared.

Effective trade policy is critical to the economic security of working Americans at present. The size of our goods and services trade deficit, $271 billion, raises a large, red flag. It is our largest imbalance ever and appears to be structural rather than the result of temporary factors.

Some economists would minimize the dangers of the trade deficit saying it's not significant and will decline by itself. However, instead of getting smaller, it's been growing larger year by year, and more and more people are wondering how big is too big.

The sizable and unsustainable trade deficit is a concern to us for two reasons. First, the gap symbolizes a net loss of good paying jobs.

Second, the process of adjusting this deficit in the future may, in fact, be a painful one that entails increased inflation and unemployment.

I wish I could say that the service sector would ride to the rescue. Indeed, our surplus of $76 billion does help to reduce our trade imbalance, and we should take steps to increase our service exports.

But there is no way that the service surplus can make up for the large and growing goods deficit which increased by 41 percent in 1999 alone.

It's unrealistic to expect the service sector can close this gap and, in fact, the service surplus is shrinking.

Furthermore, it's not clear that the content of service trade would provide an adequate substitute for the goods producing jobs that are being lost. For example, U.S. receipts of royalties and license fees account for roughly one third of our service surplus, and these revenues represent payments to owners of intellectual property rather than the direct creation of high quality jobs.

In our domestic economy, the ongoing shift towards service jobs has been a mixed blessing. According to the Bureau of Labor Statistics, the ten occupations projected to add the most jobs by 2008 are all service occupations. Four are occupations that pay below average wages: retail sales persons, cashiers, home health aids, and teacher assistants.

On the other hand, four of these occupations are in the highest quartile of pay. So it appears that the shift towards service jobs is contributing to the growth of income inequality.

Job quality is central to understanding the impact of trade policy on American workers. Over the past two years we have lost half a million manufacturing jobs. These are jobs that tend to pay better than average and provide better benefits.

The quality of jobs gained and lost must surely be taken into account in the development of trade policy.

Current trade policy has failed to meet the challenges indicated by the size of our trade deficit, now three percent of GDP. Our policy of opening our markets and hoping for the best has led to larger, not smaller trade imbalances. In fact, our trade deficits are most severe and chronic in those countries with whom we have apparently pursued the most aggressive market opening policies: Mexico, China, and Japan, for example.

SEIU believes that we need a fresh approach to trade. No one is happy with the current state of trade policy in the United States. However, a better trade policy can come about when we as a nation can speak with one voice in the arena of international economic relations.

Unions are not opposed to international trade and investment. Union members buy imported goods and services and produce exports. We travel abroad. We provide services to foreigners visiting the United States. Our pension funds are invested in every corner of the globe.

Union members are opposed to being shut out of the trade policymaking process. The framers of the Constitution widely included the requirement that treaties be adopted by a two-thirds majority of the Senate because they knew that changes in relations with foreign countries were too important to be rammed through on a 50 percent plus one basis.

Successful international relations including trade and investment policy require clear national consensus, consensus we manifestly do not have when it comes to trade policy; consensus we will have only when the needs and interests of workers, consumers, and the environment are taken fully into account.

Unfortunately, our policymaking has chosen to focus almost exclusively on the interests of the business community, to the exclusion of others. Consensus is not easy. It requires compromise and discussion, but we're convinced if everyone gives a little, we'll all end up with more.

Another important goal must be reducing the burden of adjustment in trade policy on workers and communities. The mainstream economic justification for increased trade openness recognizes that some workers and firms will suffer losses, and these will be offset by gains.

Unfortunately we've consistently demonstrated an inability to fashion adequate mechanisms for fully compensating the losers. Developing fully adequate compensation programs makes sense on economic, political and moral grounds.

The public is divided over trade policy with job loss a major concern among trade skeptics, and while the number of workers dislocated by imports in any one year is small, the threat of layoffs resonates across the entire work force. This is because the cost of dislocation to a mid-career worker can, indeed, be very steep.

The burden of this adjustment is magnified by the other shortcomings of our social policy. Chief among these is the absence of universal health coverage. Universal health coverage would go a long way towards easing the burden of adjustment for individual workers and reducing public anxiety about international trade.

Furthermore, the symbolic loss of jobs for workers has been increased by the growing income inequality in our society which threatens individuals with downward mobility should they lose their jobs. Average real earnings have still not recovered their 1973 levels.

