DR. LEAMER: I may need to speak very rapidly to meet your the seven-minute quota here. Some of these things we've heard already this morning from Mr. McTeer, so I've heard my share of everything that he said this morning.

Number one, a discussion of the current account deficit is often mistaken since it usually does not recognize a fundamental accounting identity that the current account is equal to capital. This accounting identity means that when we export too few goods and services to pay for our imports, we export instead pieces of paper that represent claims against future U.S. output. Those pieces of paper are U.S. treasury securities, real estate deeds, and U.S. equities.

Two, the very word deficit prejudices the conversation. My thesaurus offers four synonyms for a deficit: a shortage, paucity, lack, and deficiency. Clearly, we want none of those. To use this word deficit is thus to accept mercantilist attitudes that exports are good and imports are bad. Better to call it a loan than a deficit, because a loan is good or bad depending on what we do with the proceeds.

Three, the trade barriers that make it difficult to sell U.S. products in Japan, China, and other Asian countries do not cause the bilateral deficits with those countries. Trade negotiations that open up the Asian markets to U.S. goods would benefit both the U.S. and Asia, would have no discernible effect on the U.S. deficits -- on U.S. bilateral deficits.

Four -- on this I agree with Mr. McTeer -- the U.S. is running a trade deficit today primarily because the U.S. offers global investors an extremely attractive combination of low risk and high returns and because we have a very low savings rate and not enough cash to take advantage of all the new investment opportunities.

Five, this deficit causes a very serious problem for Mr. Greenspan and for the conduct of monetary policy. If, as is happening as we speak, the Asian and Latin American market risk declines substantially and if U.S. equity appreciation starts to slow down, then global investors are likely to return to the emerging markets and abandon the United States.

If this happens, U.S. trade deficit closes. It has to close. That's the accounting identity. Rapid adjustment of the trade deficit can only be accomplished on the import side. It takes a lot more time to develop and to expand markets for U.S. exports. A falling value of the dollar that makes imports more expensive can help to reduce U.S. imports, but the price responsiveness of imports is too low to eliminate the U.S. deficit without an unacceptable amount of imported inflation.

More likely Mr. Greenspan will be forced to lower U.S. imports through the income effect, not a price effect, by tolerating a serious economic downturn. This he would accomplish by increasing interest rates to defend the dollar against what will seem like a speculative attack. In other words, the U.S. in the year 2001 may look like Mexico in 1995, with high interest rates, inflation, slow or negative growth, and rising unemployment, but with the deficit substantially closed.

Six, U.S. commercial policies, except those that inappropriately discourage savings, should not be designed with reference to the trade deficit. I understand that the trade deficit has great power rhetorically in the policy debates regarding trade and wages, but that is very dangerous rhetoric since the problems will remain even if the deficit is closed.

Seven, counting jobs lost because of NAFTA is also powerful but dangerous rhetoric, which has been rendered silly by the current low U.S. unemployment rate. The real question is not how many jobs are lost; the question is what kind of work will Americans be doing? What will be the work and conditions and the rates of pay?

Eight, during the first two-thirds of this century workers were pushed off the farms by productivity improvements that allowed the few to feed the many. While that push was going on, there was a very substantial pull into better jobs on the factory floor. In the last third of the 20th century, workers were pushed off the factory floor by productivity increases that allowed the few to produce the products for the many. That push has not been accompanied by any significant pull into better jobs in other sectors.

Absent job growth in manufacturing, workers have found the best jobs available in retail trade, in health care and state-local government, and business services. Those new activities offered high wages for the most educated, but those with a high school education or less have been left behind economically.

Ten, both automation and international trade have contributed to the decline in manufacturing jobs and a rise in inequality. Many academics thing that trade does not matter very much. I do not think the evidence is compelling in either direction. Job losses in apparel and textiles are surely related to globalization, but some academics think that trade with low-wage countries is too small a share of GDP to matter very much; to which I reply, the realized volume of trade is not the relevant issue.

What's relevant is contestability; the fraction of jobs in the U.S. that are contested by low-wage foreign workers is much larger than import volume suggests. If you have the time and interest, I will explain to you how even my barber's job in Los Angeles is contested by Chinese workers.

