

Glenn Pascall - Biography Highlights

Glenn Pascall is Senior Fellow, Institute for Public Policy and Management, Graduate School of Public Affairs, University of Washington. He is economics columnist for the Puget Sound Business Journal, and previously held the same post at the Seattle Times, the Seattle Post-Intelligencer and the Seattle Weekly. **Pascall's** column won first place in the Excellence in Journalism competition for 1998, sponsored by the Western Washington chapter of the Society of Professional Journalists.

Pascall has taught at the University of Virginia, Sacramento State University and Seattle Pacific University as well as the University of Washington. He was director of research for the California Taxpayers Association and Deputy State Comptroller of the State of California. Pascall is a former revenue director of the State of Washington, served four years as president of the Washington Research Council, and was legislative assistant to Gov. Daniel Evans.

As an economic consultant, Pascall has been project director for economic impact studies of the Boeing Company, the forest products industry, and the impact of Alaska on the Puget Sound economy. As a public policy consultant, **Pascall** has been coordinator of projects on affordable housing, regulatory reform, state transportation policy, and public capital financing in the Seattle region. Currently, **Pascall** is co-director of "Connecting the Gateways and Trade Corridors," Discovery Institute's Cascadia-region transportation project.

Pascall is author of The Trillion Dollar Budget (University of Washington Press, 1985) and (with Robert **Lamson**) Beyond Guns and Butter (MacMillan, 1991). He chaired the University of Washington **Press** Development Board during its **first** two years of activity. Pascall graduated Phi Beta Kappa from Pomona College and holds a master's degree in public administration from Sacramento State University.

WTO: Seattle's moment of maturity

by Glenn Pascall

A few decades back, comedian Mort Sahl had a line that went like this: I am neither for nor against apathy. The send up, of course, was that Sahl was being apathetic about apathy.

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Imagine for a moment that you are neither for nor against world trade, a subject on which almost no one is apathetic. What might fairly be said about the realities of trade? Here are some particulars:

- Exports and imports are a growing share of the economy in nearly every nation. The U.S. is a fairly typical example. Since 1960, trade has grown from 9 percent to 29 percent of our economy.
- Where the U.S. is not typical is in the persistent excess (currently almost 25%) of imports over exports. This “trade gap” can be seen positively as providing stimulus to the rest of the world or negatively as over-consumption requiring foreign capital flows to balance U.S. accounts.
- Washington State is a large net exporter. If the U.S. as a whole had the same profile as this state, the nation’s trade surplus would be larger than Japan’s. This unusual net position is due largely to the Boeing Company, America’s top exporter.
- Washington is also a major port of entry, handling about three times its population share of imports, three-fourths of which travel to other points of the U.S. for final purchase.
- Trade has brought large numbers of people into the middle class in countries such as Mexico, India, Malaysia, Indonesia and Thailand, but has also made these nations more dependent on global economic and financial cycles.
- In general terms, world trade has been of moderate benefit to large numbers of people by adding modestly to the incomes of many workers worldwide.
- Trade has made a greater range of goods and services available to a large share of the world’s population and has helped increase purchasing power by holding down consumer prices.

- Trade has been devastating to smaller numbers of people whose livelihood has been undermined by specific impacts, and has been a windfall for a relative handful of trade entrepreneurs.
- Global competition has been a rationale, sometimes reality-based and sometimes a pretext, for “lean and mean” corporate restructuring in the U.S.
- Although trade and income inequality have both increased sharply in the U.S. since the late 1970s, economic equity would be a major concern even in the absence of trade due to domestic practices on CEO pay and the role of the stock market and financial investments.
- By opening up global market demand for forest products, fossil fuels and fish, trade has accelerated natural resource exploitation in the developing world, including the use of unsustainable practices.
- Trade has shifted the focus for dominance from the military to the economy sphere, reducing the risk of conflict in the former and increasing it in the latter.

Only someone who is neither for nor against world trade could be comfortable with this list taken as a whole. Like every economic sea-change since the first wave of industrialization in England in the mid-18th century, globalization appears to its enthusiasts as an irresistible wave of progress, and to its detractors as a tragic shift displacing a more authentic way of life.

One possible way out of the dilemma is to ask, what kind of impacts on the world do we want trade to create? Three seem unarguable:

- A world of expanded consumer choice in the variety, quality and affordability of products available, with innovations and improvements stimulated by global market demand.
- A world in which all traded goods and services are produced under conditions of fair labor standards and pollution control standards - in other words, economic development that is sustainable at both the human and environmental level.

- A world in which economic exchange broadens cross-cultural awareness and serves as a check and a moderating influence on the behavior of nations with a record of **human** rights abuses.

Enter the WTO, and its Seattle meeting, which begins November 30th. Last spring, when Seattle beat out more than 20 other U.S. cities as the host site, there was celebration among the business and civic community.

From the start, though, it was clear the WTO had **several** tough issues on its agenda that would make the “Seattle Round” an in-the-trenches event. This somber aspect was darkened further when opponents of globalization decided to target Seattle for the “protest of the century.”

