

+ + + + +

PRESS CONFERENCE

+ + + + +

Tuesday,
November 14, 2000

+ + + + +

The press conference convened in Room S-207, U.S. Capitol, Washington, D.C. at 10:00 a.m. Murray Weidenbaum, Chairman, presiding.

Present:

MURRAY WEIDENBAUM, Chairman
DIMITRI B. PAPADIMITRIOU, Vice Chairman
C. RICHARD D'AMATO, Commissioner
MICHAEL R. WESSEL, Commissioner
KENNETH LEWIS, Commissioner
GEORGE BECKER, Commissioner
ANNE O. KRUEGER, Commissioner
LESTER C. THUROW, Commissioner

Also Present:

ALLAN I. MENDELOWITZ, Executive Director
KATHLEEN J. MICHELS, Administrative Officer

P-R-O-C-E-E-D-I-N-G-S

(10:04 a.m.)

CHAIRMAN WEIDENBAUM: As chairman of the Trade Deficit Review Commission, I am pleased to open this final session of the Commission. Since June 1999, we have been wrestling with the difficult and controversial questions that surround the large trade and current account deficits that our economy has been experiencing. We have not developed consensus answers to all the questions, but the Commission has reached general agreement on many issues.

Readers of the report will find sections written by a unanimous Commission, Chapters 1, 5 and 7, and other sections where alternate Democratic and Republican viewpoints are presented, Chapters 2, 3, 4 and 6. The fundamental difference between the Republican and Democratic sections, at least as I see it, is the extent of reliance on markets to deal with economic issues in contrast to the power of government. No either/or choice is presented, but rather differences in emphasis.

I now will try to synthesize in my own words what I believe are the major areas where we achieved basic agreement:

1. The United States has benefitted greatly from international trade and capital flows. Our relatively open economy has enhanced living standards and helped to contain inflation. But increased links to the rest of the world do generate disruptions to individuals and communities. It is essential that we address these

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

(202) 234-4433

www.nealrgross.com

1 consequences in order to develop and maintain a national consensus
2 that focuses on opening markets instead of imposing trade
3 restrictions.

4 2. Trying to stop the global economy is futile.
5 International commerce is more important to our economy today than
6 at any time in the past. The challenge is to take advantage of the
7 opportunities created by the flow of trade and investment, while
8 assisting those who bear the cost of adjusting to the changes it
9 brings. In dealing with these matters, our moral values as well as
10 our economic interests must govern the policies we set and the
11 actions we take.

12 3. Large and growing trade deficits are neither
13 desirable nor likely sustainable for the extended future. However,
14 there is no way to determine how long the deficit trend will
15 continue or whether it will end in a soft or hard landing.
16 Nevertheless, the combination of low household saving, large trade
17 deficits, and substantial foreign debt are reasons to favor a
18 fiscal policy that substantially increases national saving. These
19 deficits reflect fundamental imbalances in the American economy:
20 as a nation we consume more than we produce and we invest more than
21 we save.

22 4. Foreign trade barriers offend the sense of
23 fairness of Americans who see the greater openness of our economy.
24 A vigorous policy to break down trade barriers is essential. We
25 need to fully enforce the trade agreements we have entered into and

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 ensure that the nations we trade with fully enforce the agreements
2 they have entered into.

3 5. The United States should strengthen its efforts
4 to monitor and enforce trade agreements. Responsibility for
5 enforcement should be elevated within the current trade policy
6 agencies. Sufficient numbers of highly qualified staff should be
7 assigned for this task.

8 6. Planning should start for a new round of
9 multilateral trade negotiations. We support efforts to make the
10 WTO more open and transparent. Public support for a new round will
11 be strengthened by securing greater compliance with existing trade
12 agreements as well as reforming the WTO.

13 7. The United States should update export control
14 policies for civilian technologies with both military and
15 commercial uses. The Cold War is over. The purpose of this review
16 should be to relax these policies whenever we can in light of
17 current national security and economic considerations. Unilateral
18 imposition of export sanctions should be limited to those cases in
19 which a high-level national interest is clearly at stake and where
20 the likely effectiveness is high.

21 8. Gathering and disseminating the basic data on
22 international trade must be improved. More detailed and up-to-date
23 information is essential to an informed citizenry and to achieve
24 more enlightened decision making. A reasonable increase in the
25 current depressed funding level for international statistics is

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 surely justified.

2 9. We recommend increasing private and public
3 efforts to provide more effective worker adjustment assistance.
4 Aid should be extended to all workers who bear the cost of
5 adjustment to economic change, not just those adversely affected by
6 trade. The focus of U.S. adjustment policy should be on positive
7 approaches that help more of our people participate in economic
8 prosperity, rather than providing relief from or seeking to halt
9 economic change.

10 We raise the interesting issue of establishing a new
11 wage insurance system. Again, you'll find differences on details.

12
13 Again, we all think that the most fundamental aspect
14 of an effective adjustment policy is to do a much better job of
15 educating and training our people to become more productive and
16 thus end higher wages. That is also the key to our long-term
17 international competitiveness.

18 If you have any doubt about the cogency of this
19 recommendation, look at the shortage of American workers for high
20 tech jobs in the United States today.

21 We think that a necessary incentive for any education and training
22 or retraining program is an economic environment that encourages
23 and produces a high level of job creation.

24 This opening statement is frankly not an attempt to
25 paper over the significant differences between the Democratic and

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 Republican Commissioners, but to indicate realistically in this
2 very divided town where trade policy legislation can start. There
3 is a common base of agreement which I urge be considered as a basis
4 for then tackling the tougher questions that do divide us.

5 Dmitri?

6 VICE CHAIRMAN PAPADIMITRIOU: Thank you, Mr.
7 Chairman. I would like to take the few minutes that I have to
8 actually emphasize one particular issue and then to give you a list
9 of our Democratic Commissioners' recommendations.

10 The issue that we are concerned with as Chairman
11 Weidenbaum indicated that separates us is the question whether the
12 trade deficit is sustainable. It is quite possible that a balance
13 of payments crisis would never happen. There may be a recession
14 large enough to include the balance out of all recommendation.
15 Even though history has shown otherwise, it is not impossible that
16 things will improve spontaneously.

17 It is our strong view, however, and I'm speaking for
18 half of the Commission, that there is a serious possibility that
19 the trade deficit will not improve at all during the next few
20 years. Consequently, the overall balance of payments will indeed
21 continue to deteriorate in the median term future and with it the
22 U.S. is in an international position.

