

COMMISSIONER KRUEGER: Thank you very much.

I now open up for any of the Commissioners who wish to lead off in the questioning. Dr. Weidenbaum.

CHAIRMAN WEIDENBAUM: I'd like to thank both gentlemen for their opening statements. A question for John Robson. You make the case for overhauling the control of the flow of technology overseas. What system of regulation of high tech would you have in mind?

MR. ROBSON: Well, my impression is this, Dr. Weidenbaum, and I'm sure that Mr. Rumsfeld can confirm my views on this, we've got really polar extremes. From the national security side, under every bush there is a cataclysm awaiting, and that if this little bit of technology falls into the hands of anyone else, probably World War III will erupt and we'll lose it.

On the other side you have the commercial side where there is no technology that can fall into the hands of anybody that can do any harm beyond that which has already been done. What I think is lacking is some kind of mechanism - and it perhaps has to be a more centralized function, where these competing interests are looked at in an impartial and an objective way. So, I guess what I would call for is a system that is perhaps more centralized where each of

the contesting parties have the ability to put their views forward in some orderly way and where the decisions are made as objectively as they can be made.

CHAIRMAN WEIDENBAUM: Who would make those decisions? Does the fact that it goes to State or Commerce make a big difference?

MR. ROBSON: Well, I think if you put it in the hands of one or the other you need a decisional body in the middle that is neither department. That is, where the contesting parties, whether it's the Special Trade Representative or the Commerce Department on one hand and the military or the intelligence agencies on the other hand would make their case to an independent person or panel charged with the job of coming up with the right answer, or at least an answer that is based on impartial judgment.

COMMISSIONER HILLS: Mr. Chairman, I believe the function is now represented by Commerce, Defense and State and the debate, if it exists, is where to house it. That is, which agencies will chair it? Right now the three agencies do collaborate on the final decision.

MR. ROBSON: I think it probably ought to be, Ms. Hills, housed in none of those agencies. I think it ought to be a function that is separated from either the commercial or diplomatic on the one hand and

the national security on the other, but sits in the middle and here is the evidence, not with the formality of a judicial process, but at least detached from any of the agencies.

COMMISSIONER HILLS: Sure. Just to be sure I understand, are you suggesting a new agency, something that is not politicized? Tell me what you're thinking.

MR. ROBSON: I don't know that it has to be a new agency. I think it can be a new, very small function that could be housed perhaps in the White House. But I think it ought to be detached from any of the normally contesting parties. Whether it would take legislation to form such a creature or not, I'm not sure, but I think it ought to be disconnected from any of the contending parties.

COMMISSIONER HILLS: Thank you.

COMMISSIONER RUMSFELD: Good morning, my friend. Murray's question was the area I wanted to focus on as well. It seems to me that we've arrived at a point where we've almost made the triage and say that only a relatively small number of things are so sensitive that we have to, quote, stop them from leaving the country. Another category is things that it's to our advantage to delay. And a two, three, four, five-year delay with some technology can be

enormously helpful from a military, defense and an intelligence standpoint. And the third category, don't even try.

The problem with it, of course, is that our effectiveness to act alone is modest whereas if we act with others it can be significant. So, you end up having to negotiate which things fall into which tier or category. And that is a problem.

The real problem is that you can release 20-year-old technology today by declassifying in the Department of Energy, which they did. And countries and non-state entities can make weapons that can destroy tens of thousands of human beings using technology that's 20 years old.

So I think the only way you can address this is, as you say, to pull the system up by the roots and to get a group to look at it and come up with a proposal on how to deal with it.

MR. ROBSON: I may add that one of my suggestions would be that this is an area -- and I hate to recommend a blue ribbon commission, but I honestly think that this is one place where you could pull together a blue ribbon panel with the right people with objective views and have at least a shot at improving the system. I would favor that because I think that, until you get a group of people together whose judgment

would be respected on this issue, I think you're going to have a tough time doing it. And right now it's a cat and dogfight, and I think it's ugly and it ain't working.

COMMISSIONER BECKER: Yes, along the same line, the thrust of your testimony and your strong criticism of using the word "protectionism" in the sense that I think you intend it to apply goes far beyond just the technology industry.

MR. ROBSON: Yes, sir, it does.

COMMISSIONER BECKER: That's across the board and there's a lot of argument about our current anti-dumping and countervailing duty laws in order to, quote, protect industry from unfair trade, unfair trade being defined as product that's being sold into the United States at a lower price than what they sell it in the country in which it's made. Or if it's subsidized, where it's actually being sold at a complete loss into the United States. Those are the common descriptions that I find.

I know that President Reagan used these anti-dumping provisions in order to protect those in the semiconductor industry back in the '80s. And I guess my question is, would you at this point in time say that was a mistake?

MR. ROBSON: Well, I don't know enough of the facts of the particular situation, Mr. Becker, to be able to respond to your question. The thrust of my remarks, as you correctly surmised, was that I don't think that protectionism is a good practice for any country to pursue. And I don't think that it helps technology. I don't worry about our technology competitiveness. I think we can go toe-to-toe with anybody and beat them most of the time.

