

COMMISSIONER LEWIS: I congratulate you in finishing well within the time allotted. Thank you very much.

CHAIRMAN WEIDENBAUM: I have a simple question for each member of the panel, and I thank you all for your varied presentations. This is a simple, well, my question. From the viewpoint of benefiting the average American worker and consumer, what changes in our trade policy do you propose?

MR. WEISBROT: Do you want me to start?

CHAIRMAN WEIDENBAUM: Okay. Might as well.

MR. WEISBROT: Sure. Well, the very first thing would be to let the dollar decline to a level that would at least come closer to balancing our trade. And most economists will advocate that as well, that's why, the financial markets were a little worried when Larry Summers took over because his background is as an academic economist as opposed to his predecessor who was from Wall Street.

And the average American, I think, would be better off for all of the reasons that were described in the previous session: the loss of manufacturing jobs that the trade deficit entails, the downward pressure on wages. Even more important policies would be to put an end to the negotiation of commercial

agreements that deliberately engage in this race to the bottom that people were talking about.

These have put downward pressure on wages and lowered the real median wage over the last 25 years. That's probably the most important thing. And among those institutions I want to include, particularly, the International Monetary Fund and the World Bank because I think the WTO has gotten a lot of attention, but it's the least powerful of those three and it has the least influence, although all of them have that same agenda of placing increasing trade and commercial agreements or commercial transactions above all other concerns.

The IMF is the police force that literally forces these policies on countries throughout the world, and upon the threat of economic strangulation very often. And so that's really the most important one. But they really should not be running 75 economies in the world. They don't have the competence. Even if they wanted to do it in the best interest of the world economy. And until their power is reduced, I think you're going to see this race to the bottom continuing.

COMMISSIONER LEWIS: Thank you.

MR. PASCALL: My first comment on that question would be that one of the things that makes

your job such a challenge is that what's best for consumers is sometimes different from what's best for workers. What's best for consumers is the broadest and lowest priced selection of the highest quality and most desirable goods.

And if you simply look at that without any concern about where the goods are made, it's easy to come to somewhat different conclusions than if you're looking at the interest of workers domestically, because if you're looking at the interest of consumers you truly would throw open the world trade system in the widest possible way without even worrying about whether other countries' practices were more restrictive than ours. And then we could have what we virtually already have in the United States, a giant consumer bazaar of goods from around the world, and that would be the focus of that concern.

When you look at worker concerns you get more into the question of job losses and of the desire to protect domestic employment. So it's a separate set of issues to some degree.

I would argue with regard to income inequality. It is the great stain on American capitalism over the last 25 years, but that if trade disappeared tomorrow we would still have a huge issue of income inequality in the United States because of

the practices affecting CEO pay, stock options, et cetera, which are actively homegrown in this country and do not require any impacts from global trade to be a major problem.

With regard to the dollar decline issue -- pardon me -- the dollar increase issue -- as I understand it, there are really downward pressures on the dollar at this point because as the Asian economies recover, domestic investment by affluent citizens of those countries looks more attractive than it did when they were in the tank, and their tendency to place their dollars in the United States to provide a flow that offsets our trade deficit is lessened as those countries recover, and as that occurs there are downward pressures on the dollar rather than upward pressures. We can touch on that further.

COMMISSIONER LEWIS: Do you agree that letting the dollar decline would be a good thing, in answer to the question?

MR. PASCALL: Well, rather than use the word good, I will simply state the obvious, that if the dollar declines as a result of reduced flows of foreign investment into the United States it will tend to mitigate the trade imbalance because --

COMMISSIONER LEWIS: Is it good for consumers and workers, which was the question.

MR. PASCALL: It's good for workers in export industries, and it's probably not good for everybody else. And I don't like to use the word "good." I mean, these things all balance out. And, you know, everybody is both a worker and a consumer in this model, and yet we're bifurcating these impacts. So to use the word "good" to cover the whole is a bit tricky.

In the coverage that I put in the Business Journal this week with regard to what works best for everybody, where I came down was very simple. The WTO type agenda that's -- that governs the rules of trade to make trade, to facilitate trade among nations, ought to be of concern to all of us, and we ought to actively encourage and support the discussions of the WTO that help evolve those rules. That's important.

At the same time, we ought to encourage and support the teach-ins that are going to take place here in Seattle on labor standards, environmental standards and human rights. Those are also important issues. And the problem we've got right now with regard to what's coming up is one group is focusing on the teach-ins and on even more confrontational situations that are simply physical actions dealing with those three issues, and another group is focusing on the technical trade issues that the WTO is going to address. And it

seems to me that an enlightened view of trade, that is in a sense neither for nor against trade, but for a better world, evolving through economic action would be in favor both of the teach-ins on these issues, and of a successful session by the WTO on the rules of trade.

MS. DAVIS: I would suggest giving fast track authority to the President. And I realize that the response from the panel before was that we don't need it and we can do bilaterals, but by not having fast-track authority to negotiate our way in to, say, the American consumer and all, and not making gains individually very quickly, causes some things to happen that are really not talked about much or reported, and certainly companies won't talk about it at all, and that is the companies have to survive.