23 The experience of our trade deficit countries during
24 the fourth (Inaudible) is sufficient to demonstrate a deteriorating
25 (Inaudible) does not always or even usually correct itself

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 painlessly or automatically. Yet the process of deterioration
2 eventually comes to an end or needs to be brought to an end.

3 The textbook remedy is depreciation of the exchange
4 rate. The trouble with this, however, is first the exchange rate
5 is no longer an instrument of policy in any ordinary and reliable
6 sense. Second, the scale of the depreciation may already be
7 extremely large in the order of perhaps 4 percent in order to do a
8 4 percent balance of payments.

9 But quite apart from the difficulty of inducing such
10 a large depreciation it would carry a severe risk of reigniting
11 inflationary pressure. And third, there is a danger that there
12 will not be enough manufacturing capacity to produce the needed
13 addition of export and we have written a lot, I think now a chapter
14 about the state of manufacturing in the U.S.

15 What I want to direct your attention is the seven
16 conclusions that the Democratic Commissioners have come up with
17 which emanate from our disagreement with the Republican colleagues
18 on the causes and consequences of the trade and account deficits.

19 There are six points. First, the large and growing
20 trade deficit is not sustainable. All of the Commissioners believe
21 that there is some risk of a hard landing as Chairman Weidenbaum
22 indicated. The Democratic Commissioners, however, called for the
23 development of contingency plans to address this possibility. It
24 seems to us that the purpose of strategic planning is to make sure
25 that policy makers are prepared for the worst case. The armed

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 forces are not disbanded because most people think there will be no
2 war.

3 Number two, foreign trade barriers must be addressed
4 and again, all Commissioners believe that the vigorous program to
5 address foreign trade barriers is essential and the responsibility
6 for dramatically enhanced trade enforcement and monitoring efforts
7 should be elevated. But again, the Democratic Commissioners called
8 for the use for the performance based trade agreements, the renewal
9 of Super 301 section and other efforts to break down barriers to
10 our competitive product.

11 Three, the current transition assistance framework
12 must be strengthened and I won't say very much about that because
13 we basically agree on this with some small disagreements in terms
14 of wage insurance and other protection for those who are hurt from
15 trade and other causes.

16 Number four, the Democratic Commissioners reject the
17 call for a new round of multilateral trade negotiation unless
18 labor, environment and human rights issues are on the table. The
19 Republican Commissioners rejected the notion that enforcement of
20 the nation's common laws be part of the negotiations. It is
21 important to note that this rule of law approach is the basis for
22 the recently signed U.S.-Jordan Free Trade Agreement.

23 Number five, the Democratic Commissioners called
24 attention to the need for addressing the bilateral trade deficits
25 with China and Japan in light of the fact that together they

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 account for the majority of the trade deficit. The Republican
2 Commissioners indicated that efforts to address bilateral deficit
3 with any countries would not result in an overall balance of
4 reduction or reduction of a trade deficit.

5 And the last recommendation is that the Democratic
6 Commissioners call for the creation of a Congressional Trade
7 Office, a CTO, analogous to the CBO. This CTO will assist Congress
8 in its constitutional control over trade policy. Because of the
9 increasing importance of trade, not only to the U.S. economy, but
10 also to America's authority and international influence, it is
11 vital that Congress reassert its control over this issue and expand
12 its analytical resources.

13 Thank you.

14 CHAIRMAN WEIDENBAUM: Thank you, Commissioner
15 Papadimitriou.

16 Commissioner Krueger would like to take a few
17 minutes to give the Republican side.

18 COMMISSIONER KRUEGER: Commissioner Weidenbaum has
19 been so careful to be trying to keep a consensus that it seemed to
20 me that I should present at least a little of where the
21 disagreements come from on the part of the Republican appointed
22 members of the Commission.

23 I think our starting point was very simple and
24 straightforward. Actually, Economics I, textbook stuff. The
25 current account deficit which was our charge to consider is nothing

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 other than the difference between national savings and national
2 expenditure. And the reason we have a current account deficit is
3 because by the time we take all the profitable investment
4 opportunities in this country which yield reasonably higher rates
5 of return, that's more than national savings and therefore we
6 import capital for the rest of world which has helped us enormously
7 over the past decade and I don't think anybody disagrees with that
8 part. And it is a symptom of our strong economy.

9 Now admittedly this is unusual in history that you
10 have a very strong economy pulling in capital, but it does happen
11 and it has happened. And we see the exchange rate having
12 appreciated as a result of that in order to facilitate the capital
13 inflow by permitting the excess of goods and services imports.

14 So in our view, a strong economy is what is driving
15 this and we are not losing by having a net negative international
16 capital position. We are better off. It is largely self-financing
17 in this very important sense that we have productive investment
18 opportunities and paying the interest or the profits on that is not
19 something that leaves us terribly concerned.

20 Basically, money comes in because this is very
21 profitable. When foreign economic growth picks up relative to ours
22 there is a good basis to believe that the size or relative
23 magnitude is a percent of GDP or the current account deficit will
24 come down and so on.

25 There is, of course, a possibility that foreigners

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 will find us less attractive and before, while we're still growing
2 fast, if that happens, there's every reason to believe that the
3 dollar exchange rate would depreciate somewhat and there is a very
4 strong chance of a soft landing.

5 While nobody can deny with absolute certainty the
6 possibility of the quote hard landing scenario, we, I think,
7 consider it considerably less likely than do our Democratic
8 colleagues and while we consider that yes, there are measures that
9 can be taken that make the American economy stronger in other ways,
10 we do not, I think, advocate taking strong measures that would in
11 any sense jeopardize the strength of the American economy now
12 because of the chance that something might go wrong five years from
13 now when indeed the much stronger likelihood is that we will (a)
14 see a gradual correction if one is needed at all and (b) that there
15 would be a stronger economy than to do that.

16 We do see that there are things that can be done, as
17 I said. Changing tax laws so that there was less disincentive to
18 save, quite clearly, would be something that would be in the
19 American interest regardless of the current account deficit and
20 when you can find something that improves things without hurting
21 anything else, that's already good.

22 Emphasis on education. We do agree that there could
23 be more ingenuity and effort put into finding ways to facilitate
24 the paths of those who are disadvantaged, especially those older
25 workers who lose their jobs. But we would focus much more on

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 working through markets and strengthening responses in ways that we
2 find socially and economically desirable, I think.

3 We support a new round of multi-lateral trade
4 negotiations. We support it without the labor standards because
5 for stuff we believe that should go into the ILO and I don't
6 remember whether it was unanimous, but certainly my Republican
7 colleagues really thought that ratification of the ILO articles by
8 the U.S. Senate would be a nice place to begin if we have such
9 faith in that organization. We cannot now bring suit on many
10 occasions because we not in good standing because we ourselves
11 haven't ratified which makes our arguments for the WTO inclusions
12 somewhat, I think, less convincing than they would otherwise be.