COMMISSIONER D'AMATO: Thank you for coming today, Mr. Robson. I have a question for you. I also have a question for you, sir, but in just a second. I want to follow this line just a little bit more on protectionism. But I want to compliment you on referring to Walter Payton because, you would think politically we have a government that's fast being dominated by professional wrestlers and basketball players, and I'm glad to see that someone is speaking about professional football as well.

You mentioned protectionism, you mentioned industry subsidies. There is a specific problem that I think in California you may be well aware of in terms of the Canadian subsidy mechanisms that are sucking American film productions, television and feature films, out of California and into Canada as a result of very rich subsidies by the Canadian federal government

and state governments. The federal government in Canada gives an 11 percent tax rebate for labor costs, and the state government adds another 11 percent on that. So you end up with over 20 percent. In addition, there are other fees and tax incentives in terms of the forgiveness of sales taxes or hotel taxes and so on.

If you include the softness of the exchange rate, the Canadian subsidy -- well, forget the exchange rate, because that's not a subsidy, but the Canadian subsidy is enough to draw out of the United States in 1998, according to a study that was just released in June, over \$10 billion in economic activity that would otherwise have occurred in the United States. There are so many U.S. film production companies operating in Vancouver now that they are giving additional tax incentives for companies to relocate outside of Vancouver.

The same thing is true in Maryland. I'm from Maryland. I'm really interested in this issue because the same thing is happening on the east coast. The film production is being sucked out of the east coast into Montreal and Toronto by Canadian subsidies. It's a very big problem with the industry.

Now, what do you do -- how do you respond to this? Well, my answer would be that we should meet

their subsidies with new subsidies of our own in terms of giving tax rebates or labor costs. The industry tells us, the Screen Actors Guild and the Directors Guild, tell us that if we were to at least go half way in this direction we would be able to stem the hemorrhaging of this viable American industry into Canada. And this is subsidies. And this is new Canadian subsidies that have been put in place in the last 10 years.

Now, what do you -- how do you respond to this? My answer would be we should meet their subsidies with new subsidies of our own in terms of giving tax rebates for labor costs. The industry tells us -- The Screen Actors guild, The Directors Guild -- tells us that if we were to at least go half way in this direction we would be able to stem this hemorrhaging of a viable American industry into Canada. And this is subsidies. And this is new Canadian subsidies that have been put into place in the last 10 years.

Now, my question is this is protectionism, but how do you respond to what is effectively an attack on American industry through subsidies by our neighbor? What's your reaction to that problem?

MR. ROBSON: Well, I have to say that my experience with the subsidy game is that once you get

in it, it is a maze from which you can seldom escape. You know, the best kind of subsidy is for a country to have a tax and regulatory system that induces private enterprise to come and to stay because, in the long run and notwithstanding direct government subsidies to one kind of enterprise to another, it's the best place to be. I can remember an experience with subsidy that Mr. Rumsfeld and I had when we were in the pharmaceutical business. There is a long-hallowed perpetuation of a research and development tax credit. It is revered and renewed every year.

That tax credit can be consequential, but I cannot remember any decision we ever made about whether we were going to pursue a particular research path or drop a research project based on that. We run into subsidies in, Lord knows, all kinds of places around the world. Agriculture is one of the really festering pools of it. American farmers are getting hurt by virtue of it. Aircraft is another place. It's a mess.

And I would say to you I'm against subsidy, and I would rather see us work on getting others to eliminate subsidy rather than us starting to put in our own kinds of subsidies and try to beat the other guy's hand.

COMMISSIONER D'AMATO: Well, of course, if the Canadians were to eliminate their subsidy this hemorrhaging would promptly stop. That would be the

thing to do. My problem is that I don't see that they will stop. They are gaining so much from this economically, and in this specific technique that they're using, you know, it's a fairly focused issue.

Let me ask you one more question. You mentioned here something I find I'd like to follow up on. You recommend a periodic survey in a sort of global ranking of countries on their observance and enforcement of intellectual property rights.

MR. ROBSON: Right.

COMMISSIONER D'AMATO: Who would you have do that? Would it be commerce, USTR? How would you so that? Could you be more specific? I think that's a very interesting proposition.

MR. ROBSON: Actually, there are some private groups that now do that, Mr. D'Amato. But I would put together a government interagency task force that would be responsible for collecting the data and publishing them and illuminate who are the good guys and who are the bad guys, ranking them every year. I always believed that what's measured does improve in time. I mean, intellectual property piracy is really still going on at an egregious rate.

The latest survey I saw by the software association said that some 38 percent of all business software applications that were put into PC's worldwide

were pirated. The good news is that's the first time it's been below 40 percent, at least since this group started counting about five years ago. So over one out of every three software applications that gets put in a PC gets heisted. And that is not acceptable.

