

MR. SAUNDERS: Thank you. Thank you, Mr. Chairman and members of the Commission, for the invitation to address you.

I'm speaking on behalf of the 1.3 million members of the American Federation of State, Council and Municipal Employees, including over 300,000 workers in the health care industry. You have before you my written testimony submitted into the record of this hearing, which touches on a number of issues. I will attempt to summarize my testimony and focus on the impact of the trade deficit on health care services.

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.

The total U.S. trade deficit in goods and services increased by 65 percent to hit a record high in 1999, \$271 billion. The trade deficit in goods was \$341 billion. This represents \$341 billion worth of goods not produced here, not supporting American

families, not contributing to local, state, and federal tax bases.

While multinational corporations benefit from relocating to where labor rates are weakest and labor costs are lowest, U.S. workers have not. U.S. wages have stagnated since 1973, literally zero percent in real wage growth, while real corporate profits have soared by 88 percent.

Many supporters of our current trade policy look to the service sector to reverse the trade deficit. However, the most recent numbers cast serious doubt on the notion that U.S. trade and services is a solution to what ails us.

Between 1997 and 1999, the U.S. trade surplus in services shrank by 18 percent. It now stands at its lowest point since 1994 and has remained at 22 percent of all U.S. exports for the past four years.

In addition, the majority of sales by U.S. service companies are for those located overseas employing foreign workers and paying taxes overseas. These services generate significant income for the U.S. economy and can threaten U.S. jobs when overseas affiliates supply services to the U.S. market.

The private and public sectors of the economy are interrelated. One sector cannot prosper

and grow over the long term if there are systemic problems in another. If key industries are dying, the tax base of entire communities is undermined.

While it is often more difficult to quantify the effect on the public sector or entire communities, recently the U.S. government designated over 270 counties as casualties of NAFTA related job loss and capital flight. To be designated as such requires not only company or sector specific job losses, but major damage to the economy of the entire area.

Trade agreements like NAFTA and the WTO's general agreement on trade and services which aim to make services just as mobile as goods are beginning to impact on the U.S. health care sector. Public and private sector jobs in the U.S. are being exported to cheap and unprotected labor markets overseas.

For instance, the Navy Medical Center in San Diego pays 30 cents a pound for laundry services out-sourced to Baja, California-Mexico. Even higher paying jobs like data transcription services are being out-sourced by U.S. hospitals to workers in Bangalore, India, who make \$1.30 per hour, one tenth of what their U.S. counterparts make.

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 out-sourced or privatized by state and local governments will not necessarily keep these jobs in the community. Rather, U.S. trade and investment agreements give corporations every incentive to shift these jobs to low scale, low wage locales in the Third World.

Multinational corporations view health care as a \$3.3 trillion global market, and the way for them to gain access to it, through it is privatization. The goal of global privatization of key public services is a cornerstone of our trade policy. The U.S. pushes the privatization agenda through the IMF and the World Bank and agreements like the GATTs and NAFTA. All put privatization in competition above the goal of universal access to health care in the U.S. and worldwide.

Yet U.S. experience with health care privatization in recent years reveals a litany of problems related to privatization of the public sector: low quality of service, creaming, e.g., serving healthier, lower risk patients who often are more affluent to the exclusion of sicker, higher risk patients who are often poor; higher rather than lower

costs for consumers; less accountability to the public; and layoffs, declining wages, and working conditions for service sector workers.

These problems are more acute in poor and developing countries that lack the political regulatory and legal infrastructure to insure the corporate providers of public services are held accountable to social goals.

Like all WTO members, the U.S. has made commitments to open the medical services, insurance, banking, utilities, and other service industries to allow foreign investors to compete in these sectors. Attempts to reverse this course and bring health care back into the public sector would not be merely a domestic choice, but would be reviewable by the WTO.

The WTO has the power to compel the U.S. to compensate foreign providers or even impose economic sanctions if it decides the U.S. violated its GATTs commitment.

Therefore, the more the U.S. opens its own health care, education, or utility sectors to international competition, the more difficult it is for the U.S. to reverse privatization when it becomes clear that it's ill advised.

State governments play a large role in funding the medical safety net for the millions of

Americans that cannot afford health insurance. WTO rules apply to state and local governments, as well as federal governments. Thus, WTO policy on the tax treatment of E-commerce is a matter of great concern to states.

E-commerce is a high growth service that presents lucrative opportunities to U.S. companies who clearly enjoy a competitive advantage vis-à-vis foreign companies.

In its move to exploit the disadvantaged, U.S. has pressed for international rules that keep E-commerce as open and deregulated as possible, and it has, indeed, called for a global ban on new Internet taxes in the WTO E-commerce working group.

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

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.

One problem 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 NAFTA and the WTO. Multinational corporations, one of society's narrowest stakeholders, continue to wield enormous influence over the shape of our trade policy, submitting the perceived needs of the executives and major shareholders for the concerns, values, and interests of ordinary working Americans.