13 There all kinds of questions about labor standards
14 and trade agreements starting from very legal and very important
15 issues. Whose labor standards is it going to be that are enforced?

16 It is American standards or maybe German standards, German are
17 higher than ours. And who's going to decide when they stop being
18 labor standards and start denying developing countries of their
19 comparative advantage. Developing countries do have lower wages
20 than we because the workers are -- I don't want to say the workers,
21 but their economies are less productive and therefore, the real
22 wage cannot be as high.

23 We also have issues, supposed, somewhere in let's
24 say southern Bangladesh, there is one factory that doesn't abide by
25 whatever the labor standards are. Should we issue all imports from

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 Bangladesh? Where is it going to stop? Suppose that Bangladesh is
2 okay in our trade and goods factories. We won't do that, then they
3 use low labor, they violate their labor standards in their
4 production of electricity which is used in the factory. How far
5 are we going to go?

6 And the enforcement issues in terms of thinking
7 about labor standards with trade law are really quite incredibly
8 difficult. Even in this country, as I recall, about a year ago,
9 there were some -- there had been found several sweatshops that
10 were not violating law. Would we permit trade sanctions in the
11 rest of the world against all of the exports from the United States
12 of goods produced in the industries where we found the sweatshops?

13 We did find them, but they had been there and who's to say?

14 The final reason not to is of course is that the
15 developing countries themselves, many people believe, and have
16 stated publicly (a) that they believe the purpose of all this is to
17 hurt their labor and their comparative advantage, and secondly,
18 they have said unequivocally they will not participate in a new
19 round of trade negotiations if labor standards are on the table
20 which is to say that if we put them there, there is no new ground.

21 And for all of those reasons I think the Republican Commissioners
22 came out for having a new round of trade negotiations and not
23 making labor environmental standards a precondition.

24 Thank you, Murray.

25 CHAIRMAN WEIDENBAUM: Thank you, Anne. As you can

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 see, we've had spirited discussions among the Commissioners.

2 Please fire away.

3 QUESTION: My name is (Inaudible) and I'm with the
4 Washington Times. As I listen to Ms. Krueger, I couldn't help
5 think to myself that this report was a little more than an echo of
6 extremely bitter fights that you have experienced over trade
7 policy. Senator Baucus has made some initial attempts to try and
8 find some common ground through a sort of labor environment. I'm
9 wondering if you took any stand in this direction or whether you
10 sort of realized early on that there was going to be this divisive
11 split.

12 CHAIRMAN WEIDENBAUM: First of all, I attend every
13 Commission meeting and I can assure you there were spirited
14 discussions. I don't recall any bitter confrontations at all.

15 We did go out of our way to invite the broad
16 constituency of interest groups to testify at the many hearings
17 that we held and frankly, we did make efforts to develop common
18 ground and three of the chapters clearly reflect that, although I
19 think if you read the report carefully you will see that a number
20 of the other chapters reflect the on-going effort to find some
21 middle high ground. We didn't always succeed, but that was the
22 common thrust of the members of the Commission.

23 COMMISSIONER THUROW: Murray, could I make a comment
24 here?

25 CHAIRMAN WEIDENBAUM: Sure. Commissioner Thurow.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 COMMISSIONER THUROW: I think this is the place
2 where there's a genuine disagreement opinion. We both want another
3 trade round, but as Anne said, Republican Commissioners believe
4 that if you put human rights, labor rights and environmental
5 standards in that round, there will be no round because the Third
6 World will object.

7 The Democratic Commissioners believe that if you
8 don't put labor standards, human rights standards and environmental
9 standards, there will be no trade agreement because powerful
10 political forces inside the United States will stop it. No fast
11 track for the President. And countries like Germany just aren't
12 going to sign something that doesn't have an environmental standard
13 in it because their green movements are a lot more powerful than
14 ours.

15 So I think you've got an honest difference of
16 opinion here as to what it would take to get a new trade round.
17 Republicans say you put the stuff in, you won't get. The Democrats
18 say if you don't put this stuff in you won't get. And of course,
19 maybe answer is we're both right and there won't be a new trade
20 round.

21 CHAIRMAN WEIDENBAUM: Commissioner D'Amato.

22 COMMISSIONER D'AMATO: I'd just like to comment. I
23 think that your perception that there is a bitter division is not
24 accurate at all, either in the deliberations of the Commission nor
25 in the report actually. Despite the fact that there are parallel

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 chapters, there is a lot of convergency in those chapters. There's
2 some areas of agreement and Chapter 5, of course, is a common
3 chapter.

4 One area of agreement I want to mention because you
5 referred to it is in the area of monitoring and enforcement. The
6 Chairman mentioned in his bullet number 5 in his opening remarks
7 that the U.S. should strike the effort to monitor and enforce trade
8 agreements and the Vice Chairman mentioned it too.

9 The fact is that in the report you'll find a number
10 of recommendations for a quantum leap in oversight enforcement
11 recommendations, both in the Administration and in the Congress.
12 You referred to the recommendation for the creation of a
13 Congressional Trade Office which you'll find is Chapter 6. We also
14 recommend beefing up the Administration's capabilities in the
15 Commerce Department and the creation of a new Deputy Administrator
16 in USTR for compliance, the creation of an interagency trade group
17 that would deal with compliance, annual compliance reports by the
18 Administration.

19 The point is that over the period of the Clinton
20 Administration, eight years, we saw USTR negotiate 300 trade
21 agreements. That's running at about one a week for 8 years. The
22 result after eight years is a trade barriers report that's 430
23 pages long and \$1 billion a day out the window in terms of the
24 deficit.

25 So our issue has to do with determining what we are

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 trying to accomplish in these agreements, setting the goals out in
2 a more consensual way between the Executive Branch and the Congress
3 and then monitoring those performances, the performance and
4 benchmarks and have a score card before we enter into new
5 agreements and new negotiations with those trading partners. That
6 is not currently being done. There is no compliance effort in the
7 USTR. It's very inadequate in Commerce. If you call down there
8 and ask them about score cards on trade agreements, they won't know
9 what you're talking about.

10 So the point is that there is a general agreement on
11 enforcement and compliance in the Commission and I think that's one
12 of the strong points of the report.