COMMISSIONER LEWIS: I have two questions for you, and one for you. I appreciate your thoughtful statement. I'd like to ask you a question, though, with Boeing as an example. If the Chinese say to Boeing, "We will buy your planes, but we want you to build them here."

MR. ROBSON: Yes, I'm on the Northrop Grumman board, as I said in my comments, and so I'm not unfamiliar with the offset process.

COMMISSIONER LEWIS: What are you saying?

MR. ROBSON: I think it's really a decision for Boeing to make because it is a question of whether they see their ultimate competitive position injured by building domestic aircraft industries, if you will, in other parts of the world. Boeing is in by far the best position to make that judgment and to see down the road as to what's going to happen in the civil aircraft industry. The same thing happens in military aircraft and other military equipment, they require you to do some offset native industry building.

I think that it's really a decision, at least on the civil side, for the aircraft manufacturer to make.

COMMISSIONER LEWIS: Even if the concomitant of that is that we want you to transfer technology to us so we can build them here?

MR. ROBSON: Well, the technology transfer part of it strikes me as being related to the other issue we discussed. If there is nothing peculiarly sensitive about the technology from a military standpoint or a national security standpoint, then the question becomes, from Boeing's standpoint, does it want to create in China or wherever a potential competitor. And Boeing is, in my view, the best one to make that judgment and to weigh the shorter term benefits of getting a big aircraft sale to China against the longer-term potential threat of possibly having built a competitive Frankenstein that will ultimately do them in.

COMMISSIONER LEWIS: The problem I have with that response is that each board of directors is judged on very short term quarterly profits, and it may not be in Boeing's long term interests, but it may be in their very short term interest to do this.

MR. ROBSON: You know, I can't quarrel that companies get a thermometer stuck into them every three

months and measured on that. But if you look at the Boeing situation you've essentially got two commercial aircraft manufacturers in the world. I don't see another one popping up. And it strikes me that Boeing is fully capable of making the judgment that it is or is not inimical to their long-range interest to help China build aircraft manufacturing competence.

COMMISSIONER LEWIS: Stock options are based on price of stocks and so on.

MR. ROBSON: Well, I've got a little more confidence in commercial America than that. I just think that if Boeing looks down the road and sees this as a bad policy and they will be creating a major Chinese civil aircraft competitor, they can think twice about it. And I think that they should. But it's a judgment, I think, in the final analysis, that Boeing, not government, is best equipped to make.

COMMISSIONER LEWIS: The other question I had for you was about the taxes. You're saying that we need to lower income and capital gains tax. We have had the greatest disparity in wealth in the United States in American history, and lowering capital gains taxes wouldn't really benefit much below the top 10 percent or 15 percent of income earners in the United States. Would that really be good for the United States to further increase the disparity in wealth?

MR. ROBSON: Well, without getting into a debate with you over the distributional patterns of tax benefits, it is my belief that, generally, lower taxes bring greater growth, and greater growth benefits more people in the long run.

COMMISSIONER LEWIS: Thank you very much.

I'd like to ask you a question about Silicon Valley Bank. I think you've done an incredible job of helping finance -- did you say that your bank is the largest provider of export guaranteed loans of any bank in the country?

MR. VERISSIMO: Yes, if you look at by numbers of companies, not by dollar amounts.

COMMISSIONER LEWIS: Number of companies.

MR. VERISSIMO: Certainly Citibank can do a very large deal with a company. But if you look at just the number of companies assisted, we have been number one, and we were Exim bank of the year last year or two years ago.

COMMISSIONER LEWIS: You're really helping a lot of start-ups get started.

MR. VERISSIMO: Correct.

MR. ROBSON: They invented the game. They're the only bank that was willing to stick their neck out and make money available to companies that didn't have any assets or any people or any history.

COMMISSIONER LEWIS: Certainly high tech is a major exporting area of the United States economy, but how many of these companies are selling to overseas subsidiaries, as opposed to a market overseas? Is that an important part of your export?

MR. VERISSIMO: It typically depends on the age of the company. If it's a very young company, they typically will be selling to some sort of distribution channel, or directly, depending on the type of products that they're selling. It's only if they get much larger that --

COMMISSIONER LEWIS: They set up foreign subsidiaries.

MR. VERISSIMO: -- they start to set up foreign subsidiaries, because there is an overhead issue there that they don't want to incur until necessary.

COMMISSIONER LEWIS: Thank you very much.

COMMISSIONER D'AMATO: Mark, I want to ask you a broader question on your business. I'm interested in the competition with foreign financial institutions that you perceive in your lending activities. What kind of competition do you see from offshore banks, European banks, and so on, in terms of financing these companies? Who's getting better at it? How are we doing -- are we way ahead? Are they coming

into our market? Are we getting more competition in our market? And just the -- I just don't know anything about this and what kind of assessment you can give us about the competition in this area of the service industry.