Our trade deficit will not reverse the direction until the rules of U.S. trade policy change.

Current trade and investment policies which reward the bottom line while ignoring the impact on people promote corporate mobility and flexibility at the expense of fundamental workers' rights, human rights, environmental standards, and community needs.

Thank you.

CHAIRMAN D'AMATO: Thank you very much, Mr. Saunders.

Now, Mr. Weidenbaum, did you want to say something?

CHAIRMAN WEIDENBAUM: I do have a question for Mr. Saunders, but before I get to that, I just want to thank the panel for alerting everyone to what may be one of the best kept secrets in the international services area, and that is our universities and our major medical institutions are major sources of export of services. We don't think of it that way. It's high tech and it's growing.

But I have a little question for Mr. Saunders.

In your written statement, you refer to electronic sweatshops in the Third World. That has a nice ring to it.

MR. SAUNDERS: What page?

CHAIRMAN WEIDENBAUM: Page 4, I believe. No, page 2. I'm sorry. Page 2.

I have a simple question. Is that the way the workers themselves describe their work environment?

MR. SAUNDERS: Based upon reviews and information that we have gleaned through travel overseas, clearly, you have a sweatshop environment in the new technological industries that are developing,

and we think that that's wrong. It creates a race to the bottom.

Clearly, you have sweatshops in the clothing industry and in other industries across the country, across the world, and we believe that based upon this race to the bottom that it's starting to exist in a new service sector, which is the technological services.

CHAIRMAN WEIDENBAUM: Well, I guess you really didn't answer my question, but the reason I asked the question, very frankly, is most everyone I know, whether they're businesses, whether they're labor people, whether they're professionals, they love competition in theory, but they sure hate low cost competition, and frankly, you seem to, you know, not be an exception to my rule, and I just want to give you an opportunity.

MR. SAUNDERS: Well, I think that there has to be standards. I think that it's unfair to expect that in any industry, whether it's the health care industry, or in education, that workers in this country should have to compete with workers in other countries who are receiving substandard wages, that are receiving 25 cents, 50 cents a day. I think that's completely unfair, and gives an unfair advantage to those

companies that are paying those kinds of workers that amount of money.

CHAIRMAN WEIDENBAUM: You come down. I see \$1.30. Now it's 50 cents a day.

MR. SAUNDERS: It depends upon what industry you're talking about.

CHAIRMAN WEIDENBAUM: Thank you.

MR. SAUNDERS: That was an example -- the 1.30 was an example with laundry services that are being provided in Mexico right now.

CHAIRMAN WEIDENBAUM: I guess one of my problems is I've actually been out in Asia and checked out some of these factories. You know, there's nothing like some first hand experience.

MR. SAUNDERS: There's no question about that.

CHAIRMAN WEIDENBAUM: Thank you.

CHAIRMAN D'AMATO: Commissioner Wessel.

COMMISSIONER WESSEL: I want to thank the panel for being here this afternoon.

I know it's late in the day, and I have one comment and then a couple of questions.

My question for Mr. Saunders, having traveled to many of the same facilities or many of the facilities around the globe that not only participate in manufacturing, but also some of these now back room

operations, it's clear when you evaluate many of those facilities up against the U.S. counterparts, the standards are much lower. The work conditions are not as good, and clearly, in many of these countries they are inhibited by not having the adequate labor rights that we have in this country.

So while we may value the fact that these people are working and that we're providing jobs overseas, we're doing so often at an unfair competitive advantage that diminishes opportunity here.

I'd like to ask you a question though about an issue that I don't believe you raised in your testimony. We've seen in the last several years, as a number of U.S. companies have faced the pressures of international trade, that they've looked at the potential of moving their facilities offshore, and a number of states and localities have decided to try and grant certain tax benefits and other give-backs, et cetera, to keep them here.

I expect that that -- I shouldn't say "expect" -- that diminishes our tax base, and I expect that has an impact on the members of your union who are state, county, and municipal employees.

What experience have you had in this in terms of that, as well as the bidding between states to try and gain productive facilities here in the U.S.?

MR. SAUNDERS: Well, it has a devastating impact on the fiscal balance that could exist within the state. You can take a look at a number of examples across the country.

Mercedes-Benz in Alabama is a prime example. Essentially Alabama gave Mercedes-Benz and other companies so much public money that it jeopardized its ability to invest in the infrastructure of the state as far as putting more money into areas like education or police. They didn't have the money to do so because they gave such a huge tax break to Mercedes-Benz.

The competition among states to lure these big companies by giving them huge tax breaks is devastating on the state and local economy, and will lead to a race to the bottom.

So we believe it's a huge mistake. It has not only national, but international complications associated with it, and it's something that needs to be taken a look at in a very strong way.

CHAIRMAN D'AMATO: Commissioner Papadimitriou.

COMMISSIONER PAPADIMITRIOU: Thank you, Mr. Chairman.