They'll try to survive before they die. And if they need a new market and they can't get in because of import restrictions somewhere, then they tend to go somewhere else, joint venture with another company, and get into the market another way. That doesn't put jobs here at home. It doesn't increase the job base or the worker base in the United States. If we want to be completely parochial about it, it does increase the job base in other countries, and we don't want to see those jobs slide away, but that is one of the effects with some companies who need to get into

markets that they can't because we haven't negotiated our way into that on an equal basis.

Secondly I would suggest, I guess as Glenn just said, that the United States very strongly support the rule based trading system that the WTO promotes and is trying to do. And that goes to something that isn't trade policy, but it is leadership. And we need from our elected officials at all levels very strong leadership to help show people how important this is, to consumers and to workers in terms of expanding opportunities and choices.

And I would say thirdly, technical assistance to the LDC, as I know that's not very popular in this country. We don't want to spend more money. But if we don't raise the level of the lesser-developed countries and their ability to progress, if you want to be completely cold about it, we won't have anybody who can buy our goods. If you want to be a little warmer about it, you don't have people that you're helping out of poverty. So on both counts I think that that would be the third suggestion I have.

My fourth suggestion is not trade policy, it's social policy. And the concerns about the race to the bottom, or workers being dislocated from their jobs and that kind of thing, really tend to be because of

technological churn, mostly, and dislocation because of this rapidly changing economy that we're in.

And in order to help workers through that, and a lot of our children are going to face not one job but five jobs in their lifetime, the social policy question in this is how do they make it through that? Do they have a health plan that carries over? Do they have some way to skill themselves up for those new jobs of the future that are higher paying, but they aren't ready for at the moment? I think those are the kinds of issues that fall out of the trade dispute, that are not trade but really churn in our information age economy that we are not addressing in this country at this point.

COMMISSIONER LEWIS: Thank you very much. I'm going to ask Mr. Wessel to ask a question, but I want to ask Glenn Pascall a clarification on your response. You said that income inequality is one of the great stains on American capitalism. Do you think that foreign trade exacerbates that?

MR. PASCALL: I'm not at all sure that it does, but what I am sure of is that if exports and imports disappeared completely tomorrow and we had nothing but autarchy, a self-contained domestic economy, we would still have huge problems of income inequality that has increased for reasons that are

primarily domestic. The last time in American history income inequality was this extreme was 1929, just before the great crash. At that point trade was a very minor factor in the American economy.

COMMISSIONER LEWIS: Right. I just wanted to understand that response in light of the question. Thank you.

COMMISSIONER WESSEL: I commend to your attention, by the way, just one point. The UN development report, I believe, a year and a half ago, which did indicate that trade was exacerbating the income inequality not only in the U.S. but between the developed and less developed world. I do agree that if we cut off all imports and exports, none of which I think anyone on this panel is advocating, that it would not do anything to address income inequality, but we also might not see it get worse from the current flows that we're seeing.

I'd like to direct my question to Ms. Davis and then to others. You raised a question of the rules-based approach, which I think -- at least I'm speaking for myself-- I certainly support. And we've seen over the last years a desire, not only within the WTO but bilateral and other trade mechanisms, a desire to advance a rules-based approach, for example, in trade-related investment measure, TRIPS, et cetera, et

cetera. But that seems to stop when we look at the issues of labor and the environment.

While there are some who certainly advocate the imposition of higher standards -- for example, the U.S. minimum wage on other countries -- there are some who are approaching this as a simple rules-based rule of law issue that should we, for example, decide to trade -- to enter into free-trade agreement negotiations with Chile, that should include a requirement that they adhere to their own labor and environmental laws, that as we negotiate and look at market economies, we should expect that their market will continue to function along the rules that they've imposed.

Looking at that from your rules-based comment, would you support Chile having to enforce its own laws across the board as we enter into negotiations with them?

MS. DAVIS: I think the danger that most people see in trying to impose labor and environmental policies down from the top --

COMMISSIONER WESSEL: I'm not suggesting from the top. I'm suggesting simply that the laws that Chile has on its books, both in labor and environment, that they be required to enforce those as part of the trade agreement?

MS. DAVIS: Well, trying to force those issues through trade agreements, most people predict, would bring trade agreements to a screeching halt, because it's hard enough to talk about and to deal with and to solve the problems with trade, which is not to say that those are not important issues, but we have some examples in the world of how do you force countries to do what they're supposed to do, whether it's their own rules or to form their own rules and live by them is a real problem. But doing it through that mechanism, I think, probably would not work, and it would really mean that the consensus-based method that the WTO used would not work, and therefore, trade agreements would not proceed.

We have some examples of sanctions not working. We didn't displace Fidel Castro in 40 years because we wouldn't trade with him. We're not displacing Saddam Hussein. We're not getting rid of the dictator in North Korea. And we're not opening up Burma by not trading with them. These are historical examples. Our own country is an example -- and Taiwan, after they became a subsistence level, better than subsistence level, income level above \$2,000 -- beyond \$17,000, I guess about was the average, those people began to demand their rights. They demanded labor, the right to organize. They demanded better working

conditions. They demanded a better environment in their countries.

We had the same problems in our country of child labor, rivers burning up, and so on, not so long ago, but now we're prosperous enough that we can demand that that stop and our own rules be enforced, or to put in place those rules. The middle ground you see is China, which is opening up, has a lot of these problems, but now the people are becoming secure enough, more and more of them, to demand of their government some rights.

