

CONGRESSMAN MORAN: Thank you very much, Mr. Chairman and members of the Commission. I want you to know I'm honored by the opportunity to testify before you about our nation's trade and current account deficits and their impact on our economic well being.

The subject matter before you is one of the most complex and misunderstood in our economy. Economists are divided over the precise causes of the trade deficit as well as the degree to which it is sustainable over the long term.

Many members of the public at large see the trade deficit as a sign of American economic weakness and as an indication that we are no longer competitive.

The report by the Commerce Department on February 18th that the nation's trade deficit in goods and services increased to \$271 billion last year will only deepen these concerns.

Last year's deficit represents a 65 percent increase from the prior year and is the highest on record. To many Americans, the trade deficit has become a metaphor for other economic problems in our society, including structural underemployment, economic dislocation, and wage stagnation. I believe this view is wrong.

As one who attended the ill-fated WTO Ministerial in Seattle, I heard this view expressed many times in the streets and among the commentators. It is, therefore, vitally important that we gain a greater understanding of the trade deficit if we are to grow closer to a national consensus on an effective, open, and fair trade policy.

More importantly, this Commission can help Congress avert what I view as potentially damaging protectionist trade policies based on a misunderstanding of the trade and current account deficits. So I am very supportive of your work.

Mr. Chairman, I want to focus on some of the policies we should pursue to address this trade deficit over the long term. Your August 19th hearing of last year here in Washington featured some of the nation's best economists to address the theoretical bases of this issue.

Suffice it to say that I agree with those who believe that the trade deficit is not a cause for serious concern in the short run. It is an indication that we are consuming more than what we are producing.

Our greater concern over the long run should be that economic growth in the rest of the world

will be insufficient to purchase enough of our greater productive capacity.

There is evidence, though, that the current trade deficit will begin to change as early as this year as the developing nations of Asia recover from their economic collapse of a couple of years ago.

Another reason for optimism is the substantial foreign capital inflows that are being invested in new American capital equipment and technologies. Such investments will make it easier to pay off foreign loans while increasing the productivity and the wealth of our people. This is one of the reasons why the fiscal policies the past seven years have been so important.

Government deficits are no longer absorbing so many foreign and domestic investment dollars. It also bears repeating that for the American public, the ready availability of imports to the United States broadens consumer choice and is a powerful check on inflation.

The availability of inexpensive imports means that Americans can use more of their paychecks for savings and an increased standard of living. With that said, it's also true that over the long term, the

specter of sustained trade deficits is not in our national interests.

But the economies of Japan, Southeast Asia, South America, and other regions of the world are bound to improve and begin to become attractive sources of foreign investment. This would result in a drop in the demand for and the value of the dollar, thus, of course, reducing the trade deficit.

One of the most important challenges for our economy right now is to assure that the trade deficit is brought down in a gradual manner that increases productivity and competitiveness over the long run. Some have termed this a "soft landing."

What is critical is that we not overreact and embrace protectionist measures that retard growth, fuel inflation, and limit consumer choice. And over the long term, reduction of the trade deficit will require the following legislative and policy priorities.

First, it's imperative that the Congress extends permanent normal trade relations to the People's Republic of China as part of their process of joining the WTO.

The data released last week by the Commerce Department indicates that the goods deficit with China last year was \$69 billion, making China one of the largest single contributors to the current imbalance.

We are a cash cow for China right now, but extending PNTR status to China as part of the recently negotiated China-U.S. agreement on China's accession to the WTO will enable the United States to narrow that trade gap substantially. It will open a market of one-and-a-quarter billion people to U.S. agricultural products, even with the 17 percent tariff; telecommunications services; manufactured goods; financial services; and a wide range of professional services.

The agreement is in the U.S. interest. It does not imply approval of Chinese behavior, particularly in the area of human rights, but it recognizes that the best way to affect basic change in China's behavior is through economic engagement and unfettered access to world knowledge and opinion, which our bilateral Internet agreement particularly will force.

It's important to note that our markets are already largely open to the Chinese. The November

agreement negotiated by Ambassador Barshefsky is largely a one-way street for U.S. manufacturers and consumers.