One of the big differences between the United States and Europe is the degree of commitment to moderate-income inequality as a matter of national policy. Accordingly, public acrimony over trade policy is much less in European countries than in the United States.

Indeed, conflict over trade policy seems to have arisen along with income inequality in the United States. Income inequality can be reduced by restoring the value of the minimum wage and promoting collective bargaining as well as through progressive tax policy. This will also help to ease the burden of adjustment for laid off workers and reduce anxiety about potential job loss among other workers.

A strong public sector is also vital to ameliorating the effects of trade related dislocations that are often localized. Social insurance programs redistribute resources across regions. When factories close, programs like Medicare and Medicaid cushion the impact on local health care facilities.

Public services also play a crucial role in insuring the competitiveness of our export industries. The public service educates our skilled work force and provides the modern, efficient transportation infrastructure that is vital to our economics test.

In view of the significant economic role of public services, it is dismaying to hear U.S. trade officials portraying public services as inherently inefficient and detrimental to economic activity. This bias against the public service is being written into trade agreements in ways that could block the expansion of public services even when public provision may be more cost effective or serve important social goals.

It cannot be noted too often that the Internet, an arena of innovation where the United States far outpaces the rest of the world, originated with publicly funded research. It is ironic, therefore, that E-commerce would be used to undermine the revenue base of the public sector.

U.S. trade officials currently oppose the taxation of E-commerce in international forums. Should this position prevail in the World Trade Organization, state and local governments here at home might be further stymied in their efforts to insure a level playing field between Internet sales and face-to-face transactions.

A final ingredient in building a consensus for trade expansion is some guarantee that U.S. workers will not be competing with workers in countries where the government artificially suppresses labor standards. It is well known that many governments do this in the hopes of attracting foreign investment.

Our trade and investment policies must have a clear bias in favor of high road economic development and against low road economic development.

Collective bargaining and improved labor standards promote a broad middle class here and abroad that is the foundation of successful and stable development. By promoting greater income inequality throughout the world, we will increase the number of middle-income consumers who can afford to purchase our exports.

The present stalemate in U.S. trade policy is unacceptable and dangerous. The causes of out trade imbalance are complex and vary from country to country.

We need to increase exports both by lowering barriers to our goods and services, as well as insuring that foreign workers can afford our products. Simply throwing open our market to imports and hoping for the best isn't good enough, as the current imbalance demonstrates.

Instead of progressing, however, toward a consensus-based approach to trade policy, we appear to be moving in the opposite direction. AFL-CIO President John Sweeney and two other union leaders recently resigned from the Advisory Committee on Trade Policy to protest the announcement by the group's chairman that the sole item on this year's agenda would be promotion of the Administration's position on China's ascension to the World Trade Organization.

It's not too late. We can develop a national consensus for an effective trade policy if we can insure that the interests of all of society's stakeholders are taken into account as we write new rules for the global economy.

I look forward to answering your questions this afternoon.

Thank you.

CHAIRMAN D'AMATO: Thank you, Mr. Howley.

Chairman Weidenbaum.

CHAIRMAN WEIDENBAUM: I have a couple of questions for Professor Bluestone.

On page 1 you state, "A completely laissez faire trade policy inevitably contributes to increased inequality." My question is: insofar as we have no example of a completely laissez faire trade policy, certainly not in the U.S. in our time, what's the basis for your statement?

DR. BLUESTONE: The basis was a theoretical one. Actually later in my testimony -- I'll have to find the page for you -- I mention that, in fact, we've never had a perfectly laissez faire policy, nor would we expect to have one.

But my argument is that as we move closer to a free-trade regime which obeys Hecksher-Ohlin principles in terms of factor price equalization, there is a tendency toward a growth in inequality between skilled and unskilled workers given the relative factor proportions in our country and in others.

So that on theoretical grounds, as you move toward a perfectly free-trade position, you will have a tendency toward growth in inequality.

CHAIRMAN WEIDENBAUM: Okay, and then you --

DR. BLUESTONE: I think we'd agree on that.

CHAIRMAN WEIDENBAUM: Okay. Fine. Let me turn to the empirical question. On page 5 of your testimony, you downgrade the role of technology and income inequality. Your evidence is the decline or slow growth in earnings of science related professions during the period 1979 to 1992.

My question is: why did you ignore the massive decline in employment in the largest technology sector of the economy during that period? I'm referring to the defense industry, of course.

DR. BLUESTONE: Right.