And you see some of them on the one hand Korea and Taiwan and the United States itself, on the other hand the countries that have been sanctioned. And in the middle let's say the Chinese, who are beginning to open up to a market economy, getting more prosperous and demanding those standards. I think it has to come from the grass roots.

COMMISSIONER WESSEL: Well, I think in China it's trying to come from the grass roots, at least with the Falun Gong movement, I believe it is, and they're not having much success in that. Any others on the panel wish to comment on my question?

MR. WEISBROT: Yes, I would like to comment on it. The idea that these other issues cannot be negotiated through trade and commercial agreements, you

know, labor rights, for example, you can't enforce them, it seems to me inconsistent, and Richard Feldman raised this from a slightly different angle when he said, you know, "Businesses aren't just always interested in the lowest price." They do care about, for example, the enforcement of intellectual property rights.

And I would say from an economic point of view, and from a practical point of view, the issue arises how are these intellectual property rights, and even the rules surrounding investments that are placed within the WTO and NAFTA, how are these different in that these are included even though they are not trade.

And essentially, I mean, the intellectual property rights, I think is the most glaring example, because that is actually anti-competitive.

That is, in fact, the enforcement of a government-mandated monopoly that you could argue on either side, whether you think this is an efficient way to finance research and development, or whether it isn't. But in fact, countries' laws vary greatly the enforcement of these rights or claims. And to negotiate an agreement in which you state at the outset, as the WTO has done, that it is your goal to strengthen these monopolies, it shows that the nature of this organization is not to increase free

competition, in general, or free trade in general, but only free trade insofar as the gains from trade can go to a very narrow segment of society, and to the extent that the gains from competition would erode the income of the large pharmaceutical companies, for example, then they're not so much in favor of free trade or free competition.

And then there's the enforcement question, too. I mean, if they can put all of this into enforcing these rights, how can people say that you can't enforce labor standards, the right to organize a union, if you can try so hard to enforce software licensing, for example. And they do enforce it an awful lot. I mean, there's a lot of piracy and so-called piracy, but there's an awful lot of royalties still coming in as well. So that would be my comment.

MR. PASCALL: I just wanted to add one other technical point about the study you cited regarding the increasing inequality among nations as a result of trade. I think it's crucial when such an analysis is made that the distribution of income within each country be examined or we get gross numbers that are very misleading.

COMMISSIONER WESSEL: I believe the UN report did do it, not only within countries but within LDC developed countries as well.

MR. PASCALL: Yes. Well, obviously without the report in front of us I can't give any kind of definitive response, but I'm troubled by that -- by that claimed finding, because we know that world trade accelerated the creation of the middle class in Mexico and Indonesia and many other countries, and of course, in South and East Asia they got stopped short by a very rough two year jolt.

But we hope that that path will be resumed. And I guess to me it's like carrying water on both shoulders to argue that an open system of global trade robs American workers or jobs and yet at the same time it increases inequality between the United States and other countries in the world where apparently those jobs have gone. Intuitively it's difficult to grasp that both can be true.

COMMISSIONER WESSEL: Clearly we all lack all of our research at our fingertips, but my recollection of the growth of the middle class in Mexico as the result of NAFTA does not match your statement. That in fact we've seen a decimation of the middle class in Mexico since NAFTA went into effect. But let me turn attention --

MR. PASCALL: Mexico's economy has become transformed into an industrial power in a way that it never was in the past. Now, that may indicate that the

fruits of that event are being way too highly concentrated within Mexico, but it also indicates a potential for a greater amount of wealth.

MR. WEISBROT: I think if you look at the numbers as a whole, the growth in Latin America -- and the numbers are true for Mexico as well -- you can take Mexico -- if you prefer one country, from 1946 to 1980, Mexico's GDP grew at a rate of six percent annually, and that was during the period that is now seen as protectionist.

And since 1980 it's grown maybe one to two percent. Latin America as a whole from 1960 to 1980 grew at a per capita rate -- per person -- of 70 percent. Since 1980, in this experiment of free ability of investment and freer trade, the per capita growth has been almost nothing, 5.6 percent over a 17-year period. So clearly the experiment has failed. Now, you can argue about whether this is a transitional period to something better, but you cannot say that it has produced results, even ignoring the distribution of income.

MR. PASCALL: I'd like to comment on that in two ways. One is we all know compound growth rates cannot be maintained forever, and when they start at a very low base they're very impressive. Point number one.

Secondly, there is no question that Latin America went through a wrenching actual decline in per capita income at various points in the '80s, partly because of U.S. monetary policy and partly because they were shifting to free economies and removing protections that created the kind of churning that Pat Davis mentioned.

But I would like to know what the annual growth rate in Mexico has been since NAFTA passed. Again, leaving aside the question of whether there's been an equitable distribution of the fruits of that growth.

MR. WEISBROT: Well, that's a very short period. You're talking about five years. I would not want to call five years a trend in growth.

MR. PASCALL: I still want the five-year number, especially against the background of the negative numbers that preceded it.

MR. WEISBROT: I don't have it in front of me. My guess is it's less than the six percent historic average, but not that much less.

MR. PASCALL: I would be amazed if the growth rate in Mexico over the last five years were less than six percent a year.

MR. WEISBROT: They had a severe recession with the peso crisis. It dropped, I think, six percent

in one year. I don't have those five years in front of me.

MR. PASCALL: I apologize. We're arguing without the --

COMMISSIONER LEWIS: It would be good if each of you could get those numbers.