I, too, want to add my thanks to the members of this panel for coming and giving us a

different perspective, which we have not heard before, and I also want to echo Chairman Weidenbaum about the importance of health care, as well as the contributions that our colleges and universities make globally.

And since I am a college administrator, I do have a question for Dr. Pisano and another question for Mr. Freeman.

And first, to Dr. Pisano, I'm curious about the kinds of policies that you think that are needed to encourage further attendance of more foreign students at the U.S./American colleges and universities.

And my question to you Mr. Freeman is: what should the government policy be for the protection of intellectual property regarding software that you're developing in your efforts of distance learning to countries which we know there have been some problems?

We have heard in the previous panel about CD and software piracy in China and in other places.

Thank you.

DR. PISANO: As I indicated in my remarks, the threat from foreign competition for international students is not great at this point, but it is a very large market, and we do expect that the pattern that U.K. and Australia have presented with targeted scholarships and targeted research funds to attract international students may grow and spread.

Targeted scholarships may be something that the government would wish to consider, and on the barrier side, there's a very understandable U.S. policy with regard to immigration, but it is true that international students have to demonstrate that they are going to return home, which is something often that's difficult for a student who's 18, 19 or 20 years old to do, and sometimes students, particularly in countries where there is a high non-return rate like China, have a very difficult time getting visas to come.

So I think that those are two areas that we ought to watch. I wouldn't recommend that we do anything at the moment, but this is an area, I think Mr. Wisner said earlier today that the knowledge and education economy is going to explode globally, and it's an area where we are preeminent, and we ought to watch it so that we're careful that we not fall behind because we're competitively very strong right now.

MR. FREEMAN: You asked me to address the software piracy issue.

I don't have a lot of insight to add to the state of the art with respect to the traditional software intellectual property issues. Most of them are not all that relevant to what we're doing, and let me explain why, but I do have a couple of suggestions.

Our courses are, while we're using the Internet and software, are largely very high touch, high personal interaction. Our courses are based upon problem solving and interacting with tutors and mentors that we have.

One can't steal nor misuse nor derive from our courses very much merely by using the software without the rest of our system, number one.

Number two, in an effort to deal with some of the marginal issues with respect to that, as well as to create additional value and additional effectiveness, what we've begun to do, and we're pretty far along in the process, is to form joint ventures with local partners in some of these countries, local businessmen and local universities, so that our interests and their interests are symmetrical and so that we have somebody on the ground protecting our interests where they might otherwise not be protected.

It isn't that hard to do that in Latin America. We're making progress in Asia with respect to that, but a more significant problem is the former CIS because the underlying problem is the absence of a rule of law, and that's a fundamental problem that goes far beyond the issues that we're addressing today. It's the basic intellectual property issue.

We have not, to be quite candid with you, based on some experiences I had over a couple of years trying to get some things done in the former CIS, not aggressively gone forward to do anything in the former CIS yet. We're focused on Asia and Latin America, and we are proceeding.

COMMISSIONER PAPADIMITRIOU: Thank you.

CHAIRMAN D'AMATO: Mr. Lewis.

COMMISSIONER LEWIS: I want to reiterate with Murray Weidenbaum said about thanking you for informing us about the great potential for medicine and education being a tremendous export industry. Thank you very much.

I want to ask Mr. Saunders a question.

At the hearing that we had in Pittsburgh, a woman from Cornell School of Industrial Relations talked about the impact of NAFTA on negotiations, labor-management negotiations, around the country, and she said from her studies -- and apparently she has done exhaustive studies of major negotiations -- she said that the threat of moving overseas or to Mexico was mentioned in probably 50 percent of the negotiations.

In your negotiations on the service sector, and you mentioned the moving of certain data transcription services to Bangalore, India, is the

threat of moving certain of the service functions overseas one of the things that's mentioned in negotiations?

MR. SAUNDERS: Not as often as it would be in the private sector. We represent in the public sector, especially in the health care industry, we represent approximately 300,000 workers across the country. The threat that we are confronted with most on a day-to-day basis which is very similar to what is going on overseas, is the threat of privatization. Private companies are getting contracts to run those traditionally public services. In our public hospitals these services include laundry, food or housekeeping, to name a few.

So that is a threat that we have to deal with at the bargaining table on a day-to-day basis.

COMMISSIONER LEWIS: And if they came in, would they then be using overseas people to do part of the work?

MR. SAUNDERS: There's a possibility, yes.

COMMISSIONER LEWIS: Thank you very much.

CHAIRMAN D'AMATO: Well, I'd like to thank the panel. You've been very patient, waiting all afternoon to come on.

But this is a new area for us, a steep learning curve, and it's very useful to have your

insights, and I'm sure that the Commission will benefit from it in evaluating new trade policy in its report.

Thank you very much for coming.

This concludes the hearing.

(Whereupon, at 5:29 p.m., the hearing in the above-entitled matter was concluded.)