In exchange for major trade concessions from the Chinese, we agreed to simply keep our markets open to the Chinese and to support Chinese accession to the WTO, a step which will bring China into a rules-based international trade system and accelerate economic and political reforms in China.

Second, it's imperative that the United States gives priority to removing barriers to open trade in those areas where we can and should enjoy the greatest success. The service sector is the best case in point.

In 1998, this nation had an \$81 billion surplus in services trade. It was derived from travel services, licensing, copyright fees, construction, architecture, engineering, computer and data processing, and telecommunications, among many others. That's our strong point.

Services trade policy is an emerging area.

A major achievement of the Uruguay Round was the General Agreement on Trade and the Services called GATS, which represented the first comprehensive trading

agreement governing services. It was followed by the financial services agreement and basic telecommunications agreement of the WTO.

Services have not always been thought of as an area with great export potential, but with the integration of information technologies in a global economy, service providers can now interact with and sell to overseas clients much more easily than ever before, and they're doing so.

In preparing for Seattle, the Administration had properly identified services as a priority. A new round could have expanded the financial services agreement and the basic telecommunications agreement, immunized the Internet from taxation, and assured that future agreements would anticipate new technologies. Unfortunately, they fell victim to a process, where concerns about the trade deficit ironically helped derail measures that would have narrowed them.

The United States must, nevertheless, renew efforts to achieve agreement to expand trade in the services.

CHAIRMAN WEIDENBAUM: Congressman?

CONGRESSMAN MORAN: Yes?

CHAIRMAN WEIDENBAUM: If you can give us the highlights of your statement, that would be great.

CONGRESSMAN MORAN: Yes. We need to make certain that the government's economic data about the trade deficit is accurate. That's an area where the Commission could play a very important role, where we're not including transactions with low value of sales abroad -- less than \$2,500 -- that don't have to be reported to the government. So we are substantially under-counting the role of e-commerce.

I think our trade deficit is quite different than what is being reported. You need, I would suggest, to review that and suggest how we can get much more accurate reporting of our real trade deficit.

Fourth, we have to vigilantly monitor and enforce existing trade agreements. There needs to be more resources and, in fact, pressure to do so with the right organizational structure. And we also need to expand those programs that create new opportunities for U.S. businesses to sell overseas.

We are not competitive with Europe and Japan in terms of promoting our goods overseas. And too often U.S. trade development institutes, like

Eximbank, OPIC, export promotion programs in Commerce, are labeled as corporate welfare. There needs to be a renewed commitment and a better understanding of how important those programs can and should be.

Fifth, we need to invest a more effective workforce training to increase our productivity and competitiveness. We've got 20,000 jobs just in Northern Virginia that aren't being filled because we don't have the skilled workers. We lose a billion dollars in revenue. Even federal contracts are going overseas because we don't have the skilled personnel to perform the tasks. That's the case all over the country.

There needs to be much better training. It needs to be industry-driven, leveraged with financial support from the Federal Government. But we've got a proliferation of ineffective job-training programs throughout the Federal Government. They've got to be improved.

Finally, to ensure a soft landing for the trade deficit, we have to adhere to prudent fiscal policies that have been followed by Congress and the Administration during the past seven years.

A large across-the-board cut in tax rates in my view in such a booming economy could have a negative effect on the trade deficit as well as other economic indicators because it would stimulate spending, increase interest rates, and spur inflation.

That's what Chairman Greenspan emphasized in his most recent testimony. And it was consistent with all of his testimony. Using surpluses to reduce the federal debt augments our domestic savings, keeps interest rates low, enables more investment in technology.

In summary, if we could eliminate the federal debt, which is certainly doable over the next dozen years given our projected budget surpluses, nearly a trillion foreign dollars could be freed up for productivity-enhancing investments.

There is a growing worldwide corporate consensus that smart capital is best headquartered in the United States because of our open trade, our lower taxes, and our much higher intellectual productivity. That is a far more important long-term trend than our short-term trade deficits.