MR. VERISSIMO: If you look at just domestically what competition we are getting here, it's literally none. The Japanese banks have pretty much pulled back a lot, particularly here in California. We get a little bit of competition from banks that have a strong Asian connection, i.e., Taiwanese connection. But other than that, literally there is little y are no competition at all. The encouraging part is when we go around the world and we spend a fair amount of time, whether it's Taiwan, Singapore, Israel or Europe, we constantly get the refrain that the existing financial institutions, both commercial banks and investment banks overseas, really don't get it, and they are not assisting the indigenous companies there. Which is why you are seeing companies from Israel that may have their R&D in Israel but they're coming here to set up headquarters because they want to access the service providers, and particularly the investment banking or the capital markets that we can provide here, both venture capital and public.

So, I would say right now, we constantly get bombarded by one government entity or another from overseas saying, "Can you do Silicon Valley Bank Bavaria? We want you over here." On the financing side, we seem to be far ahead the rest of the world right now.

COMMISSIONER D'AMATO: And to follow that up, when you go offshore do you spend a lot of your time offshore in penetrating those financial markets? And from what you say, are you being invited by those governments to participate in those markets or are you being impeded or blocked by the governments in protecting their institutions in this area?

MR. VERISSIMO: Typically we're being invited by the governments as they try to figure out how to replicate Silicon Valley. When you go overseas, they all want to be like Silicon Valley. They look at it and the ones that have done the study say it is a multi-layered problem: you must have quality universities, you have to have smart people, you have to be willing to accept smart people moving into your area, so foreigners. And you've got to have this sort of cocoon where young companies can grow.

You need to have a venture capital community to risk take, you need to have a service community, whether it's accountants or commercial banks

to provide the day-to-day services that a company needs. These foreign government entities do want to pick our brains, whether it's major accounting or commercial banking. How do we do that here? So, in Singapore, for example, it would be very difficult for an outside bank to go in there. They make very high standards. But they seem to be willing for an entity like Silicon Valley Bank to relax a lot of the standards. Now, we at the current time have no intention of doing that outside of a joint venture. But we are being pursued.

CHAIRMAN WEIDENBAUM: thank you. Next Vice Chairman Papadimitriou.

VICE CHAIRMAN PAPADIMITRIOU: Thank you very much, both of you, for coming. I have a question that is different -- for Mr. Robson. And that has to do with the brain drain. What you suggest that all the quotas be lifted, I take it, in terms of the H-1 visas and others?

MR. ROBSON: Well, I said that I thought we ought to make -- make it as easy as possible for people to come to this country and to get work visas in this country, because the technology business is a brains business. So, I don't think there necessarily should be quotas on people with technological skills coming

in, but I know I'll get a big argument from a lot of people on that subject.

VICE CHAIRMAN PAPADIMITRIOU: Thank you.

CHAIRMAN WEIDENBAUM: Next is Mr. Wessel.

COMMISSIONER WESSEL: Thank you for being here. I appreciate it. I'd like to turn some attention to the effect of the Internet and technology on trade flows as well as jobs. And some of these estimates may be off by a bit, but I wanted to get your comments on some of the effects in terms of trade and jobs that we may see. I've seen, for example, stories that Bangalore, India is now the second largest software production area in the world, and that a significant amount of outsourcing or code writing is occurring there.

And I'd like your estimation of that which involves the H-1(b) issue, the question of where is the software going to be written, where are we going to be seeing sort of the basics of the Internet economy done over time, number one.

And number two, I've seen other estimates that because of the rise of Internet commerce, e-commerce, that within the next 20 years we may see half the retail stores in the U.S. cease to exist because people will be doing all their shopping online, digital figures to try clothes on and all the other various

impacts of e-commerce, which raises issues of not only where they're going to buy -- they can buy a French -- from a French store at home, they can buy it from a German store or Chinese, et cetera. And also the dislocations that can occur in terms of retail stores in terms of workers, whether we're going to be able to integrate those people into the new high technology information age. So, I'd like your broad views on those issues, any thoughts you might have.

MR. VERISSIMO: Well, the first issue I would agree with you, is in India, in particular, there is a lot of outsourcing for software code. When you go to some places in the world such as Singapore, they are very envious of our ability to attract high talented people from outside the country to move here. They're trying to figure out a way to emulate the U.S. And you know the way Singapore does it, it's a government edict, "You will love foreigners." And they are actively saying, "We don't have the brain power internally to compete. We need to attract the best and brightest from around the world."

So, I think it's an issue, although one venture capitalist was telling me, "In one sense, as long as our university system is very strong and we can attract the best and the brightest from across the world, our secondary system can do what it wants to

do." I realize that's a very myopic view, but he wasn't as concerned about our educational system because we are able to attract bright people. Now, those are the people that are starting companies.

I think when you go back and you're doing your code sourcing in India, a lot of it is very repetitive and in some sense a low level. The best and the brightest are coming here, starting a company, and certainly there are a lot of trade inflows that are coming because of that.