CHAIRMAN WEIDENBAUM: From 1985 to 1999, just to refresh you, tens of thousands of engineers and scientists were laid off by defense contractors. Under those circumstances, it's hard for me to see how a decline in average earnings for science-based professions during that selected period that you chose proves your point at all.

DR. BLUESTONE: Yes. This is only one piece of evidence. There are obviously many factors going on.

CHAIRMAN WEIDENBAUM: That's the major evidence.

DR. BLUESTONE: Right.

CHAIRMAN WEIDENBAUM: That's the major evidence in your paper, isn't it?

DR. BLUESTONE: Well, no, there are actually two pieces of evidence. There's also evidence in the paper which I didn't present in my spoken testimony because of time limitation. To really determine that it's technology that has been the key factor in explaining the growth in inequality, you would presumably have to show that there has been an increase in the rate of technological change during the period in which we had the most rapid growth in inequality. There's very little evidence that there has been an increase in the rate of technological change at the time in which we had the increase in inequality.

And so many commentators, including Mr. Greenspan, have noted that we must look to other factors for some explanation of the growth in inequality.

CHAIRMAN WEIDENBAUM: Does this mean you're withdrawing your first point about the wage?

DR. BLUESTONE: No. I'm suggesting that there were perhaps more factors than I mentioned in this testimony that would affect the distribution of earnings between science based workers and those who are less affected by new technology, but I would still say that, in fact, the greatest growth in inequality has come about because of the very rapid growth in salaries of those who are not particularly affected by the technology relative to others.

CHAIRMAN WEIDENBAUM: But during the --

DR. BLUESTONE: There are many factors.

CHAIRMAN WEIDENBAUM: But you pick a period where there's a massive decline in technology employment. Of course, you would expect most of the wage expansion to be in the non-technology area at a time where the technology areas are undergoing a massive decline.

I say I fail to see where that leads to supporting your fundamental position.

DR. BLUESTONE: But I think you'd also find during that period of time there were large layoffs in some of our major manufacturing industries, and that most of the workers who lost their jobs as a result of the decline in defense spending were not scientists and engineers.

There were blue-collar workers and white-collar workers who were in the defense sector, many of whom were not scientists or technicians. They lost good, high paying jobs, and many of them ended up in lower paying service sector jobs.

CHAIRMAN WEIDENBAUM: As an alumnus of the defense industry, let me add to your stock of knowledge. You'll find that the engineering department of a typical defense company is by far the largest in terms of head count of a major defense company. So that during this period, this wasn't -- these weren't marginal declines in the employment of scientists and engineers. There were massive reductions.

Thank you very much.

DR. BLUESTONE: Good going.

CHAIRMAN D'AMATO: Commissioner Wessel.

COMMISSIONER WESSEL: Thank you.

I'd like to go to an issue that was discussed earlier today in several of the panels, the question of –

CHAIRMAN D’AMATO: Speak closer to the microphone.

COMMISSIONER WESSEL: The question about the inadequacy of the statistics and understanding some of the underlying trends that we all, I think, need to understand to get to the bottom of these issues.

On the one hand, we're told that the trade statistics are mismeasured, et cetera, but as we also look at the savings equation and the investment equation, it appears to me that there's some mismeasurement and some new thinking that we need to have to understand all of this.

Dr. Bluestone talked about how our economic growth can, in fact, be traced back in part to some of the investments that have been made over the years that have helped create the infrastructure to be able to succeed today.

The question I have is, and we talked about this somewhat earlier, that if you take savings out of your savings account and invest in your child's education, that's consumption even though, in fact, you're also investing in future economic growth. Are there new ways we should be looking at these statistics or are the economic formulas that have guided the traditional approach to these issues correct? Is there some new thinking we should be gaining as part of this process?

DR. BLUESTONE: I presume, Commissioner, that this question is aimed at me. The reason why any economy is interested in savings is not savings for its own sake. We're interested in savings and the savings rate because savings produce investment.

Our statistics, however, are not perfect, and they're particularly imperfect when it comes to measuring household savings. Because we measure all household spending as consumption, regardless of whether it's spent to buy a piece of jewelry or investment in a child's education, if I take $1,000 out of my savings account and use it to spend on my child's education, the measured savings rate actually goes down technically.

I think what we do need to do is have a better understanding of how much investment we're making, how much households are making, how much business is making, and I would add how much the government is making in investment which provides a stream of income over some future period of time.