Again, I appreciate the opportunity to testify in the important service this Commission is accomplishing.

Thank you, Mr. Chairman.

CHAIRMAN WEIDENBAUM: Thank you, Congressman Moran.

SENATOR GRAMM: Mr. Chairman, Senator Hagel went to vote because we have a vote underway. I think, Jim, you all are not in session?

CONGRESSMAN MORAN: No.

SENATOR GRAMM: If you could ask me questions, I would be glad to answer them. And then I'll go vote.

CHAIRMAN WEIDENBAUM: Yes.

SENATOR GRAMM: Chuck will then come back and answer questions. Meanwhile, you've got Jim here, and he sounds like he's prepared to defend himself.

CHAIRMAN WEIDENBAUM: Sounds great.

COMMISSIONER ZOELLICK: Mr. Chairman?

CHAIRMAN WEIDENBAUM: I have Commissioner Zoellick and then Commissioner Lewis.

COMMISSIONER ZOELLICK: Yes. First I'd like to thank you for taking the time on what's clearly a very busy day for everyone. I have a question for

Senator Gramm and then a second question for either of you.

Senator Gramm, we had some very striking charts about bilateral trade deficits and surpluses. I'd like you to help me understand this a little bit.

One of the charts showed that the United States has had a prolonged deficit and Japan has had a big trade surplus with the United States year after year. I also understand that Australia has a big trade surplus with Japan year after year and we have a big trade surplus with Australia year after year.

So could you explain to me how this works? In particular, Senator Sarbanes said that over the cycle, we should try to make sure that all these surpluses and deficits even out. But they haven't evened out with those three countries.

My second question follows up on Commissioner Becker's point. That is I want to make sure I understand this vote that Congress has on China and normal trade relations. If the Congress decides to reject the President's, and I gather the Vice President's, proposal, does China not get in the WTO or do we just lose the benefits of China's accession to the WTO?

SENATOR GRAMM: It is my understanding that we have to approve it for them to get into China. I wish it were otherwise. I'm not sure where the Vice President is. His statement is one of the most irresponsible demagogic statements I have ever heard in my political life. I think it jeopardizes the agreement, and I think it's very, very irresponsible.

Remember we have a flexible exchange rate. The value of the dollar relative to every currency in the world is not set by government. It's set by markets where literally hundreds of billions of dollars a day of transactions occur.

If there were some kind of imbalance, the exchange rate would change. The exchange rate has not changed any significant amount because our trade deficit in the current account is offset by our capital surplus. And basically that works its way through the process.

The idea that we should have it as a policy to have no surplus and no deficit with any country over any extended period of time is a silly, irresponsible, and nonsensical position.

What we need to do is engage in trade and commerce. People talk about: Is this surplus

sustainable? Well, if it's not, it won't be sustained.

I mean, of all the things to worry about every night before you go to bed, I would think you would long be asleep by the time you get to this one.

Now, I know that's not politically correct to say it, but it's just the plain truth.

CHAIRMAN WEIDENBAUM: Thank you, Senator.
Commissioner Lewis?

COMMISSIONER LEWIS: Senator Gramm, thank you very much for giving us the benefit of your thoughts. I have got a question on fast track and a question on the deficit.

It's my understanding that the Administration is saying without fast track, they can't negotiate agreements. And, yet, we are also told they negotiated 300 agreements. The question would be: How often has fast track been used in the United States? That's number one.

Number two, I know that you are a professor. Could you call upon the knowledge you have and tell us: In the history of the world, has any great nation, major industrial nation, been a sustained debtor nation and remained a great nation?

SENATOR GRAMM: Well, no nation has ever been able to be a debtor nation. And the point is that people are willing to invest money in your economy only if they believe at some point they're going to get a return.

So we have come as close as any country in the history of the world to being a, quote, permanent debtor nation. But remember, when a major auto producer builds a factory in South Carolina, can we call that a debt of the United States? Ownership is not what it's cracked up to be. I mean, how would you move a factory?

So, the idea that kind of investment is somehow a debt completely confuses what is going on.