The second issue is the Internet. In terms of on the venture capital side there are billions pouring into the market currently. There are a lot of big plays being made. And certainly you can see the latest IPOs, Webvan was the last one, selling groceries over the net, and it's got an \$8 billion valuation. We scratch our heads and say, "That's a lower margin business than our business, and we're worth a tenth of that." But there is a high level of uncertainty as to what will eventually happen. Will people simply sit in front of their computer screens to conduct shopping?

Now, we feel there will be a second wave, and the second wave is 24 by 7. That is, going onto the Internet is as easy as turning on your TV. You turn on your TV and if you want to buy something you're just clicking buttons on your remote control. Right

now you have to go to the computer, you have to boot up. Most people boot up, get on America Online or whatever. You need to have the level of ease of a television set to drive demand at a higher level.

But you can read a whole other set of people who say human beings like interaction, and if you're sitting in front of your computer screen, that isn't interactive. That people like to get out, they like to see other people, they like to touch, feel. But there are billions of dollars that are being made on the premise that people will shop via computer. There is research that hypothesizes up to one-half of all retail stores will close.

And it would mean dislocation, although when I look at this valley and I go back to the '80s and this valley was largely a semiconductor valley. In the early to mid '80s when Japan was, because of government edicts, starting to dominate, there was kind of an atmosphere of, "Oh, woe is us." We've got to face foreign government intervention, with our own government intervention. What I found is the valley went through creative destruction as far as companies.

And if you look at our economy now versus 1983 you will see a very diversified economy across industries, whether it's biotech, an industry that started up, medical devices, software, the Internet. So, it's

amazing how resources have gotten redirected without some overall governmental industrial policy.

So, I still have faith that even though there is dislocation, that overall, resources will get applied in higher value added areas, we hope.

COMMISSIONER KRUEGER: Next is Mike -- I'm sorry.

COMMISSIONER WESSEL: On the first question about where software might someday be made, the history of commerce is the history of things getting done in different places after a period of time. I mean, you know, there isn't a tennis shoe made in the United States anymore probably. Consumer electronics left these shores 25 years ago, I suppose. And yet we have found ways to adjust our enterprises to doing things that we can do better than anyone else here within the boundaries of the United States. And we've done darn well at it.

And I expect that in an economy that is now thoroughly globalized and where there is really no place to hide from competition, that this kind of shifting of locus of various kinds of businesses is going to go on indefinitely.

With respect to the Internet, you know, I think it's going to be a real channel of buying and selling, and already is. I don't know that it's going

to -- maybe it's generational glaucoma, but I don't think it's going to entirely replace places where folks can walk in and buy an ice cream cone and look for a tie-dyed shirt or whatever. I think there are going to be places to go, and shop but there will be dislocations. And lord knows in the last 20 years this country has gone through phenomenal dislocations, and shrinkage of industries that were much larger than they were. And people have ended up doing something else and getting along just fine, and the economy of this country is in great shape.

MR. ROBSON: Let me just make a side note. The Webvan, which I believe is the grocery store Internet company you referred to, on their ads now indicate that they guarantee that your ice cream will be delivered frozen to your door. Everything may be at risk in --

COMMISSIONER WESSEL: I'm one of those guys that like to squeeze the peach.

MR. ROBSON: They'll find a way to do that.

COMMISSIONER KRUEGER: Murray.

CHAIRMAN WEIDENBAUM: Mr. Robson, you say lighten and rationalize the regulatory burden. This appeals to me and has whetted my appetite, I must confess. But most of the examples, aside from the technology item that we discussed before, relate to tax

reform. Can you give us any other specific examples of regulatory reforms that would, "lighten and rationalize" those regulatory --

MR. ROBSON: Well, I think we talked about one earlier, Dr. Weidenbaum, and that is the process in place now for exporting technology, which is a regulatory regime which doesn't look like it's working and, in my view, can be improved and should be. I'm, as you already know, not a great fan of regulation, having started airline deregulation back in the mid-seventies. If you looked around for places where there is over-regulation, you'd find plenty of them, and that battle goes on continually. But with respect to the subject we are addressing today, that is, technology, certainly the export regulation regime is one place you ought to start.

COMMISSIONER BECKER: Mr. Robson, I want to go back again to the protectionism issue. So much of what we're involved in today seems to hinge around that word and the use of our anti-dumping and countervailing duty laws. I hear a lot of company people making statements like what you have in your testimony, but being against it. But in practice, I don't find many of them that really believe that. They want as much assistance as they can get. And there is an inconsistency in your testimony I'd like to focus on

just a little bit because you make the statement about keeping the government out of the boardroom, and you talk of absolutely nothing that would inhibit or restrict trade.

Yet at the end of your statement -- and I would read here -- it says, "With a level competitive playing field there is no doubt that American technology enterprises will prevail." And I guess the keywords are the "level competitive playing field" and how we describe that. Isn't the real purpose of our anti-dumping laws and our countervailing duty laws, to see that there is a level comparative playing field and that, absent those, there is no way to guarantee that?