13 CHAIRMAN WEIDENBAUM: Question back there.

14 QUESTION: If I could go back to the earlier
15 discussion about the difference between labor and environment.
16 (Inaudible) free trade agreement. Since they're all pretty low,
17 but nonetheless bring those issues on to the table and I wondered
18 if you, amongst the Commissioners, had the discussion on this type
19 of model, where the bar is set very low where there's very little
20 enforcement (Inaudible) and the agreement itself in these
21 discussions and whether you think that might be workable as a way
22 of bridging the gap.

23 CHAIRMAN WEIDENBAUM: Commissioner Wessel?

24 COMMISSIONER WESSEL: This is really going to be the
25 first test of whether these issues can make their way in trade

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 agreements and form the basis of a new consensus. As you point
2 out, those who have advocated strong provisions on labor and
3 environment and trade agreements did not get everything they want,
4 but at the same time for the first time we've seen that labor and
5 environment are in the cortex of a trade agreement and the
6 enforcement of another country's domestic laws is required.

7 So this is not the imposition of higher standards,
8 U.S., German or any other standards, but rather recognition that
9 the rule of law that applies to commercial issues should also apply
10 to labor and environmental issues because the advocates believe
11 those are economic issues.

12 In the days leading up to the signature by King
13 Abdullah and President Clinton on that agreement, as you may have
14 seen, there was a Republican outcry that that went too far. I
15 should point out that my understanding is the agreement has support
16 within the labor community within the center left coalition that
17 has not necessarily support trade agreements in the past, and the
18 question is whether the Republicans will seek to try and find some
19 consensus building approach from this bridge building approach and
20 that's going to be the first test I think of the next Congress and
21 whoever the next President is going to be.

22 CHAIRMAN WEIDENBAUM: I hesitate to use the term
23 camel's nose under the tent dealing with Middle East, but clearly
24 this is a direction that the Republican Commissioners do not want
25 to go. We think that the array of serious, truly trade issues that

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 face in a comprehensive multilateral round of negotiations are so
2 awesome that muddying the water by adding nontrade issues which is
3 how we view these other standards would jeopardize the chances of
4 success of the entire enterprise and of course, the acid test is
5 the representatives of so many major developing nations are
6 adamantly opposed to including these nontrade issues in the
7 negotiations in the agreements.

8 Question.

9 QUESTION: This is for the Republican Commissioners.

10 Chairman Weidenbaum, your reference to nontrade issues muddying
11 the waters of efforts to launch new trade round is an interesting
12 way to describe the desire of many critics of U.S. trade policy to
13 include basic American values in that trade policy, muddying the
14 waters, with attempts to ensure that countries that permit their
15 own citizens to form free labor unions, to associate freely,
16 American values, very highly, I think Americans value very much and
17 apparently the Republican Commissioners believe that attempts to
18 muddy the waters with efforts like that are not acceptable and that
19 no trade policy should not alter rewards and preferences to
20 countries that like Jordan do promise to permit their citizens to
21 form free trade unions. That's muddying the waters.

22 CHAIRMAN WEIDENBAUM: Each of the Republican
23 Commissioners would like to take a stab at this.

24 Anne, why don't you go first, and then --

25 COMMISSIONER KRUEGER: You can be clean up hitter. I think

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 the issues are several. And I don't think it's a matter of union.

2 There's -- permitting a union can be done in so many ways that as
3 you know as well as I do it makes a difference. Over the years
4 I've done a lot of work -- I was working trade policy in developing
5 countries in Turkey and at one time Turkey's labor law was such
6 that what would and did happen was that one day some guy in the
7 factory would get mad about something that had happened and so he'd
8 form a union and the whole work force would go out on strike for a
9 couple of weeks.

10 There would be some kind of a new contract signed
11 with the union and that union would dissolve. Three days later
12 somebody else would get mad at something else. Somebody else would
13 lead the union charge and there would be a new union and a new
14 strike and so it would go -- this was 1979-1980 and it was absolute
15 chaos.

16 Nobody that I know of would advocate that kind of
17 union law. I don't even think George would advocate it here where
18 you could reach an agreement and three days later somebody else
19 could become head of the Steelworkers and have another one. I mean
20 there has to be some framework that makes sense. Now once you
21 agree on that, then the issue gets much more complicated very
22 quickly because the question is what is the framework and what
23 scares me when I hear you is I think I'm turning on my hat in
24 foreign policy perhaps more than I am as somebody interested in
25 international trade.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 Why do we as Americans say that we are going to
2 insist that the rest of the world take on what we think is best for
3 them when they may have a different institutional background
4 different? Other things, including different degrees of mobility
5 of the labor force across regions, different histories, just so
6 many things that are different that for us to impose standards is
7 on the one hand, it seems to me probably ill-advised in our own
8 self-interest because of the backlash.

9 But the second part of it is that I don't think
10 there is a uniform -- one size fits all. Jordan is 4 million
11 people and desert in the Middle East. I mean its labor market
12 conditions are so different from those in South Asia which, in
13 turn, are so different from Indonesia which in turn are so
14 different from Brazil.

15 The mind boggles to think of what would you do that
16 would be, in some sense, reasonable in this regard and then I come
17 back even to the more fundamental question. We already have an
18 international labor organization. We are the United States. If we
19 are so powerful that we really can impose our standards, why don't
20 we revive or strengthen the ILO and let it do its job in that
21 regard which is an agency which presumably has more competence.

22 CHAIRMAN WEIDENBAUM: Just to summarize briefly all
23 of the -- the Republican Commissioners take labor issues very
24 seriously and as Commissioner Krueger has noted, we believe the ILO
25 is the proper place for labor issues.

1 Personally, I would not muddy the ILO waters by
2 adding trade issues to its agenda. I think it's a question of
3 assigning issues to the organization best suited to dealing with
4 those issues. Commissioner Becker?

5 COMMISSIONER BECKER: Yeah, a few comments on it. I
6 listen and the comments coming from the group that's asking
7 questions out here often express the ideas better than we do, their
8 understanding of it. And I don't know where you had your
9 understanding or developed your understanding of the labor movement
10 or what people are seeking from countries like Turkey or
11 nondeveloping countries, but it couldn't be further from the truth.

12 We work very closely with trade unions throughout
13 the world. When we're talking about trade and we're talking about
14 the American market, what we're really looking at is a comparative
15 advantage and countries that use environment or the lack of
16 environmental controls or the lack of trade union rights, the lack
17 of freedom of association, the lack of workers' ability to be able
18 to share in the wealth they helped create, I think is very
19 fundamental.

20 Because if this is used as a comparative advantage
21 by those manufacturers that shut down industry in the United States
22 and open them up in other countries, to be able to export back into
23 this country, and it's a very serious thing.

