MR. TONELSON: I will try to condense furiously as I go along. Good morning, everyone, and thank you very much for the opportunity to appear here today.

The USBIC Educational Foundation is the research and also the educational arm of the U.S. Business and Industry Council. This national business organization, created in 1933, is comprised of about 1,000 companies, mainly small and medium-sized manufacturers. Their trade-related concerns spring partly from their experiences as exporters, as suppliers to exporters, and also companies that face import competition.

That is to say, these concerns reflect in part the nature of our companies as primarily domestic companies, determined to make their products in this country as long as bona fide business conditions and also reasonable government policies permit.

In this regard, they differ dramatically from U.S. multinational companies. Their highest trade policy priorities appear to be supplying the U.S. market from lower cost, less regulated foreign platforms, and ensuring that these competitive advantages, which often reflect foreign government policies and not market forces, remain firmly in place.
That is to say these larger multinationals want this global race to the bottom, in terms of living standards, wages, environmental protection, to continue and to actually speed up.

Our trade views, however, also reflect broader reasons that we see for maintaining a strong, diversified manufacturing base in this country. I will focus on what you might call the purely economic reasons and the socio-political reasons, which is just a fancy way of saying the human reasons for deep concern about our current trade policies, and about the huge and chronic manufacturing deficits that they have helped to produce.

Now I will make two stage-setting comments very, very quickly. There is no doubt that despite these enormous manufacturing deficits, we have seen continually rising manufacturing output. We have seen manufacturing maintaining a steady share of the overall American economy, and we have seen continually rising manufacturing exports, at least until quite recently.

But citing absolute increases like these tell us nothing about the trade effects on the health of the manufacturing sector. They simply tell us about the health of the manufacturing sector. In fact, those who emphasize increases like this ironically are implicitly selling American manufacturing prowess
short. They seem to think this is the best the U.S. economy and U.S. manufacturing can do.

Now my father taught me a long time ago that those who aim low, are very easily satisfied. USBIC agrees with this entirely. We think that America can do much better for its U.S. companies and its workers as well.

The second stage-setting point, this actually speaks to a point that Professor Weidenbaum raised in one of the sessions previously, running trade deficits under certain circumstances can absolutely improve a nation's competitiveness. Trade deficits are not always a bad thing, primarily because they can provide manufacturers with the highest quality inputs, unquestioned.

But unless we think that running a nearly $1.4 trillion manufacturing deficit since 1979 has had this kind of an effect, i.e. unless we think that impartial market forces have ruled that the United States has become hopelessly uncompetitive in a wide variety of inputs like this, which would be a very odd state of affairs for the so-called Goldilocks economics system that we are constantly told we have, or unless we think that we are in the midst of the longest J-curve in economic history, a 20-year J-curve, we need
to recognize that one can have too much of even a good thing.

We should recognize the trends in our national economy are primarily responsible for the strength of our manufacturing sector, and that manufacturing deficits have in fact prevented this performance from being even better. Again, we want to aim high, not low.

Any policies that hold back the manufacturing sector's performance are policies that need to be reversed. For all the talk about our transition to a service national economy, manufacturing remains our nation's leading sector in productivity and our chief driver of technological progress. In particular, in cutting edge industries like telecommunications, the line between manufacturing and services is very difficult to figure out. If a world-class manufacturing sector withers away, a world-class service sector will surely follow.

What I would like to do in the rest of my comments is to draw your attention to three sets of data that I have provided at the end of my statement, copies of which I hope you all have. The first shows our country's deteriorating trade balances in what the U.S. Government officially classifies as high technology industries. If you turn to Table 1, you see
that without aerospace, where a U.S. company is one of only two producers in the biggest segment of that industry by far, America would be a growing net importer of high technology products. Even with aerospace, the trade balance is getting worse.

At the heart of the venerable concept of comparative advantage is the idea that what countries trade most successfully, what they have surpluses in, should and does determine what they produce most successfully. These figures bode very poorly for America's future as a world technology leader.

The second set of figures in Table 2 presents numbers on the import penetration in various manufacturing sectors, which are as you can see, for the most part very high technology sectors. This import penetration, of course, represents outputs, sales, and profits no longer being generated or captured by American-based producers.

Table 3 shows that in numerous industries spanning the technology spectrum, that feature high and rising import penetration rates, domestic output has sagged or fallen, even as economy-wide growth has in fact proceeded. This worrisome trend can also be detected in figures showing how the growth of U.S. manufacturing capacity has changed over time. Growth rates recently have indeed been higher than during the
recession years of the early 1990s. Big deal. And
during the stagflated 1970s. Big deal. But they are
considerably lower than at their peak in the mid-1960s.

Our trade deficits have also had a major
impact on manufacturing employment and in turn,
manufacturing wages. This development is often pooh-
pooched by enthusiasts of present trade policies, but
its effects cannot be over estimated.

We need to remember that the overriding aim
of U.S. economic policies should be to produce the
fastest rising living standards for the greatest number
of our own people over the longest period of time, i.e.
to make people's lives better. That is what economic
policy is all about.

By this measure, for all its other
achievements, U.S. economic policy has been a miserable
failure, and it has been failing for nearly 30 years,
that period of time during which the median wage of
some three-quarters of the American workforce,
including those with four years of college, has either
stagnated or fallen in real terms. That is a lot of
"losers."

There can be little doubt that U.S.
deficits in manufacturing and the considerable loss of
U.S. manufacturing jobs bear much of the
responsibility. Not all of it. No thoughtful observer
would ever maintain that. But much of it. After all, manufacturing jobs are not only our most productive jobs, they are our highest paying jobs on average. No matter how you slice it, no matter how you want to carve up services, you come out with the same conclusion.

Moreover, the decline of manufacturing employment has inflicted what you might call I guess double whammy on the American wage structure. Not only have displaced manufacturing workers been forced to take lower paying service jobs, but the typical manufacturing wage itself has fallen. Since 1973, for example, manufacturing wages are up 240 percent. Inflation though is up 256 percent. That is a real loss.

COMMISSIONER BECKER: You know that you are running on the red.

MR. TONELSON: Okay. Let me just make one final point. Okay? Our companies are also very concerned about this withering of the manufacturing sector or stagnation, because history presents few examples of truly democratic countries remaining vibrant without large expanding middle classes, and fewer still of truly durable democracies experience long-term wage depression and widening income inequality.
I will cut it short there, and be happy to take whatever questions you have. Thank you.

COMMISSIONER BECKER: Mr. Knetter?