COMMISSIONER WESSEL: I'll reclaim my time, if I can. Let me ask a question that took a good portion of our day yesterday, which is the question of protectionism, or protection, depending on how you want to phrase it. And the question of how one should gain access to foreign markets. Clearly as we look at some of the largest exporters in this state they have, at times, advocated the selective use of what some would deem protectionist measures, trade sanctions, 301, intellectual property protections through the use of special 301 for non-adherence to intellectual property agreements, for example in China.

The Washington state apple growers some years ago spent a great deal of time and effort in Washington, D.C., trying to gain access to the Japanese market and, in fact, advocated the use of selective sanctions protectionism to advance their cause. When is it effective -- is it appropriate to use protection to try and advance the trade interest, whether it's

this state or any other? And I advance that to all three of the panelists.

MS. DAVIS: I don't know what it is, you know. The anti-dumping laws are something that really aggravate our trading partners, and they feel that because we're big and powerful we can use that and they can't have any. So the best way to do it is to negotiate those problems. And the WTO is the forum for doing that. So I think overall, I would not want to proclaim the rights of protectionism unless there is a clear, really, really clear case of dumping. And those kinds of things are extremely hard to prove and have been used politically in ways that I'm not sure were always well founded.

COMMISSIONER WESSEL: But I was not referring to imports and the question of dumping. I was referring to exports. Again, this question of Washington state apples to Japan, and the other aerospace and software. The question is how should we as a panel view the rights of our exporters who wish to gain access to foreign markets?

When you face a foreign barrier that you can't negotiate down, for -- the reason, for example, Japan wishes to preserve its sanctuary market, what should policymakers do at that point? Should they beat

their head against the wall, or should they be willing to leverage access to our market to effect change?

MS. DAVIS: Well, supposedly if the WTO did its job properly, a dispute would be brought and there would be findings against that. And indeed, apples are getting into Japan, but it took 20 years. But I don't think that's the way to be moving. We should abide by the rules, and we hope everybody else does. Go to the dispute settlement mechanism and then you do have penalties if countries don't abide by that. The best thing, though, about the WTO is you have 134 other nations agreeing with you and you're not alone in that.

And so having a rules based system and the pressure of the world upon you, which is why it's good for China to be in there, is very critical.

MR. WEISBROT: I think it's a tough question because you're in a situation now where the dispute settlement mechanism that was just mentioned is so one-sided that we don't really have a mechanism. In all of the cases that have been brought since the WTO has come into existence that involved a challenge to public health, safety or environmental legislation, the legislation was ruled against. The challengers won. The beef hormone case. I know the Venezuelan gasoline case.

COMMISSIONER LEWIS: In every single case?

MR. WEISBROT: Yes. And so we clearly have a mechanism that's not designed to take into account the public interest. So the question is an abstract one in the sense that we're on this train that's going completely in the wrong direction, and from my point of view, and The Preamble Center is looking at it from the public interest point of view, the main thing we have to do is stop the train before we can talk about where the new railroad tracks will be built and where we would go.

But I can imagine in a distant future a dispute settlement mechanism where there would be, you know, equal representation for the interest of the public and not just to transnational corporations or the U.S. Treasury Department.

COMMISSIONER LEWIS: Mark, how does somebody get on the dispute panel?

MR. WEISBROT: Each of the countries recommends a number of panelists, and they're chosen by lot, if I remember.

COMMISSIONER LEWIS: And the standards by which decisions are made, there's no *stare decisis*, is there?

MR. WEISBROT: Not really.

COMMISSIONER LEWIS: What are the standards used, then, in making decisions?

MR. WEISBROT: I believe it's looking at the GATT, WTO rules. Whatever regulations have come from there. They take precedents into account, but we're not bound by them.

COMMISSIONER WESSEL: We also have the problem, as we're currently experiencing, that we have, I believe, five times -- I may be wrong -- with the banana case, had a decision in favor of the U.S. We've had sanctions identified by the U.S., and each time we have been unable to get action by the Europeans to remedy the wrong that they had been cited for.

COMMISSIONER LEWIS: So we've put tariffs onto the goods then?

MR. WEISBROT: We have not put tariffs on. Our cause has been found to be correct by the WTO, and following that, the Europeans have refused to change their practices in a measurable way but have a slight changing of the issues. It goes back to the WTO. And I believe it's been three years; is that correct?

Three years that we are still seeking a remedy. Now, I believe that this is going to be addressed in part in the Seattle round in terms of whether the dispute resolution mechanism can be updated to address this, but presently it does not address complaints.

COMMISSIONER LEWIS: Thank you. I intervened in the answer. Go ahead.

MS. DAVIS: Could I respond to the fact that it is not true that our food and safety and environmental laws have been lowered by the WTO findings in the cases that have been mentioned. It is not true. If you go to the WTO website and read the cases you will see that.

The WTO does not find against our country's environmental and food safety laws. What they do is say, "Are you using them in a non-discriminatory way?"

And if you're using them discriminatorily, as in the Clean Air Act and Venezuelan/Brazilian gas case, then you are found against. And in that case they said, "If you want to -- you are allowing your domestic producers to come up to a certain standard, which is your clean air standard. You're demanding of the importers a higher standard. If you want to raise your Clean Air Act, fine.