24 All you have to do is look at the trade agreements
25 that we've got, that has exposed our markets and let product come

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 in absolutely without any restraint and we're targeted here in the
2 United States and look at the growing trade deficit.

3 The fact that this Commission was formed, the trade
4 deficit in the United States was running about \$240 billion in that
5 area when it was formed some 17 months ago and there was great
6 concern as to whether or not this was sustainable or was this was
7 healthy or if this was controllable in one form or another.

8 The fact that it would reach a \$300 billion deficit
9 was appalling. Today, we're looking at \$245 billion and the
10 promise of a very, a very real promise that after the first of the
11 year we're going to be approaching \$1 trillion. If this is good,
12 if this shows a healthy economy and if this is something that we
13 should be seeking, then the people who advocate this should be
14 ecstatic as where we're going, I think it's -- I think it's due to
15 the trade agreements.

16 There's a formula that the Department of Commerce
17 uses, Department of Labor that 13,000 jobs are at risk for every \$1
18 billion either plus or minus in a trade deficit. If you -- simple
19 arithmetic will pt this at about \$6 billion. I mean 6 million jobs
20 with the trade deficit running about \$442 billion that it is right
21 now which is a completely unacceptable fact and something that
22 promises to grow, escalate as we go along.

23 We want -- we believe this is due to the predatory
24 practices of these exporting countries into our market place. The
25 Department of Commerce did a study on the steel industry alone that

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 showed that we have a 30-year history of circumvention and
2 targeting of our markets. This is happening across the board.

3 We believe that we should include trade union
4 rights, that we should include environmental regulations in any
5 other trade agreements that we negotiate, that this is the market
6 place that we want and we should have the right to insist on
7 countries giving these rights to their workers in those countries
8 so that they can develop a domestic economy and this is a
9 cornerstone of democracy and moving up for us, ever to have a
10 chance to trade freely with those nations. We need to have those
11 fundamental rights in the trade agreements that we negotiate out of
12 this country.

13 CHAIRMAN WEIDENBAUM: Let me just briefly report
14 that our nonpartisan staff commissioned some econometric studies of
15 the question what would be the result of eliminating the trade
16 deficit that were deliberate policy in the past decade. Their
17 calculations make it clear that the results in terms of reduced
18 gross domestic product elevated levels of unemployment would have
19 been devastating. And the body of the report contains the summary
20 of that study.

21 Does someone here want to -- Mike?

22 COMMISSIONER WESSEL: Let me just follow up on the
23 previous comments as well, because if you look at the history of
24 trade policy, we're now at an evolutionary time or the desire to
25 have that evolutionary discussion of whether labor and

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 environmental issues are going to be fully integrated into trade
2 agreements.

3 We saw in the mid-1980s, the early 1980s a desire
4 to have intellectual property rules integrated into the trade
5 agenda and that didn't occur until 1984 and that was a hard fight.

6 There were many who argued that that was not appropriate, not an
7 appropriate issue for the inclusion of trade agreements. Since
8 that time we've begun the discussion of labor and environment.
9 We've seen a maturation of that discussion with NAFTA, including
10 side agreements and now Jordan including in the core text.

11 If this is rejected, these issues, I think what
12 you're going to see is a partisan divide and an ideological divide
13 that we may not be able to bridge for some time. So this really is
14 going to be a test of the next Congress of whether we're going to
15 be able to move forward.

16 CHAIRMAN WEIDENBAUM: Question in the back.

17 QUESTION: (Inaudible question from an unmiked
18 location.)

19 CHAIRMAN WEIDENBAUM: Anyone want to tackle that?

20 First of all, the answer is yes, the most obvious
21 one is to increase the budgets for the trade policy agencies, USTR
22 and Department of Commerce and for the Economic Statistics Agencies
23 to produce better, more detailed and more up to date statistics on
24 international trade.

25 Other recommendations are a combination of Executive

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 decision making and congressional decision making in terms of
2 reduced use of export controls and export sanctions.

3 COMMISSIONER KRUEGER: Also, adjustment assistance.

4 CHAIRMAN WEIDENBAUM: Certainly the -- as
5 Commissioner Krueger reminds me, of course, the adjustment
6 assistance program that we all recommend would require legislation
7 and appropriations to become effect.

8 VICE CHAIRMAN PAPADIMITRIOU: Let me also say, if I
9 may, whether these recommendations or a variation of these
10 recommendations would be debated, it will be really a function of
11 how that will get worse. If the deficit reaches to the
12 unsustainable level, the really unsustainable level, my suspicion
13 is that you will see a lot more discussion, serious debate about
14 recommendations.

15 CHAIRMAN WEIDENBAUM: Murray, Commissioner Thurow?

16 COMMISSIONER THUROW: We talked earlier about the
17 enforcement issue. The fact of the matter is we can set up a
18 government where we sign trade treaties and then we never monitor
19 them to figure out whether they're followed because we have no
20 people hired to do that and we certainly don't enforce them. And
21 where you see this dramatically is if you look at this huge
22 bilateral deficit with China. It is clear that China has come to
23 the opinion that Americans never pay any attention and never
24 enforce any agreements and therefore you can sign anything you like
25 and it won't matter.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 For example, they run a huge trade surplus for the
2 United States and balance trade with Europe. There's no way you
3 can explain that economically. You simply have to say they
4 understand the Europeans are tough. The Europeans are look and see
5 what happens. The Europeans will enforce their agreements and
6 therefore will run balance trade with Europe because China runs
7 administrative trade, it's still a communist government and they
8 look at the United States and say these guys, you can sign
9 anything. They never enforce it. They never monitor it and
10 therefore it doesn't make any difference what you sign with the
11 United States. And this whole question about how you set up a
12 meaningful enforcement and monitoring system so that you sign
13 agreements that are real is just absolutely critical.

14 And see, the other things when you were talking
15 about data for international trade, this is not just some group
16 saying well, I like more data about my industry. The fact of the
17 matter is we set up our government statistical agencies in the
18 1930s when international trade was not important and more
19 importantly when services were not important. That's now 70
20 percent of the economy. We collect no data about services. We
21 keep very little data about international trade and increasingly in
22 terms of statistics we're wandering into the dark. And we need to
23 monitor a GPS system statistically speaking for our country.

24 For example, if you went around the world and looked
25 at what the rest of the world thinks our trade surplus or deficit

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 is it's very different than what we think it is because the two
2 should be the same, right? If you look at what their trade surplus
3 of the United States is and if you add them up for the whole world
4 that should equal what our trade deficit is, but it doesn't. And
5 by huge amounts, it doesn't and I think the important thing to
6 understand here is increasingly we're trying to make economic
7 policy in a world where we're really wandering in the dark.