The extra $1,000 I spend on my eight and a half year old's education today will not show up as greater income today or even tomorrow, but certainly if I don't make that investment today, it is going to have a major impact on his income and, by extension, the income of the nation ten or 15 years from now.

CHAIRMAN D'AMATO: Commissioner Angell.

COMMISSIONER ANGELL: Yes. Several of the panelists seem to have the view that while we're going through the increase in the trade deficit, things haven't turned out all that badly, but somehow or other down the road it gets worse, which is a rather strange perspective because one would ordinarily believe that when imports are growing faster than exports, that the impact upon demand for labor would be adversely affected.

But once you begin to adjust to that trade deficit, and at some point in time exports then grow more rapidly, that the adjustment period, I would think, would be welcomed as being a much, much better environment for labor.

Now, I don't understand how the bad shoe is about to fall when one would assume that if there is any shoe to fall, it would fall while the trade deficit is rising.

DR. BLUESTONE: I'm willing to take a crack at that issue.

My argument, and I think you'll find it in my testimony --

COMMISSIONER ANGELL: Could you repeat the question, please?

DR. BLUESTONE: The question as I understand it is that the panel seems to suggest that the trade deficit, even as it approaches $300 billion, is not a serious problem today, but in the future it could be a very serious problem for American labor.

My answer is that it is a serious problem for American labor today, but it doesn't show up in terms of employment. It shows up in the other labor market statistic, wages and particular the distribution of earnings.

And the reason for that is that the trade deficit is overwhelmingly due to the decline in employment in manufacturing. That's where its major impact is felt, and therefore, we move from an economy dominated by a sector where earnings tend to be more equal to an economy dominated by services where earnings and equality are much higher.

So, that as a matter of fact, there is an impact today. It doesn't show up in employment. It shows up in terms of the distribution of earnings. If as a result of renewed growth in the European economies and perhaps some day even in the Japanese economy, our trade deficit could decline as a result of growing exports, including manufactured goods made here. I suspect that over time this would have a beneficial impact on the earnings distribution.

COMMISSIONER ANGELL: But why wouldn't an increase in income equality not be temporary? That is, why would it not be that if you have more trade and you have some workers' productivity rises versus other workers and their wage inequality grows worth, why then would it not be that workers would choose to acquire the educational skills in order to be able to earn the higher wage? And so why wouldn't then that rise in inequality only be a temporary phenomenon that would be followed by a shift of workers into the higher paying occupations?

AMBASSADOR NILES: I wonder if I might just add something to this discussion. It's true, as

Professor Bluestone maintained, that from 1973 to '93 there was a decline in real wages for the bottom 20 percent.

COMMISSIONER ANGELL: But I must caution. I must caution. Anyone using those data must understand that we altered the way we configured consumer prices and the homeowners' equivalent rent, and we thereby took an 11 percent hit on real wages simply by a definitional adjustment.

AMBASSADOR NILES: This is quite true, but I would like to add that from 1993 to 1998 real wages for the bottom 20 percent increased by 2.7 percent annually, and these figures followed the same methodology in both periods. So the changes that you mentioned I don't think would affect that.

So I don't think it's true to say that the process of globalization has resulted in an increase in income inequality. During one period, indeed, that happened, but during a subsequent period, say, from 1993 to 1998 -- and I think that has continued through '99 and into the current year -- income inequality in this country has declined somewhat.

Now, the other point which I'd like to make is that the trade deficit can in no way be considered a result of the decline in manufacturing activity in the United States. U.S. manufacturing exports have continued to grow, although during the years of the Asian economic crisis they did decline for some markets.

The trade deficit is the difference between consumption in the United States and what we produce, and unfortunately during the last few years, perhaps because of the wealth effect, in part, we've tended to consume considerably more than we have produced, and thus the trade deficit.

So the answer to our problem is primarily here at home in terms of the macro economic balances. We have to find some way gradually over time to reduce the level of consumption.

Thank you, sir.

COMMISSIONER ANGELL: Ambassador, I'm in perfect agreement with your analysis, but your statements were not among those that I was challenging. Thank you.

MR. KOHL: Let me try three stories, and although they're anecdotes, perhaps they illustrate our points. First there is a manufacturing plant in Louisiana that used to have 3,000 people in it and today doesn't produce any phone sets, which is good, in America anymore. Some 80 percent of the people who worked there make a lot less than what they did when they had a decent union job producing those now imported phone sets.