And then you go on to say that, "The U.S. government has vital roles to play in keeping that playing field level." Doesn't that invite the government to oversee the very things that you're saying it should not oversee?

MR. ROBSON: Well, my remarks were more outer directed than inner directed, Mr. Becker, in the sense that I think government -- our government should, in the various fora that are available to it be, as I said, an implacable foe of protectionism and an implacable advocate of open markets. And I don't have any doubt that the businesses of this country will

compete successfully if there are open markets. Most of the rest of the countries of the world have markets that are not nearly as open as ours are.

And it's those battles that we fight in the World Trade Organization and other various venues. Your observation that the level playing field is helped by having American subsidies or American anti-dumping duties that deal with some unfair activity that's going on in another country is accurate. But I'm not sure that in the long run that the application of our own subsidies, if you will, is a good way to get the playing field level. I think you're better off doing it in the various bodies that I have suggested.

And to your first observation that American business comes around and asks for protection, it sure does, and I've seen it. And I don't consider it to be admirable.

COMMISSIONER BECKER: If I could just follow with one other point that was made by one of you, that two-thirds of the exports are high tech; is that correct? Did I understand that correctly? Two-thirds of the total exports from this country are in high technology?

MR. VERISSIMO: That was data that the AEA has published, and there were a couple other data points. It seemed to be California was sort of in the

high 50s, and there was another survey that had total exports of maybe 61 percent.

COMMISSIONER BECKER: And this was in reference to the point that today we're dominant in the field and that we've turned this around, so to speak. And is that just the technology industry that's so strong now? Is that what you were referring to?

MR. VERISSIMO: Yes, it was.

COMMISSIONER BECKER: "Based on our experiences, we believe that a strong emerging growth technology company sector is critical. The innovation driven by these firms assisted in powering the United States economy from the lackluster 1970s and '80s to the dominant position it had today."

Is that what you're referring to, just the high-technology industry?

MR. VERISSIMO: Well, that statement is referring to the U.S. economy in general because we look at it today and we say that the U.S. economy probably has a dominant position in the world today.

COMMISSIONER BECKER: And you still feel that way with the deficit that we're running? The trade deficit is going to approach some \$300 billion this year, which means there's a shortfall of all the exports that are out there and all the imports we're lacking by some \$300 billion. And I think the

Department of Commerce equates that to somewhere between four million and six million lost job opportunities in the United States?

MR. VERISSIMO: Well, I'm starting to run on thin ground because I'm not an economist, but the issue would be at that, because we have a dominant economy and have fueled the deficit, i.e., our economy has generally been stronger, our consumers have been stronger purchasers than other areas of the world, so we have added to the deficit.

The other issue is we certainly have a strong economy in the sense that foreigners, to date, have been willing to help us fund that deficit, so they perceive some strengths here in this economy.

Now, on the longer-term implications, I'm not sure I feel comfortable giving opinions. This is either the end of the world or this is just a look at the trade deficit as a percentage of our total GDP, and it's actually a small and perhaps decreasing portion of our GDP, if you go back over the last 20, 25 years, which again would assume that the economy is getting stronger.

COMMISSIONER BECKER: There's been testimony before this Commission by economists that believe we've hit the point where this is not a sustainable deficit that we're running now, or that it

could increase a little bit more, but not very much more, that this is not sustainable. Do you share those feelings?

MR. VERISSIMO: Yes. Well, if the economy continues -- let's say the deficit stays flat, which that means sustainable, and the economy continues to grow. My argument would be that the deficit then becomes a smaller percentage of the total GDP, and therefore, is sustainable. I guess if it goes to \$600 billion or a trillion, there could be some issues there.

COMMISSIONER KRUEGER: Carla.

COMMISSIONER HILLS: Following up on that question, and thank you so much, both of you, for your testimony. A wonderful statement by Herb Stein, who just passed away, an economist who said if an economic trend is not sustainable, it won't be sustained! And I think you put your finger on it. If our deficit continues to climb, it is possible that foreigners will be less enthusiastic about funding our investments, and, for that reason, the deficit will decline. And the comment about imports having a numerical relationship to job losses is hard to sustain on the basis of testimony we have heard.

We import oil because we need it to fuel our economic growth. We import technology because it

makes us more competitive. And we import products that we don't have, and that importation does not lose us jobs, but in fact gains us jobs.

What I really wanted to focus on is in your testimony, Mr. Verissimo, you name a number of factors, and you favor, in your oral comment, a comment by Mr. Robson about open immigration. I'd like to ask you and then Mr. Robson about education. That's not focused on a whole lot in your testimony, and I think that when we talk about we want to have -- be a magnet for brains, because today we live in a knowledge era. And to move our people up to take advantage of knowledge while other economies may be lower on the development chain, and therefore, may be manufacturing a product that we no longer manufacture, like a tennis shoe. We want to be sure that our people have the opportunity to move up. And I'd like your views about education, particularly as it affects the kinds of businesses that you focus on, the high technology.