There has never been a great nation that was not a trading nation.

When Pericles spoke at the funeral oration and he wanted to give the ultimate praise to ancient Athens, he said that so great is our nation that people from all over the world bring their goods to our market, and as a result their luxuries are as common to us as they are to them. What a far cry that is from the kind of language that we hear today in the capital of the greatest nation in the history of the world.

In terms of fast track, you can do trade negotiations without it. The problem is that when you negotiate a major agreement, there's give and take on both sides to reach a compromise, but then you get to Congress and they want to re-negotiate the whole deal.

It's an outrage that we have not given the President fast-track authority, but part of the reason we haven't is the President has brought into fast track all these environmental and worker rights issues.

My basic position is I am willing to let the President negotiate reductions in trade tariffs without being able to amend it, but if he is going to write into it changes in domestic law about the environment and labor law, I want to have an opportunity to debate it and amend it.

COMMISSIONER LEWIS: How many times has fast track been used?

SENATOR GRAMM: I don't know the number, but it has been used quite a bit.

CHAIRMAN WEIDENBAUM: Thank you, Senator.
Commissioner Angell?

COMMISSIONER ANGELL: Senator Gramm, I appreciate once again your capability to express something so simply and so direct. You gave us a

statement about the golden age of the United States, and I found it very helpful.

I would like to have you take a minute or two to look at the other side. That is, not only do we have in the United States an example of a golden age of prosperity because we are so open, but we have the example of Japan that is in a ten-year depression event and their protection harms them and we have the example of Mexico that devalued its currency with some encouragement I thought from the Secretary of the Treasury, devalued its currency and made its people poor and, thereby, doesn't import much. And finally I'd like to have --

CHAIRMAN WEIDENBAUM: Your question, Wayne?

COMMISSIONER ANGELL: My question is -- I want the Senator to give an example of what harm has come from protectionism by some countries with large trade surpluses.

CHAIRMAN WEIDENBAUM: Thank you.

SENATOR GRAMM: Well, let me say that if you had come to Washington, D.C. ten years ago, in almost every corridor, you would have heard people saying that we should remake America in Japan's image.

And it wasn't just in Congress; it was at the White House. I was invited to lunches where people were talking about having us follow Japan into having the government invest in high-definition television. But they invested in the wrong technology. Our private sector invested in the right technology. And, as a result, we dominated.

Japan is living proof that having the government play political favorites with trade is a losing proposition. They protected their domestic interests. And, as a result, even though they have among the world's finest workers and even though their workers save more than any other workers in the world, they are constantly cheated by bad government.

We don't want to imitate that kind of policy. The sad thing about it to me is the people of Japan don't deserve the results. Never have a great people been so abused by their government as in Japan, in my opinion.

CHAIRMAN WEIDENBAUM: Thank you, Senator.

Commissioner Wessel?

COMMISSIONER WESSEL: I have two quick questions. Number one, a rising part of our trade deficit -- and appears to be rising at a much more

dramatic rate at this point is because of energy -- are oil imports.

I wanted to get your views on whether we're reaching, as I think Senator Bentsen once called it, the peril point, and whether there is something we should do about that specific component of the trade deficit; and, number two, accepting your position on PNTR, what we do about enforcement and whether there should be new additions to our trade law to address that.

The Chinese trade negotiator, for example, said, "During diplomatic negotiations, it is imperative to use beautiful words, for this will lead to success" and then went on to articulate a number of expected concessions which we were to have achieved, which they don't intend to see through.

SENATOR GRAMM: Well, let me first say that I am from an oil-producing state, and we have people who constantly say, "Isn't it terrible that we import over half our oil?" And do I wish we would produce more domestically and do I wish we didn't import it? Yes.

But the point is we use a lot more oil than we produce. We probably have 20 times as many jobs in

fabrication of oil and its various derivatives in everything from plastic to you name it than we do in production.

My state would be the biggest loser if we had an oil import fee. It's very hard for people to understand. Every once in a while I get blasted for not supporting it.