Raise it to the Venezuelan and Brazilians demand what you are asking. If you don't, you have to allow importers to have the same standard as your domestic supplier.

The WTO has Article 20 which says, "Endangered species and environmental laws are not what we're dealing with and should be preserved and improved

if possible. They're not finding it on those causes. They're finding them on whether they've been used to discriminate. The same is true with all of the other - - there are only two or three cases that people are using in a way that is trying to show that our environment and our food safety laws, our standards are being reduced, and that's not true.

In the beef hormone case there were no studies, have been no studies. The World Health Organization, the universities everywhere, have not shown that hormones are harmful to your health. And the standards that the WTO has invented is that you have to have some sort of scientific evidence.

There is a loophole, however, having found against the EEU, they said this is precautionary principle, "If you can show us that you're going to do some, then we'll stop this case and allow you to do that." They stopped it four or five years ago. The Europeans made no effort to do any research. Five years now they're finally saying, "Well, you know, you need to accept this."

COMMISSIONER LEWIS: That came from U.S. and Europe or Britain and Europe?

MS. DAVIS: It was U.S. and Canada.

COMMISSIONER LEWIS: Okay.

MS. DAVIS: And then the fines that are imposed, you know, are not related to this -- this is to beef. And it's not the best of systems. I mean, there needs to be reform.

But the point that the protestors are making about the WTO, that they lower our food safety and environmental standards, is simply not true. And you don't have to take my word for it. You can go and find it. It's very dense legalese, however.

COMMISSIONER LEWIS: I believe there are competing views on both sides, and there is legal analysis that shows that, in fact, it has challenged laws, that there had been questions. I believe the turtle excluder device, the shrimp case, in fact, was being equally applied against other countries as well as our own. And that was called into question. So this is a long and divisive and intense debate that will occur over the coming weeks and certainly in the street in the next two weeks.

MS. DAVIS: We'll see turtles in the streets here in a couple of weeks.

COMMISSIONER LEWIS: I'm very happy that I will not be here.

MR. WEISBROT: I'd be glad to respond on those three cases, if you'd like.

COMMISSIONER LEWIS: Well, I would think for the record, if you want to make a quick comment, or for the record, certainly we'd be happy to --

MR. WEISBROT: In each one of those cases, first of all, clearly it was a law that was non-discriminatory and it had no protectionist intent. The European union covered both imported and domestic beef, first of all. Second of all, what the WTO did was essentially substitute its judgment for whether they had scientific grounds for believing whether the growth hormones used by the U.S. beef producers were harmful.

And the European Commission put out a 146-page report by scientists, European scientists, that did, in fact, indicate that there were health risks associated, including one of the growth hormones which they found to be a complete carcinogen. And I'll be glad to send you that report if you want to read it.

The second case, the Venezuelan gasoline case. That's a case where you could say it was discriminatory because it's true that the Venezuelan oil refineries were held to a higher standard. The reason for it was because the EPA didn't have data from which to measure the baseline on foreign producers. And so they had to make a different standard for the foreign producers than they had for the American

producers, and as a result of the WTO decision, our Clean Air Act was weakened.

And, finally, in the case of the Endangered Species Act, again, this was not discriminatory. This was a case where in order to maintain the law that we had -- that is, we had a law that required the shrimp fishers to use turtle excluder devices. And in order to prevent that from being competed away by foreign producers that didn't use these devices, we instituted a requirement that shrimp sold in the domestic market would have to be caught in the manner that was consistent with our Endangered Species Act.

And I think that one's really important because it raises the whole issue that people have been talking about the whole time here, how are we going to have any standards at all if we put free trade above all other concerns?

COMMISSIONER LEWIS: Thank you. You can go next, George.

COMMISSIONER BECKER: I want to make a comment and raise a question for you. With regard to domestic control concerning other countries' laws and whether or not they can be subordinated by a trade agreement, there's a strong feeling that the United States, as a democracy, is in most cases a beacon of hope for workers and citizens suffering in totalitarian

regimes throughout the world to look to us for hope in that regard.

And when we enter into a trade agreement with another country that doesn't recognize freedoms, the freedom of association and human rights, aren't we in effect endorsing that when we enter into that trade agreement? Are we giving a degree of legitimacy to that government of the freedom to repress those people? How do you feel about that?

MS. DAVIS: Well, I suppose in this country that perception could be accepted as what it seems like. The truth is in those countries where they have no hope, because they live in a repressive regime, the thing they hope for is for this great democracy and our workers' rights and all we stand for, to come in and open up their system to provide some kind of an investment so that they can get a job, they can work, and then demand that their system change. But closing the economy off, refusing to enter into any kind of engagement, I think, historically has proven that it doesn't help the people we care to help the most. And I gave those examples of countries where things had changed.

And China is probably the best example. We have decided to engage. They have opened the door to a capitalist economy, worrying about the democratic

principles floating in through the window at the same time, and indeed, that's happening.

And, in fact, if you had talked to people, say Ned Graham, the son of Billy Graham, who runs the China Mission, he is able to get in there, produce bibles. He is developing a lot more of his religious church and his religious groups -- they're not exactly churches -- around China. He is able to do that because the door has been opened and he is able to move in and start improving the human rights that way.

So there are countless examples like that where if we grit our teeth, engage with those countries, open it up, we can see those kinds of principles that we stand for begin to take hold.