8 So this is just not Agriculture or somebody else
9 saying collect a few more data about my industry. What we're
10 saying here is we focused on trade, but we need a wholesale rethink
11 of government economic statistics in this country because they're
12 just out of date.

13 CHAIRMAN WEIDENBAUM: We all share the spirit of
14 Professor Thurow's remarks, but I would note that the Bureau of the
15 Census goes back to time when agriculture was the major sector of
16 the American economy --

17 COMMISSIONER THUROW: And the Bureau of Census was
18 set up because of slavery to collect data on slaves was its
19 purpose.

20 CHAIRMAN WEIDENBAUM: And the Bureau of Lab or
21 Statistics also predates the New Deal.

22 Commissioner Lewis.

23 COMMISSIONER LEWIS: Somebody asked a question
24 before about the bitter disputes between us. I think Commissioner
25 D'Amato, there are not bitter disputes but there are fault lines

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 that I could talk about.

2 Number one is that (Inaudible) and the other side
3 does not agree that (Inaudible) and that we need to establish new
4 rules for the global economy.

5 The second is that that one side believes that
6 countries that erect barriers hurt themselves more than they hurt
7 us and therefore it really doesn't make much difference whether
8 we're running a deficit with certain countries because those
9 countries are hurting themselves more than they're hurting us if
10 they erect the barriers to our exports. We don't believe that. We
11 believe it hurts us also.

12 And third is the belief that trade agreements have
13 nothing to do with labor and environmental standards and we believe
14 that labor and environmental standards are economic issues and not
15 just social issues.

16 This leads to a race to the bottom. A Cornell
17 professor has published a report that in over half -- for our
18 Commission, yes, who -- we asked for this study to be done. And
19 her conclusions were that in most labor negotiations today, I think
20 it was over 50 percent, threats are made that if labor doesn't
21 agree to what management is asking for, they'll either close down
22 and move overseas or contract the work. So there's no question
23 that globalization has an impact on wages in the United States.

24 Now the answer to that is that we have very little
25 unemployment in this country, but the response to that is we may

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 have low unemployment, but wage inequality has been growing. So
2 how can we have wage inequality growing in a country where
3 unemployment is low? And obviously, until the last two or three
4 years, wage inequality was growing and the bottom 80 percent of
5 Americans did not gain from this prosperity that American
6 experienced.

7 Thank you.

8 CHAIRMAN WEIDENBAUM: By the way, when you have
9 professors on the panel, they love to one up each other. I'll have
10 to remind Professor Thurow that the census is in the Constitution.

11 COMMISSIONER THUROW: Yes, because slaves count
12 4/5ths of a human being.

13 CHAIRMAN WEIDENBAUM: There's a broader basis.
14 Population count of the United States. Does anyone have a question
15 on trade? Yes sir?

16 QUESTION: (Inaudible question from an unmiked
17 location.)

18 COMMISSIONER KRUEGER: Well, as I started my remarks
19 by saying at least the Republican appointed Commissioners started
20 from the proposition that the current account deficit is equal to
21 the difference between domestic saving and domestic investment. In
22 that sense, I think that we would see the level of employment is a
23 function of the productivity of the labor force and the wage
24 determination mechanisms and the usual things.

25 On the other hand, one has to recognize that there

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 are in any dynamic economy changes in demand and supply from time
2 to time. You've got a new technical innovation over here or a new
3 industry, well, I supply manual typewriters, we've lost employment
4 in because we now have word processors and so on and that's bound
5 to have an impact effect and I think what my colleague George
6 Becker is talking about is this impact effect which is to say that
7 in this course of economic change and growth, some people lose
8 their jobs. Other jobs are created. The people who have lost
9 their jobs are not necessarily immediately the ones who get their
10 jobs in the next sector.

11 So far, so good and I think we're all in agreement
12 and I don't even think George would disagree with me on that.

13 The next step, however, is where the disagreement
14 would come. Based on the evidence that we heard in testimony based
15 on the written material that's out there in the research, it would
16 be my best guess that of every 10 people who lose jobs, if you
17 could somehow attribute in this impact effect, not in that
18 aggregate, but impact effect, if you could somehow attribute how
19 much was due to poor management and the owner finally just had to
20 go bankrupt, how much was due to moving location in the U.S., how
21 much technical change, how much changes in tastes and things like
22 that and how much was trade, my sort of upper bound and I mean
23 really upper bound, judgment would be that it could not be more
24 than 20 percent trade and my best guess would be between 5 and 10.

25 I think that's where the big difference is and I

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 think George and his colleagues would give a lot more weight to
2 trade and less weight to other things and I believe that the
3 evidence as we know have it indicates. But it's not a macro
4 phenomenon. It's -- he's talking about losing good jobs and George
5 thinks they're not quite so good the ones you get in other areas
6 because quite clearly right now our unemployment rate is so low
7 that you couldn't have 6 million more people in the aggregate
8 employed.

9 CHAIRMAN WEIDENBAUM: Vice Chairman Papadimitriou?

10 VICE CHAIRMAN PAPADIMITRIOU: Let me say that I
11 would refer to Chapter 3 where you see that some of these job
12 losses have been documented in previous work done.

13 I also want to say that the Commission did actually
14 have work done by Kate Bronfenbrenner from Cornell University which
15 is again is available for you to see. It's not a macro economic
16 sense, but it is a micro and you can see actually if you relate the
17 decline of manufacturing base which haws been decimated basically
18 and the jobs, 80 percent of them, in that sector have been affected
19 dramatically.

20 CHAIRMAN WEIDENBAUM: Commissioner Wessel?

21 COMMISSIONER WESSEL: Let me point out that the
22 figure that Commissioner Krueger talked about 20 percent is by some
23 a large figure, by some a small figure. To me, it's a large
24 figure.

25 When you look at average Americans and you equate

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 that with what's happened to wages over the last years, that's
2 probably greater than the tax burden that those average Americans
3 are paying at this point. So while I don't think any of the
4 Democratic Commissioners would argue that trade is responsible for
5 all of the changes that have occurred, 20 percent is a large number
6 and if we can do something about that 20 percent we'd be making a
7 huge difference in their lives every day.

8 CHAIRMAN WEIDENBAUM: Commissioner Becker?

9 COMMISSIONER BECKER: Yes, there's really not any
10 mystery about this. With these trade agreements our manufacturers
11 in the United States are expected to compete with the manufacturers
12 in other countries, whether be American multi-nationals that have
13 shifted their production from this country to another country or
14 whether they originate in the other country. It's immaterial on
15 that. They're expected to compete.