The three big issues are those noted above: fair labor standards, environmental standards, and human rights. Does the public agree with the protestors? A majority (ranging from 53% to 59%) of Washington residents surveyed by the Elway Poll for September favored giving these issues equal or greater weight **vis-à-vis** economic considerations in trade agreements.

Fifty-seven percent of those surveyed by Elway said the U.S. should refuse to sign any treaty that did not include, labor, environment and human rights provisions, compared to twenty-nine percent who believed the U.S. should sign economic agreements. and “continue to pressure the trading partners through other channels” on rights and standards.

Elway uncovered a characteristic American moral fervor among respondents. They favored “unilateral” ability for the U.S. to impose our values on other nations while refusing to be bound by the **rulings** of any international body that finds the U.S. in violation of trade practices.

This bifurcated thinking is reflected in the apparent disinterest of protestors about issues that the WTO actually wrestles with: tariffs, quotas, dumping, restrictive practices (**non-tariff** barriers), theft of intellectual property, and in general, lack of reciprocity among nations in trade provisions.

The WTO lacks ultimate policing authority against nations that ignore its rulings. Thus it is not a “supra-sovereign,” which is a good or bad thing depending on whether you favor or oppose the ruling at issue.

At the same time, the WTO does have standards. The political focus of the moment is whether to admit China. The hope is that WTO membership will “domesticate” China, causing it to shed its most troubling practices in return for the benefits of belonging to the club. The fear is that eagerness to admit China might allow it to negotiate provisions that allow it to “end run” WTO norms,

China’s admittance is an example of a “real” WTO issue. The troubling thing about the planned protests is that they are mostly indifferent to the topics that are the stuff of WTO agendas. Instead, they are focused on a series of issues in relation to which the WTO meeting is in some ways almost a random event.

The most promising part of the planned protests is a series of “teach-ins” on global labor, human rights and environmental topics. Such presentations will tap into a deep well-spring of concern here and worldwide.

The most dubious aspect is a series of disruptive actions, such as protestors attaching themselves to buildings with steel chains on behalf of a shadowy agenda whose apparent goal is to “shut down” the global economy.

Seattle has been chosen for this **mega-protest** because we’re consciously international and trade-oriented, and at the same time environmentalist and people-oriented. We’re also trendy, even glitzy, on the national media radar screen. Thus, we’re an ideal site to bid for national and global attention.

To be neither for or against world trade, but simply to be for a better world: how to serve that cause? Through an interest and concern about the “big three” issues of labor, environment and human rights – and to be interested as well in the technical yet crucial ground rules that make trade among nations work. The latter is, after all, why WTO is holding a meeting later this month – a meeting that just happens to be in Seattle.

***FOREIGN IMPORTS
AND THE
WASHINGTON STATE ECONOMY***

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PREFACE

THE IMPORTANCE OF IMPORTS

This study documents the role of imports in the Washington State economy. Large and positive impacts on jobs are strong arguments for the value of imports. Yet the case for imports is by no means obvious. Consider these political facts:

- ◇ Every nation believes it must have an export strategy but no nation has an import strategy.
- ◇ An excess of exports over imports is defined as a “positive” balance of trade while an excess of imports over exports is defined as a “negative” balance of trade.
- ◇ Exports are seen as “good” because they create an inflow of capital from abroad while imports are seen as “bad” because they require an outflow of capital to foreigners.
- ◇ Exports are reassuring as proof of national productivity and competitiveness while imports are perceived as stealing jobs from the workers of one’s own nation.

These views are so widespread that they often pass unchallenged when expressed by leaders in government, business, and labor. Yet, an equally valid set of statements exists on behalf of imports. Consider these economic facts:

- 0 Without imports, there can be no exports. In fact, the two must be of equal value for world trade accounts to balance.
- 0 “Export-only” strategies can easily backfire on nations that adopt them. They risk the hazards of currency devaluation, falling wages and depressed domestic demand.
- 0 “Export-only” strategies worldwide would bring on a global depression, as they did in the 1930s when tariff walls were erected to discourage imports.
- 0 U.S. ability to run a large “imbalance” of trade has become the major stabilizer in the world economy-crucial to the recovery in Asia and Latin America.

Yes, there is concern about the imbalance between the dollar value of U.S. imports and exports. Our “trade gap” is currently running at more than \$200 billion a year, a pace that does not seem indefinitely sustainable. But if the U.S. erected trade barriers that suppressed imports the consequences would be felt worldwide. The world trade picture is a puzzle made of about 360 pieces-the imports and exports of each nation. The global economy could adjust to the removal of almost any piece except one-U.S.

imports. In the debate about trade policy and amidst concern about the trade balance, this simple fact must be kept in mind.

Global concerns aside, imports benefit the U.S. economy in many ways:

- ◇ Most obvious, imports allow U.S. consumers to buy a wider selection of the goods they want at lower prices that stretch the purchasing power of the average paycheck.
- ◇ Low-priced imports help hold down inflation. This allows the Federal Reserve Bank to reduce interest rates and keep credit affordable—a key ingredient in our long boom.
- ◇ As much as 40 percent of U.S. imports are producer goods—inputs to products that U.S. firms export or sell at competitive prices to consumers here.
- ◇ Our purchase of foreign imports assists the economic recovery in other nations and boosts their ability to purchase our exports—the reverse of a depression spiral.
- 0 In states with major ports, the import trade is a major source of economic vitality. Washington is an outstanding example. The Ports of Seattle and Tacoma are the second largest container cargo load center in the Western Hemisphere.