COMMISSIONER BECKER: As a matter of fact, China is well known for its persecution of dissidents -- of workers who speak out on their own, of religious beliefs. Time and again in Poland, workers in the exercise of their right to freedom of association, to escape persecution were machine gunned and killed. They'd go down to shipyards over and over until finally, through some miracle, they were able to hang on and survive through the leadership of Lech Walesa, which really brought about the downfall of the Communist domination of Eastern European countries.

I'm not suggesting that any of these go to that length, but if you would permit me, I went to China in the '70s, and I was shown through some factories. This was just at the time when we were opening an embassy in China. We went through the factories with this so-called union and the government leaders in the factories. When we got back we received a communication from them through the AFL-CIO, of what a tragedy it was that we did that, how dismayed the workers were when they saw the American trade union leaders come through with the Communist leaders, and how this in many respects dashed their last bit of hope because they thought that we had signed over to the Communist leaders. It left quite an impression on me.

And that's part of the problem.

And I would like to move to one other thing that you said.

CHAIRMAN WEIDENBAUM: George, before you leave that topic, can I add?

COMMISSIONER BECKER: Sure.

CHAIRMAN WEIDENBAUM: There's another viewpoint. When I speak to people who spend lots of time in many parts of China, they'll tell you that the parts of China that are most business oriented, the most oriented to the West, such as the coastal zone around what used to be Canton, Quangzhiou, you'll find

far more -- you won't find American- style freedom. No way. But you'll find far more liberty in that part of the country than you'll find up north in the more traditionally Communist government-oriented part of the country, that the interaction -- that Americans and other westerners are excellent representatives of democratic capitalism. We have a powerful philosophy, not just economic greed. And interacting with our kind of people seems to have an important effect on the folks in China. You see that progression.

COMMISSIONER BECKER: I agree. Murray, I'm with you on that point, and many more. I'm not saying this is an absolute thing, but when we recognize a country that we know will not give freedom of association to its workers, when we know that in Mexico, just right across our border, when workers have tried to organize a union, the plants have been shut down and stripped and moved. They organize in compliance with their laws, but under the police state hangmen of this, they bust their unions, they jail the workers, and they went so far as to move the plants to some other location time and again. This was documented. We even sent people to Mexico from the government to hold hearings. And they don't have a chance to break out.

My only point is on Chile, when we say that it's beyond our purview to insist that they at least enforce their own laws, if we signed an agreement with them and we got issue out there, we are in effect endorsing that regime not to enforce their laws. And to depend on workers to stand in front of guns in order to assert basic humanitarian conditions, I think, is wrong.

But you're right, Murray, I don't disagree. I'm not painting it all with one brush.

In your statement you plead for clarity of what you call a distorted picture that scares people on the information that comes out of the Secretary of Commerce about the figures. You call them sensational headlines on the monthly figures of job losses that come out of the Secretary of Commerce's office. Like in some way they are doing something that is wrong. And you want to clear that up. And you go on to say, "It's a cruel deception to proclaim that the open system of free trade is not fit for working people." I would like a little clarification of what deception you're talking about there, and how you figure that this was a distorted picture of the trade figures that come out of the Secretary's office.

MS. DAVIS: I will -- two points there. One, I wasn't saying about job loss. I'm just saying

about the figures when they come out about the trade deficit. And it isn't the full picture and it doesn't tell the American people that indeed there's investment flowing back in that also allows us to pursue the kind of economy we at least have up until now, so that we continue to be prosperous, continue to be competitive.

Our unemployment rate is continuing to go down. Our inflation and interest rates are continuing to stay low. And we're moving forward quickly and we're becoming more and more prosperous. Not everybody at the same time in the same way. Then we get worried that we're doing the wrong thing because we only have a part of that, the merchandise trade deficit or whatever we're being reported at.

It's not clear to people that there is a total picture, a balance that happens with the reverse investment that comes into our country. That was that. I wasn't talking about job loss in that comment.

COMMISSIONER WESSEL: But you're not quarreling with the deficit figures either, are you?

MS. DAVIS: No. It depends on what deficit

--

COMMISSIONER WESSEL: Well, the ones that -

-

MS. DAVIS: Are we talking about price trade current? Or are you talking about the total picture that shows the reverse investment that comes in, and explaining that? I just want more clarification.

COMMISSIONER WESSEL: I think 40 percent of the union jobs in this region are trade-dependent, and Pat Davis has done an absolutely outstanding job of bringing labor into a dialogue on international trade and last year had a sensational conference on labor and international trade. Tom Broffenbuter, the national president of the Machinists Union was here and gave a barnburner of a speech. The doors were thrown open to everybody.

Brookings was here. Brookings estimated the average American worker is \$1,000 a year better off because of the trading system, not even accounting the greater purchasing power from lower prices due to imports. And it was a fierce, open dialogue and debate. And when you see the AFL-CIO preparing to organize marches at the time of the WTO, that's fine, but we know and highly esteem the labor leaders in this region, and they know that 40 percent of all union jobs in this state are dependent on trade.

MS. DAVIS: Well, 40 percent of AFL-CIO jobs. One hundred percent of the Machinists jobs. One

hundred percent of the Longshore and Teamster jobs depend on flows of trade through our state. So it's more than 40. Forty is the AFL-CIO number. So it is true that trade-related jobs -- and I know you know all this kind of thing -- but trade-related jobs pay higher than the average job.