It's one thing to give scholarships at the university, but if the youngster hasn't taken calculus in high school or didn't add in primary school, what are the chances there, and what are your views on what we can do, or should we be doing. Can we just import our brains? And then Mr. Robson I'd like you to address that because you do very much believe in open

markets with respect to financial services, products, goods, the immigration, and how about here at home?

MR. VERISSIMO: Well, the subject has gotten a lot of discussion here in the valley because of H-1(b) visas and the ability to import talent. And the issue is the number of Americans going into engineering is decreasing, both at the undergraduate level and also at the post graduate level. And so when our companies are out there trying to compete in the world, they simply cannot find the people. It's not as if there's a bias against going overseas employing people to reduce wages, which is sometimes the argument that we've been told. I think the unemployment rate here in Santa Clara County was 2.9 percent, which may be plus or minus a few tenths. But it's very small. An engineer literally can just go from one driveway to the next driveway to the next driveway into jobs.

If you talk to our companies, their number one problem is getting the technical talent they need to succeed. So, certainly in the short run the ability to attract a lot of talented people from overseas has been great. It has allowed us to maintain pace with the world and to bring the talent here and to develop products and services that are driving growth. In the longer run I have more concerns from more of a society issue: you start to get a two tier society, you get

people that barely make it through high school, and certainly their wages aren't keeping up.

I think there is an income disparity. And I do think, following on to what Mr. Robson said, rather than have us subsidize some industries, if we take some of that money and subsidize our educational system more, I would give that as a better way to attack the issue rather than to run around, trying to be protectionist. But I do think longer term, from a societal issue, it's a problem. But just with my own belief -- technology, we probably can continue to do this for quite a long time, as long as we have the ability here in the valley -- and it's really a meritocracy, meaning you can come from anywhere in the world. If you have a good idea, you will get a hearing whether you speak good English or not, and there's many, many examples here in the valley, millionaires or billionaires that still don't speak very good English, who still have not been here very long, but yet are considered heroes here and in their adopted country. And as long as we maintain that we can import all the talent we want, I think the issue in education is more as a society -- do we want to turn into a two-tier society?

COMMISSIONER KRUEGER: Mr. Robson, did you want to add anything to that?

MR. ROBSON: Yes. My discussion of education was, to some degree, a victim of the seven-minute rule, and I don't know the reach of your Commission. But I would tend to look at it much as my colleague does, and that is the question of the quality of our basic education system in this country, below higher education, which is by and large first rate and infinitely better than anywhere else in the world. It's a problem we all ought to be worried about, whether we sit on your Commission or are simply citizens of this country. And we have struggled and are still struggling with trying to find ways in which we can make the educational system here work in a way that it once seemed to work, and produce people who were capable of migrating through most of the avenues of commerce and jobs. And we need to keep working on it. It's clearly a societal issue less than I think one that impacts technology in the short run.

COMMISSIONER KRUEGER: Thank you. Mr. Rumsfeld.

COMMISSIONER RUMSFELD: Mr. Robson, you were Deputy Secretary of Treasury, and during your tenure the IRS tried to make certain types of adjustments. One related to whether or not individuals and companies are going to undertake expenses for outplacement services, both blue collar and white

collar. I heard the IRS was responding to OMB pressure to come up with more revenues. We live in a country where industries and regions are going to have pluses and minuses at any given time because of internal movements, and movements in the world. People are going to have to find ways to adjust as a result, and I believe outplacement services are advantageous.

Murray asked you about other expenses. It seems to me that that's an area where what the government does can make a big difference to whether or not those kinds of services are available.

MR. ROBSON: I think one of the miracles of the American economy over most of its history is the ability for people to adjust, you know, from catastrophe in one industry to migrate into another. I mean, it's really remarkable. I myself think it is useful to have things that facilitate people's ability to move from job to job. And the fact is that the workplace has changed, that the notion of a linear career is pretty well dead, and that if you go to people 35 and younger, their notion of a working life is a personal journey, not an institutional affiliation. And so it means, in my view, a lot more job switching as we look down the road. And to the extent that there are ways in which that is appropriately facilitated, I think that's good.

COMMISSIONER KRUEGER: Okay. Mike,

COMMISSIONER WESSEL: Yes. I'd like to go back to the issue of protectionism for a minute with respect to -- today. And I think there are probably two views made, and certainly more, about --

MR. ROBSON: At least.

COMMISSIONER WESSEL: At least. But I would say that probably the larger components are those who wish to protect industries that can't compete. We need to isolate them from world competition. And then the question of the effective use of sanctions to gain access to foreign markets to protect intellectual property, et cetera, but to use protection at schools, if you will, raising tariffs or whatever, as some would say to do.

In your discussion of intellectual property, which I think is the lifeblood of the high tech-industry, we've seen that the use in semiconductors, the use in the threat of sanctions for software and other intellectual property, do you advocate the use of sanctions where another country is not willing to abide by the rule of law?