But the problem about "energy independence" is that when you start talking to people about what you've got to do to get there, they don't want to do it. And probably in terms of the national interest, they shouldn't.

There are things we could do in terms of lifting environmental restrictions that would allow us to produce more domestically in the outer continental shelf. We could modernize some of our tax laws with regard to the depletion of resources relative to depreciation.

In terms of enforcement, one of the reasons I'm for WTO is I think it gives us enforcement powers we don't have now. I'm not surprised the Chinese have discovered that using pretty words is a good thing. We do it very effectively. And our best Presidents do it best. There is no doubt the Chinese believe they are

going to benefit from entering WTO. And we are going to benefit.

The wonderful thing about trade which is so counterintuitive is that one person doesn't have to lose for the other to win.

CHAIRMAN WEIDENBAUM: Thank you, Senator.

SENATOR GRAMM: I just think for a myriad of reasons, that if we reject accession of China into the WTO, which we effectively would do by rejecting permanent normal trade relations with China, it will be one of the most disastrous actions taken in the post-war period.

It is just unimaginable to me that it could happen. The repercussions of it for everything we fought for in the world would be so profound that I keep believing at some point that people will wake up to the fact that this is real serious business, and that we must move ahead and approve it.

I'm confident that we will in the Senate. I'm a lot more worried about the House.

CHAIRMAN WEIDENBAUM: Thank you, Senator.

Commissioner Krueger?

COMMISSIONER KRUEGER: Yes. I'd like to thank you all, both of you, also Senator Gramm. I appreciated your comments and was happy to hear them.

There is, however, as some of the earlier comments indicated, obviously a popular perception out there that the trade deficit is something that is undesirable and that there are particular industries that are being hurt.

My question to you as both an economist and a politician is: do you see other things that can be done by way of policy that would help facilitate adjustment or otherwise remove some of this discomfort that obviously is being blamed, perhaps too much, on trade but, nonetheless, is a very real thing?

SENATOR GRAMM: If I can, Mr. Chairman, let me answer this question. Then I had better run vote, or else I might get laid off by my 20 million employers.

First of all, it is true that trade, like growth, is a creative as well as a destructive process.

Back when we were engaged in debating textile protection, I had a group of textile workers send me their family pictures in front of their houses, saying

that I was taking away their homes. That puts your philosophy to the test.

My response was: if you want a protectionist, you don't want me. You know, it's hard to go out in front of a textile mill and argue about comparative advantage.

But I think, in the end, the evidence is overwhelming of the great national interest in trade. You've got to recognize that there may be temporary winners and losers, but there are no long-run winners and losers.

I was at the BMW plant in South Carolina. Many people who are working there either did themselves or their parents worked in textile mills. Are they better off working for BMW than they were in cotton mills?

My kinfolk worked themselves to death in cotton mills on the Chattahoochee River in Columbus, Georgia. And today there is this giant high-tech plant there that is producing high-tech items. And there's another that is engaged in running a credit card business. The same people whose parents worked in the textile mills are working in these businesses.

Now, are they worse off? I think the answer is no. So I think what you have got to do is try to help people transition. I have supported government programs to try to do it. But in the end, having a more efficient economy -- having the kind of economy we have today -- is the best solution because if people don't want you doing what you're doing, you can go out and find somebody else that has got something for you to do.

And in many cases, it may turn out to be better.

So I'm not arguing that trade is perfect, that the adjustment costs are zero. They're not. I'm not saying in the short run that everybody wins. If somebody wants to make a shirt for me and I can buy it cheaper at Wal-Mart made in Ceylon or wherever, that person probably is not going to be able to make that shirt for me. But the point is that person can make something else better. And a nation with the kind of wage structure we have is not going to be doing a lot of sewing unless machines are doing it.

So you can go to Korea and buy American socks, but you don't find many American-made shirts in their stores. Some people get melancholy about that,

but when I look at the price of things at Wal-Mart and I look at what that price has done to allow quality clothing to be available to blue-collar workers, I thank God for it.

CHAIRMAN WEIDENBAUM: Thank you, Senator.

SENATOR GRAMM: Thank you.