It is these benefits and impacts of imports that this study documents.

EXECUTIVE SUMMARY

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THE GROWING ROLE OF TRADE

- ◇ The two most significant trends in post-war U.S. economic development have been the rapid expansion of the services sector and the growing importance of international trade.
- ◇ Between 1970 and 1998, U.S. gross domestic product grew at an average annual rate of 2.9 percent while U.S. exports and imports grew at annual rates of 6.9 percent and 6.5 percent, respectively (all numbers adjusted for inflation).
- ◇ Washington State leads the nation in per capita exports, and the export trade directly or indirectly supports one out of every four jobs in the state, according to 1997 research by economist Dick Conway.
- ◇ Washington State handles 6 percent of America's trade flows (exports and imports) although the state accounts for only 2 percent of U.S. population.
- ◇ The largest single category of trade through Washington's marine ports and airports is not exports produced in this state but foreign imports that are landed here and then shipped from Washington to purchasers elsewhere in the U.S. and Canada.
- ◇ Similarly, while Washington ports handle a large volume of exports from other states destined for foreign markets, a greater trade is in foreign imports for purchase within the state of Washington.

EXPORTS AND IMPORTS: THE LINKED EQUATION

- 0 Since 1960, growth in U.S. exports and imports has been comparable. Exports have risen from 4 to 13 percent of national product, while imports have climbed from 5 to 16 percent.
- 0 Trade is founded on comparative advantage: each nation's focus on production of goods and services in which it enjoys a cost and/or quality edge, and use of income from sales of these products to purchase exports from other nations in their areas of comparative advantage.
- 0 Wide variation exists in the ratio of dollars spent by Americans on imports versus dollars we receive through exports to our trading partners. The ratio ranges from a 20 percent return with China and a 54 percent return with Japan, to a 259 percent return with The Netherlands and a 244 percent return with Australia. The overall ratio is a 77 percent return on exports per dollar of imports.
- 0 The capacity of Washington's large import-handling infrastructure also serves the state's exporters. Even the excess of imports over exports creates a specific benefit: lower backhaul rates on westbound containers, which are estimated to save agricultural and other exporters \$150 to \$500 in fees per container.

- ◇ The annual percentage change in imports to Washington has shown wide swings in the last fifteen years. Growth rates in pass-through imports have ranged from 1.1 percent to 11.2 percent while imports purchased in-state have ranged from 3.4 percent to 17.2 percent.
- ◇ Despite these swings, overall trends have carried totals steadily upward. Pass-through imports rose from \$23 billion in 1984 to \$42 billion in 1998, while in-state imports climbed from \$5 billion to \$14 billion in the same period.
- ◇ The most valuable categories of imports in 1998 were industrial machinery and computer equipment (\$10 billion), electronic and electrical equipment (\$7 billion), textile and apparel products (\$6 billion), and motor vehicles (\$5.8 billion).
- ◇ Washington State imports are heavily Asia-oriented, with Japan and China providing more than half the total. When the East Asian “tigers” and Canada are added, these four sources account for almost 85 percent of the total.

IMPORTS: A HIDDEN ASSET IN THE WASHINGTON STATE ECONOMY

- ◇ 43,220 jobs are created in Washington State by pass-through foreign imports: cargoes that are landed here and shipped to final users elsewhere in North America. Direct jobs are concentrated in import-handling—largely, transportation services. Because import-handling constitutes a Washington export to other domestic states and Canada, it creates indirect jobs in other sectors within the state.
- ◇ The 43,220 jobs total from handling imports exceeds the jobs base in such employment centers as Kent, Bremerton, Renton, Redmond, Kirkland, and Auburn—many of whose jobs are in the import trade.
- ◇ Another 117,900 jobs are supported by foreign imports that stay in Washington State to be used as inputs to production or as consumer goods for final sale here. Most of the jobs supported by imports to the state are in wholesale and retail trade. These 117,900 jobs exceed the employment base in Tacoma and almost equal the Bellevue jobs base.
- ◇ The pass-through import trade plus foreign imports whose final destination is Washington account for a total of 161,120—about 7 percent of the total employment in the state. Washington State’s role in the import trade—handling volume that is three times its share of U.S. population—is comparable to its leadership in exports per capita.
- ◇ When both parts of the trade equation are combined, the 25 percent share of state jobs that are export-linked and the 7 percent of jobs that are import-linked generate trade-related employment equal to about 32 percent of Washington State jobs.
- ◇ In the future, trade policies and decisions on infrastructure investments at marine ports and airports must be made in a context that is fully informed on the role of imports. Absent this piece, a balanced picture of the role of trade cannot be formed, even given the state’s outstanding export performance.

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- Washington is also a major port of entry, handling about three times its population share of imports, three-fourths of which travel to other points of the U.S. for final purchase.
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