MR. ROBSON: Warfare hurts both sides. And, you've got to think very carefully about your choice of weapon. But I do think that in something like intellectual property, where you are essentially

allowing the fruits of enterprise to be pirated without any compensation, you're entitled to strike back pretty hard. And I would look at the possibility of doing that.

The other thing is that this is an opportunity lost because people look at the world and they say, "I am not going to go in there and wake up the next morning and find all my products on the shelf with somebody else's name on it." And the pharmaceutical industry for years has fought that battle, not going into markets because they knew as soon as they got in it would be only a matter of days or months before their products would be found in distribution outlets with somebody else's name on it.

COMMISSIONER KRUEGER: Kenneth.

COMMISSIONER LEWIS: In your statement you stated, number six, there's considerable taxpayer funded basic research. As long as the benefits are widely available, do you think we should be encouraged to support it via taxation? How do you distinguish that from a subsidy?

MR. ROBSON: Well, it is a subsidy of a sort, but it's a subsidy for something that, in my view, would be very unlikely to get done unless there was some public support behind it, basic research. You know, I've been in the pharmaceutical business.

Pharmaceutical companies, by and large, don't do basic research. They don't do the kinds of research that when you look at the project the person initiating it doesn't have a clue where it's going. It is a journey to an unexplored terrain that nobody has ever seen a map for. And out of that comes some brilliant insights that ultimately lead to applications by the technology enterprises or the pharmaceutical companies.

COMMISSIONER LEWIS: And how do you distinguish when it's a subsidy and when it's not?

MR. ROBSON: Well, I think this is one where there is enough tradition and enough sense and enough societal benefit to it that, in my view, it is worth supporting.

COMMISSIONER LEWIS: Doesn't it benefit a specific company?

MR. ROBSON: No, it doesn't benefit any specific company.

CHAIRMAN WEIDENBAUM: Well, it does not. The economist's definition is that when there are large spillover effects, so that the company doing the research doesn't capture the benefits, then there is justification for public support.

MR. ROBSON: Oh, I totally support it. And I was just getting to the question of how all the criteria are met.

CHAIRMAN WEIDENBAUM: But the requirements are met when the benefits are not down to one company.

MR. ROBSON: A pharmaceutical company may ultimately benefit from research done at the NIH. But when that research starts out, no one knows where it's going to end up. That's a lot different than saying we're going to subsidize this particular pharmaceutical company so that it can sell a product in other countries.

COMMISSIONER KRUEGER: Both of you have spoken about the openness and flexibility of the economy. And since we've had some discussions and suggestions as you've talked about moving things offshore, I'd like to sort of try and pose the following hypothetical question. That is suppose that somewhere, let's say the mid 1970s, people in this country had decided that they wanted to keep all their jobs in various areas, whether they were tennis shoes or clothing and the other things, services and so on. What do you suppose that would have done to our economy and wage level in the Silicon Valley?

MR. VERISSIMO: Well, we can look towards Japan and Korea. If you talk to some people here in the valley they'll point to the '70s and '80s when there was kind of a drift towards some overall direction, and without an overall national agenda we

were going to fall behind. I think right now people would look at that and say, "Well, that's exactly why we don't need a national agenda, per se. We don't need to direct industry. We want you to invest in the semiconductor industry because that's the building block of the new world economy, which is where you've had Japan and Korea and a lot of countries pouring a lot of government money and support behind it."

So, the way we would look at it is we probably have a lot of tennis shoe jobs and we would have these areas and the country would be much poorer in general for it, and we'd probably be still stuck in the malaise of the '70s. And the fact that we didn't go that way and we did allow for creative destruction and re-energization of the economy and have companies that can compete globally, that don't rely on protectionism to survive, that we've been able to create more value add wealth than otherwise.

COMMISSIONER KRUEGER: Mr. Robson.

MR. ROBSON: I don't know what a pair of tennis shoes would have cost if we tried to capture the business for ourselves. I think the experience with trying to contain an industry within your own borders is the history of failure. And I think our economy would be more sluggish, I think that technology would

have been slower to develop here if we had tried to keep less advanced agencies to ourselves.

COMMISSIONER KRUEGER: I know this panel would like this to continue, but I think we have to move on to the next -- we have a long day ahead of us. But I'd like to thank both of you very much for coming.

(Whereupon, the hearing briefly went off the record and went back on the record.)

COMMISSIONER KRUEGER: All right. We'll start with our second panel. I'd like to welcome and thank George Scalise of the Semiconductor Industry Association and Michael Maibach of Intel for coming to be with us. You see we have this pernicious thing in front of us: the light is green until the five minute mark, and then it turns yellow which is two minutes to sum up. Now I'll ask both of you in turn to make your opening statements and then after that open up to questions with the panel. So, without further ado I'd like to thank you both for coming and ask Mr. Scalise to start with this statement.