Eleven, the policy debate over trade would be greatly improved if we treated trade as a technological innovation that allows Boeing machinists, Microsoft programmers, and Warner Brothers creative artists to sew garments and footwear and to assemble toys with great efficiency. Not literally, of course. These U.S. workers fill our stores with these labor-intensive products by first making aircraft, software, movies, and then by trading these U.S. products with developing countries for the garments and the shoes and the toys.

Twelve, most of us understand that Luddite restrictions on automation would be a big mistake, but we don't seem to understand that trade barriers amount to Luddite restrictions that limit the indirect productivity improvements that come from this new international division of labor.

Thirteen, by greatly reducing the need for high school graduates in manufacturing, automation and international trade are both contributing to a serious and highly uncomfortable lowering of earnings of our least-skilled workers. Everyone on this Commission with children or grandchildren has a solution for this. We are all equipping our children with the intellectual assets that will allow them to do well in the 21st century. Absent those intellectual assets, our children will be in ruinous competition with both computers and with low-wage foreign workers.

Education will solve the problem for our most intelligent workers -- or most intelligent children, but what about the average Joe in Dallas or in Los Angeles who is economically indistinguishable from the average Chen in Shanghai? In this seamless global village of the future, will geography no longer matter? Will Joe and Chen receive the same wages? Maybe but maybe not. It depends on whether Joe and Chen produce the same products.

If we compete in the same product market as the Chinese, our workers have to be paid the same as the Chinese adjusted for productivity differences, if any. But if we don't make the same products then there isn't any arbitrage linkage between our workforce and the Chinese workforce.

Fifteen, how do we disconnect our labor markets from the Chinese labor markets? We have to make the educational and infrastructure investments that allow us to produce the skill-intensive, capital-intensive mix of manufacturers. We don't have to educate everyone. We can have high wages for the average Joe who is economically indistinguishable from the average Chen if there are no Joes making the same products as the Chens.

Sixteen, the existence of an apparel industry is a symptom of an economy with too many unskilled workers to allow it to disconnect it from foreign competition with low-wage countries.

Seventeen, NAFTA needs to be understood in its proper context. There are two doors from which flow products from low-wage developing countries. There's a Mexican door and an Asian door. Most products come through the Asian door traditionally. With the Mexican door to the U.S. markets wide open by international agreement, any attempt to close the Asian door would only divert trade and let more of it come through the Mexican door, with no protective effect on the U.S. markets.

Thus without really realizing it, by signing NAFTA, we made a very serious commitment to free trade generally, not just to trade with Mexico.

Eighteen, the depressive effect of distance on international trade and manufacturers is very strong and hasn't noticeably declined with the vast improvements in transportation and communication in the last 50 years. This is important because the threat to the U.S. workforce represented by the Chinese and Indonesians and Indians is greatly attenuated by distance.

While there are a few products like apparel that do travel great distances, most products do not. For example, U.S. autoworkers need not worry about the low wage Asian workers. The shipment of autos across the Pacific from Japan to the United States was an economic anomaly that's being corrected by the transplantation of Japanese auto production to the United States.

The northern states of Mexico abut right against our southern border. The Mexican work force being so close accordingly represents a much broader threat to American manufacturing than does the Asian workforce. But to put a positive spin on it, Mexico is a much better opportunity for the United States. It's a threat if we don't do something about our public educational system, which is pumping into our workforce too many Joes who are economically indistinguishable from the Juans and the Chens.

But trade with Mexico is an opportunity that will improve the economic well being of most U.S. workers if we can get our act together in our public high schools. Thus, in summary, education, education, education.

COMMISSIONER HILLS: Thank you very much.

Let me call on our next witness, Professor McKinney, from Baylor University. As I mentioned to Professor Leamer, we have a timing mechanism which you probably have seen up here. We'll start at about seven minutes, and when it's time to sum up with a minute left it will go into a yellow mode. It starts with green, yellow, and red, rather like a traffic light.

Do your best. We do want to hear from you, and we're grateful that you're here.