CHAIRMAN WEIDENBAUM: Commissioner D'Amato? And thank you very much, Phil, for your full participation.

COMMISSIONER D'AMATO: Thank you, Mr. Chairman. I did have a question for Senator Gramm, but I would like to ask a question of Senator Hagel. I wanted to welcome you, Senator Hagel.

SENATOR HAGEL: Thank you.

COMMISSIONER D'AMATO: Thank you very much for your thoughts on this vital, important issue.

Those of us who have been to boot camp and those of us who went to OCS, which is a kind of a fancy boot camp, were taught that there's an old saying that says, "What you do speaks so loudly I can't hear what you say."

In the Chinese case, my question is: Should we be looking for performance-based tests to

measure whether or not we should engage in agreements with the Chinese?

My understanding is that it's very difficult not only to negotiate an agreement with the Chinese, but once you negotiate it, you should get ready to negotiate it again. Even though you might be abiding by it, they don't abide by it.

We did intellectual property rights three times. I don't know whether we're getting any kind of performance by the Chinese that would give us the sense of assurance that, once we give up our bilateral leverage in the WTO, they will actually abide by that agreement.

Should we wait to measure performance or should we really be careful about measuring their performance in implementing what we sign with them before we go forward? Should that be a precondition for going forward?

In the WTO case, I know there is the argument that if we don't join with them, we will be left behind the eight ball. But I also understand that if we don't let them in now, they're not going to be in the WTO until we do. We're too important. I mean,

that's my understanding of it. They're not going to be in there without our agreement.

My concern is that we are giving up our leverage with a country that simply doesn't abide by its agreements. Why should we do that? That's my question.

SENATOR HAGEL: Well, Captain D'Amato, I was just a modest enlisted man, so I didn't have the luxury of your OCS experience. And I freely acknowledge that I am a very inadequate replacement for Chairman Gramm, although we have a very competent House member here, so maybe he will help prop me up.

But your point, Dick, as everyone in this room understands very clearly, is relevant. No one can forecast with any complete vision and knowledge that uncertainty. But here is where I come out.

I said in my statement: like everything, this business of trade and opening markets and agreements is interconnected to the dynamics of national security and foreign policy. But in the end, it all comes down to leadership.

If the President of the United States does not make this a priority on his agenda, then that

starts to erode the base, not just the base of confidence, but the base to enforce agreements.

If the Chinese know that our President has trade enforcement and trade agreements and all the other associated dynamics somewhere in the middle of his agenda, and the Congress isn't particularly engaged, then you're right.

As we know, the Chinese or anyone most likely will get away with as much as they can. This requires a day-to-day focus and relationship with the Chinese, your trading partners, to do everything we can to assure that enforcement is there.

Now, what's the alternative? Is the alternative just to walk away and say, "When you become a real democratic government and a real marketplace, then we'll talk to you." There is no margin of error any more in this business. The rate of change is so phenomenal not one of us in this room, no matter how wise, can calculate it. We must seize the moment, as imperfect as that is. We frame and we build and we push and we lead and we enforce and do all the things you have to. But I don't know what the alternative is Dick. It's somewhere in between, I suspect. And I

think that's where we have to force this thing and work through it.

The other part of it is I have always believed foreign policy should be about identifying the common denominator between ourselves and the Russians, the Chinese, or anybody else.

And there is no question the Chinese understand this. The Chinese want this much more badly than we do, the WTO relationship, and all of the other pieces that go with it: the credibility, the respect, the access and the investment.

So overall I think we're on a course here, Dick, that is generally correct. But as I said also in my comments an hour ago, the next President of the United States is going to be consumed with this. And I don't mean to be political, but you can't have a photo-op every 6 months or 12 months and say this is trade policy. This is connected to your foreign policy. This is connected to everything you are. We haven't had fast-track authority for the President since 1994. That's absolutely astonishing.

An imperfect answer and it may not have answered any of your questions, Dick, but that's where I come down and why.

COMMISSIONER D'AMATO: Thank you.

CHAIRMAN WEIDENBAUM: Thank you, Senator.

