

MR. PASCALL: Thank you, Mr. Chairman.

It's a pleasure to be here today. I want to say what a delight it is to see Murray Weidenbaum again. And we may be the members of an even rarer species, Dr. Weidenbaum, we're not just Republican economists, we're moderate Republican economists.

I know that the amount of subject matter -- the amount of subject matter that you have had to absorb and analyze and deal with today has been enormous, so I'm going to try to really concentrate my comments here. The reason I'm here and the reason I was invited is that Robert Chaise, a colleague of mine, and I recently completed what is one of the few, if not the only state economic impact analysis of the role of imports. And Patricia Davis was on the steering committee for that, as was Skip Kotkins and Paul Isaki, whom you've all heard from.

In the current issue of the Business Journal I was asked to do a piece on the WTO. It's hard not to have every discussion on any remotely related subject not drawn into that. That is the enormous sucking sound you hear right now is the focus on the WTO. And I've got a piece in the current Business Journal with 15 bullet points on world trade, which is just an indication of all the wealth of subject matter we're struggling with right now.

But I'm going to focus just on a couple of points. The Department of Trade asked Dr. Chaise and me to do the first look at imports. And for years in this export successful state, the impact of the export trade had been measured by Dick Conway, a very respected regional economist. And using multipliers that are right in our strike zone and not overstated and are confirmed by the State of Washington's economists' multipliers, Dr. Conway estimated that about one fourth of all the jobs in the state are directly or indirectly export related, which if you extended that to a nationwide level would actually produce, for this country, a higher export margin than Japan enjoys. So I'm here reporting on a paradox.

I'm reporting on the impact of the import trade on the state that's the most export successful state in the Union, and in fact, if were replicated nationally would make us a huge net exporter.

COMMISSIONER LEWIS: Is Washington number one in foreign trade?

MR. PASCALL: Per capita.

COMMISSIONER LEWIS: Foreign trade as a percentage of gross state product?

MR. PASCALL: That would be correct. In terms of absolute value it's probably third or fourth. Something like that. California -- pardon?

COMMISSIONER LEWIS: As a percentage, it's number one?

MR. PASCALL: I think that's a fair statement because we are still far above the national average in per capita exports.

COMMISSIONER LEWIS: Except for South Dakota which exports all the grain?

MR. PASCALL: And a lot of it through ports in the state of Washington, by the way. The biggest source of grain exports from the state of Washington is Nebraska.

We found, using a more difficult methodology that's not as simple as an export methodology, that another seven percent of jobs in the state are directly or indirectly generated by the import trade. And the reason the methodology is more complicated is it falls into two completely separate parts. One is actually handling imports, three fourths of which pass through to other points in North America to the eastern United States and Canada, and the handling of those imports generates about 43,000 jobs.

Another 118,000 are generated by exports -- pardon me, by imports that stay in the State of Washington, and those fall into two categories, jobs in wholesale and retail trade, and jobs in manufacturing.

As Patricia Davis mentioned, probably the most serious confusion that emerges when we look at trade numbers is the very large portion of imports that end up as -- as crucial ingredients in our exports. They're either cheaper or they're better or in some cases they're unique, and in some cases we are up against the foreign content requirements of buyers who would not buy the product at all if it didn't have some components from that country.

We still come out ahead, but we have to import those parts. And that producers goods portion of imports is almost always lost in the general picture. Thirty two percent of all jobs in the state would be the combined total. Almost one third. That obviously is a controversial figure for those who are concerned about trade becoming a dominant part of the economy. But it is our best estimate of the reality in the state of Washington.

The written testimony that I forwarded to your Executive Director for your briefing book has, I think, only four pages in it, two of them focused on the basic argument for imports, which is you can't have exports without imports. And we go through that. You all are very familiar with that. The general public is not always. (SEE INSERT 4)

Imports are always treated as bad and exports as good, and it really is similar to the old mercantilism days where everybody is supposed to run a surplus and accumulate gold. But we believe that balance is the answer here, as in so many other policy areas. And the other two pages of my written testimony are simply a summary of our findings. And I'd be happy to answer any questions about them.

We felt good about the opportunity to do this study simply because it levels the analytical playing field on both sides of the trade equation.

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.
- 0 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.
- 0 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.
- 0 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.
- ◊ 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

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

- ◊ 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.
- ◊ 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.
- ◊ 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.
- ◊ 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**.

- 0 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.
- 0 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.
- 0 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).
- 0 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

- 0 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.
- 0 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.
- 0 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.
- 0 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.
- 0 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.
- 0 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.