And in this state they pay quite a bit higher because we have that sort of strange thing called Microsoft out there that sort of ups the average. But those are workers, too. It's not just manufacturing jobs one needs to be concerned about. We have a whole lot of information age types of jobs also that are becoming available.

COMMISSIONER LEWIS: Do you want to respond to that? I saw you kind of lean forward.

MR. WEISBROT: Yes. I'm not going to dispute the regional figures, but on a macro level for the whole economy, first of all, it's quite true, as has been pointed out by Commissioner Becker and others, that a trade deficit does, in fact, result in the loss of jobs. And more importantly at a time, I think, when the unemployment rate is historically low, in spite of that, it does put downward pressure on wages. And I want to clarify something that's come up a couple of times here. We have data that is not really in dispute that the real median wage today -- that is, the wage

earned by 50 percentile of the population and below -- is lower than it was 25 years ago still. And that means that even if you take into account -- that figure does, in fact, take into account the lower-priced consumer goods that are available as a result of trade, whether it's trade with countries that respect labor rights or trade with countries that don't.

And so the opening of trade and as well as investment has, in fact, contributed significantly to this wage inequality. Instead of just one source, if you look at William Cline from the Institute for International Economics, which is very much pro free trade, as anyone in the country is. And he's very well respected. And his study shows that 39 percent of the wage inequality over the past 20 years was the result of trade. That was trade per se. So the advantages of cheaper consumer goods are not outweighing all the other downward pressures on wages. That's why you have a declining real wage for the majority of workers. Not for everyone, but for the majority. And that's just not in dispute anymore.

CHAIRMAN WEIDENBAUM: There is a dispute on you using wages instead of compensation for the 25-year comparison, because it's well known that over this period, fringes have become a much larger portion of the compensation dollar.

MR. WEISBROT: You still get a fall, though.

CHAIRMAN WEIDENBAUM: You get a much smaller -- you don't get nearly as dramatic a number as the percentage as you showed. You use the compensation -- I'm just pointing out that the numbers --

COMMISSIONER WESSEL: Since 1979 I believe, even with compensation, there has been a real decline.

CHAIRMAN WEIDENBAUM: But a much smaller decline than we were led to believe.

COMMISSIONER WESSEL: Well, we hoped over that period that there would be an increase. Granted, there are differentials.

CHAIRMAN WEIDENBAUM: Well, we're not out of the woods yet. When you take into account the continuing debate on the overestimate of inflation shown by the Bureau of Labor Statistics, cost of -- the NPI, if you made, say, the Boskin Commission adjustment of that, you get even closer to a level.

COMMISSIONER WESSEL: I believe post-Boskin Commission, the Bureau of Labor Statistics did re-estimate and change its methodology to take account of the elasticity and changing nature of --

COMMISSIONER LEWIS: And what was their conclusion?

COMMISSIONER WESSEL: I believe it was two tenths of a percent, that there was an overestimate, and that has already been incorporated into the --

MR. PASCALL: I have to agree with Dr. Weidenbaum that this is far more complicated. And the notion -- the notion that there is universal agreement is very misleading. A year ago when Patricia Davis hosted the conference on labor and international trade, Robert Litan, of the Brookings Institution, in a report called "Globaphobia", reported that the average income of the American worker was \$1,000 higher than it would have been absent the trading system. Now that leaves aside the question of declines and income inequality, but it makes the one time estimate of an adjustment in an upward direction. And all I would suggest is this picture of unanimity is not accurate, and I agree with Dr. Weidenbaum on that point.

COMMISSIONER WESSEL: I don't believe that many members of the panel would argue that trade has not had a beneficial effect on the economy in terms of growth. That's not what we're arguing here.

MR. PASCALL: That's not what Litan was saying. He was saying the average American worker's income is \$1,000 higher because of the global trading system. That's Brookings.

MR. WEISBROT: Well, you know, I debated him, actually, on this subject, and I don't remember him even trying to raise that point. I read that book as well. But there are very few economists who will try to say that Boskin is the exception, as Commissioner Weidenbaum has said. But that has not been accepted by the profession, and in fact it does have a gross contradiction in it. If you accept the Boskin Commission's report, you have to also accept that pretty close to the majority of people in the United States were living at or below the poverty level as recently as 1960. Because if you accept the Boskin Commission's logic, what you have is that real wages have been growing much faster than we always thought they were. And so that's why economists have not accepted this report as of now.

CHAIRMAN WEIDENBAUM: The Boskin Commission disagreement is between the two of you. Nevertheless, if you look at the compensation -- you said wages, but when I pointed out that certainly if you want to look at the total is there a trade off between wages and fringe benefits? Of course. This is why economists tend to prefer to focus on the more comprehensive measure, which is compensation. And if you adjust it in real terms, you get much more level. Not a level

playing field. You get more level trend than we've been hearing in this hearing.

COMMISSIONER WESSEL: Also remember that the Boskin Commission's findings were not adopted by Congress, and I think that we're hoping that our Commission's findings will be.

MS. DAVIS: Would it be more revealing to take a look at -- to break out the jobs that are trade related? The studies that I have read, those jobs are higher, and they tend to be higher than the average. So if you break the statistics out and find which jobs are improving, are going up, how do you stop the wage inequality? Well, you bring the people who aren't related in some way to some exporter or importer or some trade related industry, bring them up to an educational level where they can participate in this new economy.