Commissioner Weidenbaum would now like to have a turn.

You urge keeping labor and environment issues separate from trade policy. Could you elaborate on that and, in passing, could you comment on the charge we often read that these are disguised forms of protectionism?

SENATOR HAGEL: Again, I start out with my point that this is an imperfect world and an imperfect institution and imperfect dynamics we're dealing with.

If we start loading onto a trade agenda, as difficult as that is unto itself, new requirements, new expectations and new standards, like the labor rights and environmental issues we saw in Seattle, then what do we think is going to happen?

Well, what is going to happen is exactly what happened in Seattle. We will collapse the framework, the most hopeful framework for the future of mankind, I believe. It is trade. It's productivity. It's investment. It's allowing nations at the bottom a chance to get off the bottom.

We have an international trade organization. We have international environmental

organizations. Are they disassociated from or are they disconnected from productivity and trade? No. But let's be clear on what we want to accomplish.

Do you want your World Trade Organization to also deal with the environment as a major part of their agenda, a clearinghouse for environmental issues, labor rights and labor law? Is that what you want? We have organizations to deal with that.

Yes, they are connected. But if you start loading on top of an already tremendously heavy burden, a burden that 130 nations are working their way through now and other nations want to join, I think you could, as I said, end up with chaos in world trade. And that is not to anyone's benefit.

CHAIRMAN WEIDENBAUM: Thank you, Senator.

Commissioner Becker.

By the way, if or when Senator Levin enters, I will try to cut off the discussion so that he can have a chance to make his opening statement.

COMMISSIONER BECKER: There is so much that has been said here that I would like to talk about. Suffice it to say I want to try in my own inadequate way to defend the Vice President of the United States

from what I call politically slanderous statements that were made by Senator Gramm.

What he was talking about was the Vice President's statement that his Administration would insist that trade agreements negotiated under his Administration would include trade union rights, human rights, and perhaps even environmental accords.

Having said this and invoked the ire of a lot of people, he said very quickly and firmly that as of now, though, he is the Vice President of the United States. And he is legally, -- I question legally -- morally, and ethically bound to support the President.

And I say this to everyone here and for the record, this is an election year. Individuals are running for the highest office in this land, and it is essential that the voters, that working America understands the policy his Administration will take forward.

I think he has an obligation to state those policies, and I don't believe that is irresponsible under the circumstances. And I just want that into the record.

SENATOR HAGEL: Jim, would you like to comment?

CONGRESSMAN MORAN: I think he probably looked at you because you are our Republican. I am a Democrat, Chuck, and I would naturally be more supportive of the Vice President.

But I think that Senator Gramm was unduly critical of that statement. I don't think that it's cause for his description of it as "irresponsible."

I don't even think it's necessarily political. I think over time we are going to get labor and environmental standards that are going to have to come from working groups that we set up. That's over time, and I am glad that he is interested.

I suspect a Republican President would be as well, but I don't want to take up the Senator's time.

COMMISSIONER BECKER: And having said that, Congressman, there are vast differences between nations. This whole protectionist thing bothers me very much because I think we are all protectionists to a degree.

We fought for this country. We tried to protect the values, the integrity. We tried to protect our families and our communities. And what we have today in this country is a nation that has a high

degree of social standards. We require our employers to adhere to clean air laws. In order to protect our environment, the prices are raised.

CHAIRMAN WEIDENBAUM: Do you have a question, sir?

COMMISSIONER BECKER: Yes. This is half statement, but there is also a question in this because how do you deal with this?

It's just like I set a glass out here. If you take our minimum wage, our Social Security costs, our Medicare costs, and you take the other provisions that we provide as a social nation, a caring and decent nation, this raises the cost of product to produce.

And then we say: Oh, by the way now, you're going to go out and compete against countries that use forced child labor, that use prison labor and use suppression in order to keep workers down.

COMMISSIONER ZOELLICK: Excuse me. Are we asking questions? Because if we're going to get into a debate --

CHAIRMAN WEIDENBAUM: Gentlemen, gentlemen, gentlemen. I recognized Commissioner Becker to ask a question of the witness. Is there a question?