For them the temporary adjustment may be for the rest of their lives, but they are, in fact, disadvantaged in that significantly.

Let me skip now to Seattle. There we have a story of a software editor who worked in editing Encarta, the Microsoft product, the World Book. He'd like to go learn ASP programming, which is now the hot software program that everybody should learn. He's got a wife; he's got children. He can't afford to go back to school to learn ASP programming. He won't be able to grab a hold of the new economy in that sense.

And then thirdly, there's a woman who works at Amazon.com, as do hundreds mostly female workers. They are all college educated. They're making $10 an hour. They work a 50-hour week so that they can get the overtime so that they can make ends meet. This is outrageous in terms of that future economy. The disparate impact on their wealth, particularly compared with the incredible wealth that's been created at Amazon.com presents a growing social problem.

COMMISSIONER ANGELL: I don't understand your point, but fine.

CHAIRMAN D'AMATO: We'll move on. We've got to be brief. We're running a little bit late.

Commissioner Krueger.

COMMISSIONER KRUEGER: Thank you.

My question is for Dr. Bluestone.

One can share your view on the need for more investment in education, public goods, and so on without going into the inequality. It seems to me those are both logically and otherwise separate, and I'd like to focus on the inequality part of things.

And I have three very related questions, and I'll put them to you quickly. You said in answer to Commissioner Weidenbaum's point that you're using the Hecksher-Ohlin-Samuelson model to say that this is what generated increased inequality.

Now, the Hecksher-Ohlin-Samuelson model you know as well as I do works whether you've got trade balance or trade imbalance. It isn't a matter of the deficit. That's question one.

Point number two, if instead you use an intra-industry model of trade, it need not follow.

And number three, if you have specialization in the skilled and capital-intensive industries, it wouldn't follow either. In fact, more trade, as long as their average wage is above those in unskilled workers, would raise the wage of unskilled labor.

I find it very difficult to know why you base something on a theory when the theory itself doesn't necessarily say that, except in circumstances that I'm not sure fit.

But secondly, isn't it true that most studies by econometricians and others of the increasing earnings gap during the time that it was increasing, which is as Ambassador Niles said until the early 1990s; isn't it true that they attribute 80 to 90 percent of the increase in the earnings gap during that time either to differentials in education a la Murphy or to technical change a la Grilliches and Johnson and some of the other studies?

I mean yours would be a minority view, and question number three, you talked about moving toward more trade liberalization as leading to more inequality. I think most people would say that the big period of trade liberalization in the United States came from 1948 to 1973 when we started with the Smoot-Hawley tariffs and then negotiated them down after World War II.

Wouldn't you agree that that was a period when earnings equality increased?

DR. BLUESTONE: Let me try and answer those very quickly. First of all, in terms of the trade deficit and Hechsher-Ohler-Samuelson theory, the trade deficit is not a cause. It is a result of everything else that is going on in the world of trade.

There are many reasons why we've had a rising trade deficit, one of them being the very weak economic growth experienced by many of our trading partners.

The fact is that if we did live in a world in which we fulfilled the Hechsher-Ohler-Samuelson assumptions, which are quite numerous -- there are about eight of them -- you would see factor price equalization.

COMMISSIONER KRUEGER: Or specialization?

DR. BLUESTONE: Or specialization, but in terms of factor price equalization, if you consider the relative supplies of skilled and unskilled labor here in the U.S. versus many of our trading partners, particularly in the newly industrialized world, you would see that there would be a tendency in both countries for some gap to grow between the skilled and unskilled workers, exacerbated by trade.

Inequality would occur even in the absence of trade, but because of many other factors, it would be exacerbated by trade.

Again, we may be talking about theory rather than practice, but I'm talking about what trends we might see.

In terms of the question about trade liberalization during the 1948 to '73 period, it is true we had trade liberalization, and what it did allow us during that period of time was to have a very significant increase in our manufacturing exports. Partly this was due to free trade. Partly it was due to the fact that much of the rest of the world had seen their manufacturing capacity destroyed during World War II.

But it did provide for us a massive export market. I believe in 1955 General Motors Corporation sold over two million Chevrolets abroad. They were sold in parts and then produced on rickety assembly lines elsewhere, but we did have a tremendous demand for our manufactured exports.

This led to the growth in industries where earnings tend to be more equal rather than less so, and contributed to the growth in equality during that period of time.