16 But in many cases we're talking apples and oranges.

17 The comparative advantage that other countries have is often the
18 difference in a lack of environmental controls. It's often the
19 absence of human rights. It's often the repression of labor. And
20 this is why we insist on a level playing field as much as we can.
21 If we're expected to compete against those countries rather than
22 just turn our production over to them, then there has to be some
23 element of freedom of association and for those workers in other
24 countries to be able to share in that wealth that they helped
25 create so that we can have an environment in which we can compete

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 back and forth.

2 The absence of that, they can just target our
3 industry and do that. The fact is, as we have lost from 24 percent
4 of the employment in the United States at the turn of the -- going
5 into the 1980s, was in manufacturing. Today, it's 14 percent.
6 There's been a tremendous shift in that. These are
7 family-supported jobs and these are jobs we shouldn't have to lose.

8 These are jobs that we want. Unless we're willing
9 to let our textile industry go offshore, unless we're willing to
10 let our steel industry go offshore and our automobile
11 manufacturing, eventually bit by bit, they will do this. There was
12 an old Missouri saying that I grew up with, if you always do what
13 you always did, you'll get what you always got. And look at what's
14 happened in the decline of jobs since the beginning of the 1970s
15 and look at the increase in the deficit.

16 I think as we continue down this road of just having
17 complete open markets and being expected to compete against in many
18 cases totalitarian countries that do not have the same values of
19 us, that has no hesitancy in repressing their people and then we
20 have multi-nationals headquarters in the United States that's
21 willing to shut down manufacturing capacity in the United States
22 and shift it to China and import back into this country, to shift
23 it to Vietnam and import back into this country.

24 This is what we are facing. We believe that there
25 should be some standard set and when we negotiate these trade

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 agreements, when we negotiate them, we should insist that if you
2 want our market that there should be some basic elements of fair
3 play in order for us to be able to compete. It's as simple as
4 that.

5 COMMISSIONER LEWIS: I'd like to add one thing to
6 what George Becker just said. There was an article in Business
7 Week about six months ago where General Electric -- it's not just
8 companies shutting down and moving overseas, but General Electric
9 six months ago or eight months, according to Business Week, told
10 their suppliers that they should move to Mexico or they'll lose
11 General Electric as a customer. They didn't say lower your prices
12 10 percent. They said move to Mexico.

13 Well, that's the kind of thing that concerns us.
14 We're losing our manufacturing base as has been expressed before
15 from down to 14 percent of the American economy today and if an
16 American manufacturer has to comply with American OSHA rules and
17 environmental rules and labor standards and if they move overseas
18 and don't, then obviously it's putting American manufacturers at a
19 disadvantage.

20 CHAIRMAN WEIDENBAUM: My State, Missouri, name has
21 been taken in vain and we have a saying as you know, I'm from
22 Missouri, show me. But let me show you. The fact is industrial
23 production in the United States has reached an all time high year
24 after year, month after month, during this entire decade. And yes,
25 employment and manufacturing has not kept up with output because of

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 rising productivity which represents in good measure technological
2 advance. I see nothing negative about that.

3 As far as you U.S. investment overseas, if you look
4 at the data, there are always exceptions, but if you look at data,
5 most of it goes to developing nations with high, if not higher
6 labor -- developed nations, thank you. Developed nations, Western
7 Europe particularly, with high or higher labor and environmental
8 standards than we do.

9 COMMISSIONER LEWIS: Mr. Chairman, just to respond -
10 -

11 CHAIRMAN WEIDENBAUM: The great prosperity which
12 reflects especially in a high level of employment in the United
13 States results from in part the deregulation, the movement to a
14 freer market economy and that really is a key divide between the
15 Republican and Democratic Commissioners.

16 Yes, we rely more on competition in the marketplace
17 to protect the consumer to protect the public interest and the
18 Democratic Commissioners rely more on the power of government.

19 COMMISSIONER LEWIS: Mr. Chairman, we believe that
20 when Mexico sells America more automobiles than America sells to
21 the rest of the world, there's a concern. That's a movement of
22 manufacturing for the United States overseas. And we do not
23 believe that the market laissez-faire atmosphere answers all the
24 problems and we went through this debate in the 1920s and 1930s in
25 this country to put some kind of limitations on the free exercise

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 of laissez-faire economies.

2 We have labor laws now that protect workers. We
3 have safety laws that protect. We don't believe that a laissez-
4 faire atmosphere towards a market solves all problems and that's
5 one of the big fault lines between the two sets of Commissioners on
6 this Commission.

7 CHAIRMAN WEIDENBAUM: Professor Thurow? I'm sorry,
8 Commissioner Thurow. Didn't mean to demote you.

9 COMMISSIONER THUROW: That's all right. This is one
10 of those places where basically enforcement and standards come
11 together because when you talk about this issue you're not talking
12 about necessarily exporting American standards to the rest of the
13 world. For example, if you look at the side agreements in NAFTA
14 and there are side agreements on both labor standards and
15 environmentalism, what is simply says is Mexico has to enforce its
16 existing laws.

17 You can't pass a phony law and not enforce it,
18 right? That's a perfectly reasonable thing to have an agreement
19 because you're not saying that Mexicans have to adopt American
20 laws. You're not saying the Mexicans have to adopt American
21 standards. You just say if they passed a law, they have to live
22 with it.

23 Now the interesting thing is this comes back to
24 enforcement because we signed the Mexican side agreements and then
25 we have enforced none of them. We've monitored none of them. And

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 in fact, the Mexicans don't live up to their own environmental laws
2 along the border as you see in the sewage problems that have been
3 discussed very widely. And so this is not an issue of Americans
4 telling the rest of the world how to run the rest of the world.

5 The problem is this is living in a transparent world
6 where both sides know what the other side is going to do and that's
7 the right thing to ask the Mexicans to do, but don't pass a phony
8 law which you're not going to enforce and of course, that's
9 America's problem because we could go down there and monitor those
10 agreements and we could insist on enforcement, well, we don't.

11 CHAIRMAN WEIDENBAUM: Yes sir.

12 QUESTION: (Inaudible question from an unmiked
13 location.)

14 COMMISSIONER KRUEGER: I don't think -- let me put
15 it the following way. It is sustainable as long as we have a
16 sufficiently high real rate of return so that we can finance
17 whatever is the profitability or the interest payments on what's
18 outstanding.