COMMISSIONER BECKER: I said: How do we do this, then, when you talk about free trade out there and just competing on a level field? How do we compete with, for example, coke oven workers that get 13 cents an hour? How do we compete on this kind of a basis? How do we take this leveling out there?

CHAIRMAN WEIDENBAUM: Senator Hagel or Congressman Moran?

SENATOR HAGEL: I'll take a run at it. I obviously was not here to do a thorough airing of what Senator Gramm said.

COMMISSIONER BECKER: Well, I'm going by what the Congressman just said here, too.

SENATOR HAGEL: Well, I will respond to you, Mr. Becker. If you want to go back into the history of this country, let's start at the real beginning.

This nation is a nation of immigrants. We always have been a nation of immigrants. That's how we were formed.

That's our strength, always new ideas and new workers. And that gets us partly into what you're talking about.

There is no question that there are violations of human rights and child labor laws and some of the most despicable acts that man can conduct.

But at the same time, I think we have to always be focused on how to best deal with it. If you take a trade organization, or a trade agenda, and try to load on the challenge of dealing with labor issues, you will find, I think, pretty quickly that it is incapable of doing that. It's not like we don't have other organizations, UN organizations and other international organizations: these are the appropriate forums where these issues should be taken up.

What I have said is I don't think you can fix it all, Mr. Becker, by using the WTO. What will eventually happen is a collapse of the one thing that can stop this behavior by getting underneath it -- that's the productivity of the worker and the investment in these nations where this is going on.

If you want to alter behavior -- Congressman Moran said it quite clearly in his statement -- I think the best way to do that -- I think history is rather clear on it -- is through trade. Imperfect? Absolutely.

CHAIRMAN WEIDENBAUM: Thank you, Senator Hagel.

CONGRESSMAN MORAN: And if I could clear up because he did ask me as well, Mr. Chairman? I'll try to make it quick, but --

CHAIRMAN WEIDENBAUM: Yes. I would like to give Senator Levin a chance to make --

CONGRESSMAN MORAN: Yes. We have got to get him up here first. Senator, we have been waiting for you. This seat. Senator Gramm kept it warm for you.

We have a mutual objective, Mr. Becker, but I think we disagree in the way we achieve that. If you look at Europe, they have as many people, the European Union. They have the resources. They have more experience. They are not competitive with us. The capital is coming here. We have four percent unemployment, et cetera. Our American workforce has never been better.

But in Europe, the reason they're not getting that capital, their growth is not as much, they're not employing as many people is they're trying to protect an industry, agriculture, which harks back to the Nineteenth Century.

Half of their money is going into protect that interest. It's a nice thing to do, but shouldn't be done and doesn't deserve the resources. And, as a result, people aren't making the transition that Senator Gramm and others have talked about. That transition is necessary. There have to be the forces in place to even force that transition.

We can't protect manufacturing industries that are not competitive. We have got to help people, though, make the transition into the higher intellectual value-added industries that give us our highest profit margin, our highest standard of living, our fuller employment. It's happening. And I think we should assist it happening.

No, we're not competing with child labor. Child labor can't compete with what we are capable of producing because they're not experienced. They don't get paid as well in the industries that they are involved in.

We don't want those industries, quite frankly, because they don't produce a profit margin. They don't produce the standard of living. They are not competitive with what we are capable of and where our resources should be devoted to producing.

We need to help the third world catch up, and we shouldn't be trying to go back into industries that are more appropriate to the second or third worlds.

CHAIRMAN WEIDENBAUM: Thank you, Congressman.

I'd like to call on Senator Levin and ask him would he summarize his statement. And we'll put the full written statement in the record. And members of the Commission will read his full remarks.

SENATOR LEVIN: If my colleagues are done, how much time do you want me to take? Five minutes?

CHAIRMAN WEIDENBAUM: Yes.

SENATOR LEVIN: Three minutes? Five minutes?

CHAIRMAN WEIDENBAUM: Three is better than five, but it's your call.