But most important, and I think this would relate also to Ambassador Niles' point, is that we've seen a slowdown in inequality most recently, but almost all of that can be attributed to the red hot economy we have with its four percent or better growth rate. This has meant that many workers, particularly those disadvantaged in terms of education or race, are now finding a place in the labor market. As long as we can keep the economy growing at four percent or better, growth is the one factor that reins in the otherwise strong tendency we have throughout the economy toward inequality.

Indeed, I'd be concerned that if the growth rate were to slow down very much, we would see the gap in earnings between those at the high end and at the bottom end growing rapidly again.

CHAIRMAN D'AMATO: Commissioner Zoellick.

COMMISSIONER ZOELLICK: Thank you.

First, I appreciate all of you taking the time to be here with us today and prepare the testimonies, and I also certainly respect your role, at least a number of you, in representing important interests in groups.

I heard industries and unions and stakeholders, and I felt a little uncertain, and I wasn't sure why, and then all of a sudden I recalled. It reminded me a little bit of Japan which has lots of good representation of producer sectors and a big trade surplus, and an economy that I wouldn't trade for ours for a minute.

And then I thought, "What's the group left out?" And it's consumers. I don't think any of you have mentioned consumers.

And so my question is: do you think lower prices and the freedom to choose goods and services is of benefits to consumers, and do you think the freedom to choose lower priced goods helps U.S. companies and the workers they employ? Just so we have this one last group on the record, I think I'd be interested in your review.

MR. HOWLEY: I'd be happy to reply to that. Obviously I think consumers in the United States, our members, benefit from having a broader array of goods to choose from and producers to choose from, but they don't benefit from trading with countries that artificially suppress labor standards and reduce the prices of those goods through those types of practices.

And I think also that Americans are concerned about them. They are stakeholders who are represented in the process through their elected representatives, and if their concerns about the rights of workers, be it in China, to the rights of workers to worship as they please, to form unions, to just have a rally to demand better conditions.

I think Americans are concerned about those kinds of things, and their views are going to be expressed in the political process.

COMMISSIONER ZOELLICK: Let me just then follow up. If a European country, for example, feels that we don't give enough holidays compared to a European country, do you think that we should allow Europeans to block goods from some of the members on this panel because they have a different set of social and labor standards?

MR. HOWLEY: Well, I don't think anyone is arguing on this panel that one country's labor standards should be imposed on other countries. There is a core set of internationally accepted labor standards, which don't have to do with our minimum wage, which don't have to do with the holidays that exist here, but have to do with prohibitions on child labor, have to do with the right to form unions and bargain collectively.

Those are the rights that people are talking about putting into trade agreements.

COMMISSIONER ZOELLICK: And you would restrict trade on the basis of those, as opposed to enforce those through other means, I gather, just so I have your position?

MR. HOWLEY: That should be an option. That is correct.

COMMISSIONER ZOELLICK: Any others want to say, or consumers, any part of this puzzle to you, Dr. Bluestone?

DR. BLUESTONE: Absolutely. Consumers are benefiting from expanded trade, and I favor expanded trade and want to see continued expanded trade. However, I also want to make sure that consumers in other countries have an equal chance to see their incomes rise, and in raising their incomes, this will be good for our country's workers, as well as theirs.

And that's why while I'm in favor of expanding trade as rapidly as we can, I also happen to favor the establishment of some international labor standards and international labor rights as a matter of trade policy.

COMMISSIONER ZOELLICK: Even if it prevents those consumers from being able to freely buy what they'd like? I just want to have the position.

DR. BLUESTONE: Right.

COMMISSIONER ZOELLICK: That's an understandable position.

I just want to make sure that you'd be willing to restrict the freedom to choose and the freedom to get lower prices for another purpose. It's understandable, and I just want to know.

DR. BLUESTONE: My answer is in some cases I would interfere with that right.

COMMISSIONER ZOELLICK: Thank you.

DR. BLUESTONE: If, in fact, goods were produced by slave labor in another country, I would want to prohibit their import into this country even at the cost of perhaps somewhat higher prices to our consumers.

CHAIRMAN D'AMATO: Thank you.

We're going to move on.

AMBASSADOR NILES: Could I --

CHAIRMAN D'AMATO: Commissioner Lewis?

AMBASSADOR NILES: Could I just comment --

CHAIRMAN D'AMATO: Yes, please go ahead.

AMBASSADOR NILES: -- very quickly?