COMMISSIONER LEWIS: Patricia, could you please give us a cite for those studies? We'd like to see those.

MS. DAVIS: Yes. I don't have them.

COMMISSIONER LEWIS: I mean later.

CHAIRMAN WEIDENBAUM: I'll be happy to help out. If you look at the Department of Commerce data where they aggregate the trade deficit, and flows of imports and exports between what the Commerce

Department labels high tech and low tech, you'll find there's a consistent excess of high tech exports over high tech imports. And precisely it's in the high tech area where you get the above average compensation.

COMMISSIONER LEWIS: I really appreciate you pointing this out. And if we could somehow have Alan get a hold of these and get the citations for these studies. Are there any other questions?

COMMISSIONER BECKER: I wasn't finished.

COMMISSIONER LEWIS: Okay.

COMMISSIONER BECKER: You triggered something here that I just have to say. I'm not an economist and I'm not looking at it from an economist's viewpoint, but within our union, family-supported jobs are almost gone. And traditionally what we had was family-supported jobs. The kind that you could buy a house, you could buy a car, you could educate your children. These were family-supported jobs.

Today, both spouses have to work, and between the two of them they can't equal what one family-supported job paid before. It's created a hell of a problem within family structure. It's not exactly what we're dealing with here today because they are working. They see their kids on shifts. I say this all the time. At every conference we have to deal with

this because it has affected the family structure. Day care has become a way of life for the youngsters today.

MR. PASCALL: Which union is this?

COMMISSIONER BECKER: Pardon?

MR. PASCALL: Which union is this?

COMMISSIONER BECKER: Steel Workers Union.

And let me clarify, it's not steel. We're a manufacturing union. But we're in basic primary metals and manufacturing generally, all of our members. Rubber tires. The whole bit. We're the only tire, steel, non-ferrous industry. I mean, that's our general makeup.

MR. PASCALL: I just wanted to mention one factor there. Obviously this has been a very disturbing trend in America, but one huge impact that brought about the need for the two wage earner family was -- it happened during the presidency of someone I esteem enormously, Jimmy Carter. Monetary policy allowed inflation to run to such levels that home ownership became the best investment you could possibly make. The real cost of a home mortgage doubled during the Carter presidency. That has little to do with world trade. It has a lot to do with two wage earner families.

COMMISSIONER BECKER: When I talk about things being better and greater, people look at me like

I'm crazy, because they don't know where it is. They don't see it.

MR. WEISBROT: No, I think he's right, and I think that's what's showing up in the aggregate statistics. That's what it means to say that real wages declined, and real compensation has also declined for the majority of people. I respect that Commissioner Weidenbaum wants to include all compensation, but you know, even to have a smaller decline over this period really means it is quite outrageous when you think of how much productivity, for example, at the economy wide level has grown. It's over 50 percent.

Income per person has grown that much. And for the majority of the U.S. labor force, to actually not share in any of those gains over a period that long really means that something is wrong. And I know that trade can't account for all of it. Monetary policy certainly does play a role.

MS. DAVIS: I can give you some solace. Not raw statistics. Look at the real living conditions of average Americans. Look at the appliances. Look at the size of the homes. Look at their amount of travel. Look at all of the measurable features of a real living standard.

MR. WEISBROT: That's what the CPI does.

COMMISSIONER WESSEL: And look at their levels of debt as well.

CHAIRMAN WEIDENBAUM: Look at the VCR. You know, there was a period where a VCR was looked upon as an artifact of an extremely wealthy family. You now get very average people with very average incomes purchasing a VCR. Look at all of the fruits of technology that you will find in a typical American home today. Compare that with 25 years ago and you'll see in any serious way that you can make the comparison, there is a richer living standard for the average -- not for everyone, but for the average American.

MR. WEISBROT: Do you mean average or median? Because the average has indeed gone up. The average goes up because the people at the top go up. But if you're talking about the median, the 50th percentile and down.

CHAIRMAN WEIDENBAUM: I'm not playing with numbers. I'm looking at the broad mass of Americans. Look at the distribution of freezers, of VCRs, of second color TV sets, of second automobiles, of relatively new automobiles. There are also, by the way, anti-pollution and safety gadgets. Look at the typical residence.

COMMISSIONER LEWIS: Do you mean median or average?

CHAIRMAN WEIDENBAUM: Both. The mass of Americans are living under far better conditions today than 20 or 25 years ago. Also compare them to almost any other large country on the face of the globe. Compare housing in the U.S. with housing in Japan. There's no comparison.

COMMISSIONER BECKER: You're very eloquent and I agree with you a lot. Let's compare it to something we're concerned about. We talked a lot about the WTO. Let's compare it to Mexico. Let's compare it to the Maquillas. Let's compare it to how they live down there. Workers that we have to compete with here in companies that have to pay our workers to compete with them, and look at that and the conditions that they live in. They don't have VCRs.

CHAIRMAN WEIDENBAUM: That's right.

COMMISSIONER BECKER: They don't have electric.

CHAIRMAN WEIDENBAUM: We must be doing something right if we can maintain this far superior living standard for a broad mass of Americans.

COMMISSIONER LEWIS: We can debate this among ourselves. The panel has. And we appreciate very much the points of view that you've expressed.