

MR. WESSNER: Thank you very much. My name is Charles Wessner. I work at the National Research Council, the operating arm of the National Academies of Sciences and Engineering. I'd like to stress at the beginning that, although my comments have been formed by my work at the National Research Council, I am speaking in a personal capacity. These are not the views or recommendations of the National Academies.

It's a pleasure to appear before the Commission as you review the causes and consequences of the United States trade deficit. It's an important issue that has not, in my view, been given the attention that it merits, and I very much welcome your efforts.

I think it's important that we understand why the United States has a persistent trade deficit, indeed, one that continues to expand. And we also need to explore whether this trend is sustainable and what we might do to constructively -- and I stress constructively -- address the causes of the deficit.

Fortunately for me, my task is narrower than yours, but I do hope to contribute in some small way, first by addressing some of the issues associated with offsets, identified by my colleague from the machinists union, and, secondly, by discussing the nature of the competition for high technology trade,

including the resulting benefits for the high technology industry.

The Academic Board on Science, Technology and Economic Policy provided the Commission with two reports, including one entitled Conflict and Cooperation in National Competition for High Technology Industry.

The title itself might make for a suggestion. It doesn't say "global" anything. We said "national competition for high technology industry". We also said "cooperation". Both are important to understand the yin and the yang of the global economy.

One of the main areas of this competition has just been discussed here, and it is aerospace. Offsets are a very troubling issue. They're troubling because they impact jobs directly. Neither the Boeing Company nor the subcontractors nor the representatives of the workers think offsets are a good idea. No one likes offsets. The company has argued this in the deliberations that were set up as a result of a White House request to bring all the partners together from the industry, labor unions and academia, to talk about what offsets are, what their impact is, and what we can do about them.

Offsets are a reality of international competition. Offsets do cost jobs in the United States. Offsets may create, in some circumstances, more jobs than they cost. But the broader point here is that the rest of the world wants to acquire the capabilities that are inherent in the aerospace industry. They want to take the jobs and the capability from here to their home economies. In fact, they believe so deeply in the global economy that they'd like to see a faster transfer of jobs and capabilities. Not everyone is trying to do this. Only about thirty, yes thirty countries, but that's enough.

And I have the deepest sympathy here when we talk in these abstract and irrelevant terms about questions such as, "Do you believe in free trade?" Well, I would if I'd ever seen any in the last 30 years of public policy. Liberalizing trade is good. Fair trade is good, but normally you do not need a 3,000-page trade agreement to describe something that's "free."

On the other hand, I don't know anyone who thinks a country can have the world's premiere aerospace company and have a protectionist economy. That's simply not feasible. So if you could first dismiss those two polarities -- protectionism and free trade -- from your discussions, you would make a great advance in your deliberations. No one is a rabid

protectionist, and few markets can fairly be described as anything remotely resembling free trade. A liberal trading regime can bring many benefits; It can also bring costs down. The point is most markets are not completely open.

One of the things we need to recognize is that market access is often constrained because the rest of the world values high technology industry and is making every effort to acquire and protect it. When I worked at the Treasury, we witnessed what many saw as a laughable attempt by a couple of countries in Europe to organize and build commercial aircraft, which we dismissed out of hand as another example of how some governments would pound money into the ground.

That process has worked. It is called Airbus. It illustrates two other small points. One is that some of the more theoretical macro-economists are still discussing whether or not Airbus is a paying proposition. Many of them are critical of it, arguing that it may have wasted public funds.

In St. Louis, you would get a different answer as to the impact of the European public funds to support Airbus.

In my written remarks I have emphasized why high technology industries matter. The truth is they matter in a lot of ways. These industries are the pathway to the future. They provide the capabilities for a society to achieve a higher standard of living in core government missions, including defense. We've talked briefly about how governments support industry and what they do to protect their high technology industries. There are many steps, from subsidies, to regulatory standards, to outright quotas. In medical technologies, for example, in the 1980s some countries consciously excluded better testing products from their borders, at great cost to the health of their own citizenry, because they did not want to have superior American testing products sweep the market.

The fundamental point that I'd like to leave you with is the importance of understanding that the rest of the world does not approach international trade the same way we do. And they are not wrong. And they are not cheating. They simply have a different set of priorities and principles which are driving their national policies. And I think that we might be able to learn from others if we could consider learning from others, rather than pretending to teach the rest of the world how they should act. If we can begin to

learn from others then I think there might be some hope  
for some progress on this difficult issue.

Thank you.