Yes, consumers do benefit tremendously, and this has been overall beneficial to our economy. Studies suggest that the export sectors, the sectors in the developing countries that are most involved in foreign trade, including to the United States -- these are studies by the ILO and by the OECD -- are not those in which you find the most egregious labor practices.

There are problems, to be sure, but the export sectors tend to be the more modern, the more highly developed, more sophisticated, and ofttimes the sectors in which you will find foreign capital participating, including American companies.

And on the point about slave labor that Professor Bluestone mentioned, goods produced by slave labor are already prohibited entering into the United States. So this issue doesn't arise.

Thank you very much.

CHAIRMAN D'AMATO: Thank you.

Commissioner Lewis.

COMMISSIONER LEWIS: I have a question for Ambassador Niles.

Your statement indicated you thought at the time that this was written that there would be an increase in the surplus of services for 1999, which one of the other panelists mentioned that there's a further decrease in 1999. So there's a decrease two years in a row.

Are you expecting that -- question number one is are you expecting that to turn around in the future.

And number two, one of the other panelists mentioned the public investment in the growth of service with the ARPANET and NASA rockets and ICBMs, all alluding to growth in services with the research and development that occurred.

Would you respond to those two questions, please?

AMBASSADOR NILES: On the question of the positive balance in the services sector, it's true that largely due to reduced levels of economic growth in

Western Europe and to the Asian financial crisis, that the positive balance declined in 1997 and '98.

We think -- we think --

COMMISSIONER LEWIS: They had 1999 figures.

AMBASSADOR NILES: Well, no, no. I don't think they had '99 figures. They were talking about '97 and '98.

I think that in 1999, as economic conditions picked up in Asia and also in the European Union that the exports of services increased and that the positive balance probably stabilized or increased, and I think it will happen in the year 2000 as well.

COMMISSIONER LEWIS: Andrew Sterns' comments here indicated 1999 was less than 1998.

AMBASSADOR NILES: Well, I haven't seen those numbers. I don't know that we have full numbers for 1999 on services exports, but this was largely a result of trends in economic growth in our --

COMMISSIONER LEWIS: But you're expecting that to change?

AMBASSADOR NILES: -- trading partners.

I would expect as economic growth in Western Europe, for example, is reckoned to be three and a half, three, three and a half percent this year and the Asian economies recover, will see an increase in U.S. services exports more rapid than what we saw in

'97, '98, and perhaps '99. So the surplus should increase.

COMMISSIONER LEWIS: Okay. Now, would comment on --

AMBASSADOR NILES: About your point about --

COMMISSIONER LEWIS: -- public investment, public investment leading to the growth of service industries?

AMBASSADOR NILES: Well, to the extent that the development of the Internet was originally supported largely by the Department of Defense at its infancy, this is fine. But since then I would think you would find the explosive growth in the use of the Internet, and particularly the commercialization of the Internet has been almost entirely a private sector driven thing and not a government driven event.

So, sure, public investment did play a role at the beginning, and I think that's the proper role for public investment to support projects that might have a commercial payoff ten, 15, 20 years down the road, and indeed, that's what happened with the Internet.

We're talking about investment in 1970 that paid off in 1995.

COMMISSIONER LEWIS: Well, one of the panelists was making the point about infrastructure investment by the public, and you don't disagree with that.

AMBASSADOR NILES: I don't disagree with that, no, at a certain point in the process, but later on public investment in this sector has been negligible.

COMMISSIONER LEWIS: Right.

AMBASSADOR NILES: Certainly in the development of the latest integrated circuits, I don't think the Defense Department plays a major role in that process.

COMMISSIONER LEWIS: Right.

CHAIRMAN D'AMATO: Thank you very much.

We're running a little bit late and we’re going to move on. I'd like to thank the panel for coming. There's a rewarding cup of coffee behind the dais for you.

We'd like to call to the table the panel on transportation and insurance financial services: Ambassador Wisner, Captain Woerth, and Michael Ducker.

(Whereupon, the foregoing matter went off the record at 2:50 p.m. and went back on the record at 2:52 p.m.)

CHAIRMAN D'AMATO: We'd like to welcome this panel, Ambassador Wisner, Vice Chairman of AIG; Captain Duane Woerth, who's with the Air Line Pilots Association International; and Michael Ducker with Federal Express.

We'll start from left to right. Take ten minutes. The amber light will show at eight minutes to wrap up.

Ambassador Wisner.