19 Now a lot of people talk about it as if it's all
20 borrowing, which it isn't. A lot of it is direct foreign
21 investment and if those -- if that isn't profitable, there won't be
22 any servicing on it and therefore that won't be an issue. The
23 1990s so far, the evidence is the other way around it. We've
24 gained and they've gained. As long as that's continuing, that's
25 fine.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 Some people worry and I think you'll find in the
2 Democratic Commissioners' report they talk about what happened in
3 Mexico and other financial crises, why can't it happen here.
4 There's a very simple reason it can't happen here and that is that
5 our liabilities are denominated in our own currency. Mexico's
6 liabilities were denominated in dollars as were everybody else's.

7 We are the currency of the world which is, by the
8 way, our strong economy again which is by the way part of the
9 reason for our deficit again, so we cannot get into that kind of
10 problem. The concern which I think everybody has to a degree not
11 that it's certain, not that it's likely, but that it's a
12 possibility is that right now we do depend on foreigners to be
13 financing a fair chunk of our investment and in some sense, four
14 percent of our total expenditures. That's a lot.

15 The concern I think is not that this is
16 unsustainable per se, the concern in the hard landing scenario that
17 my colleagues talk about is what happens if quote suddenly they
18 decide to pull the plug? Now I think the odds that they're going
19 to suddenly do that are very small because they'd lose their shirts
20 if they did. On the other hand, if they did it would also have
21 some negative side effects here and that's the concern.

22 The more likely outcome is that they don't wake up
23 one morning and everybody and the rest of the world all of a sudden
24 knows that the dollar is a bad currency and they all dump it. What
25 happens is that the dollar depreciates. As it depreciates you get

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 more of U.S. goods going into its port markets and we consume fewer
2 of our own exports because they're more expensive and the
3 likelihood of a gradual adjustment is pretty high.

4 I called your attention that the current account
5 deficit was this high in the mid-1980s and fell sharply in the
6 second half of that decade which was a time of healthy economic
7 activity here. There is no reason for this unsustainability to
8 mean that we will have a hard landing. The unsustainability says
9 it's unlikely to go on forever and since almost anything is
10 unlikely to go on forever, I concur with that, but because of that
11 doesn't mean that you're going to have this negative scenario in
12 the unwinding. Herb Stein used to say and he's been
13 quoted, but it deserves quoting again, that which is unsustainable
14 will not be sustained.

15 CHAIRMAN WEIDENBAUM: Before I recognize you let me
16 call attention to the chart on the cover of our report. It shows
17 as Commissioner Krueger just mentioned the very high percentage of
18 trade deficit to GDP in the mid-1980s and the very sharp decline in
19 that trade deficit.

20 Yet that was a soft landing, even though our economy
21 today is in far stronger shape than it was in the 1980s which I
22 suggest gives us a base for optimism in terms of -- not our ability
23 to forecast when the turn comes, none of us have that ability, very
24 frankly, but it underscores our confidence in the ability of the
25 American economy to absorb that sort of change. A \$450 billion

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 deficit sounds awesome until you compare it to a \$10 trillion
2 economy.

3 Commissioner D'Amato?

4 COMMISSIONER D'AMATO: Thank you, Mr. Chairman. I
5 think the problem here is there's a difference in emphasis on the
6 question of what none of us really can answer. The chasm that sits
7 before us, the Chinese say that darkness lies half an inch ahead.
8 Catherine Mann, for example, of the University of Economic
9 Institute, a respected economist here, she has a benchmark of
10 something like 4.5 percent of GDP as a break point whereby after
11 that you are really in a danger zone where gradualism is just as
12 much a guess as abrupt change.

13 What bothers us is we're in an unknown, uncharted
14 territory in terms of percentage of GDP, the deficit as a
15 percentage of GDP. We're reaching that zone where we really don't
16 know what's going to happen.

17 The thing that bothers us is that markets, if you're
18 watching the stock market, do you think that gradualism is the
19 theme of market psychology today, I wouldn't share that theme. I
20 think the problem is that markets react rather swiftly. That's
21 what bothers Mr. Greenspan. It bothers all of us.

22 Markets will react in a panic fashion as likely as
23 they will in gradualistic fashion and we can't really assess if
24 that market psychology will take hold at one point or another over
25 the next five years. Because after five years, we're well beyond

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 the percentage of the deficit as a part of GDP that would be
2 signalling alarm bells for a lot of economists and the markets
3 themselves. So that's the problem. We really don't know, but we
4 don't have a lot of faith in gradualism.

5 CHAIRMAN WEIDENBAUM: There is some damage of the
6 aging process, not too many, but I recall similar concerns about
7 the budget deficit that we've never reached a triple digit budget
8 deficit before. This is an unknown region, it's danger zone and
9 voila, in the short period of time we're wrestling with the
10 phenomenon of budget surpluses.

11 COMMISSIONER WESSEL: Through government action.

12 CHAIRMAN WEIDENBAUM: Yes, and bipartisan government
13 action.

14 COMMISSIONER WESSEL: We can have a debate there
15 too.

16 CHAIRMAN WEIDENBAUM: Which some of us are
17 advocating here.

18 VICE CHAIRMAN PAPADIMITRIOU: Mr. Chairman, you do
19 know that there's another deficit. Maybe there's a surplus in the
20 federal budget, but there's another deficit and that's in the
21 private sector. And I do also want to say to my colleague,
22 Commissioner Krueger, that we don't really know what foreign
23 savings finance, whether they finance direct investment or they
24 finance portfolio investment. And of course, there's a difference
25 because if you look at the flow of funds we will see that a lot of

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 internal funds finances business investment. And we know that a
2 lot of foreign funds finance portfolio investments in terms of
3 swapping shares of stock, Daimler-Chrysler is one of them.

4 COMMISSIONER WESSEL: Let me also add that we talked
5 about the 1980s and the uncertainty of twin deficits at that point.

6 We are entering uncharted territory as we look at the trade
7 deficit in terms of its percentage of GDP. We're also entering
8 uncharted political orders right now which certainly has had some
9 impact on the markets over the last days. What the Democrats are
10 arguing is that we should develop contingency plans as well as we
11 should develop other strengthening approaches to ensure that we can
12 bring our trade deficit down. And to do so -- not to do so would
13 be taking some real risks in the uncharted territory we're now
14 entering.

15 CHAIRMAN WEIDENBAUM: Republican Commissioners, I
16 should remind us all, do have a policy, a set of policies for
17 reducing the trade deficit on a sustainable basis. As Commissioner
18 Krueger has pointed out, to increase national saving, which is the
19 most direct way, and secondly, in the long term, to enhance the
20 competitiveness of America by focusing on improving the
21 productivity of our work force.

22 And we suggest that rather than a series of
23 government programs improvised to deal specifically with the budget
24 -- with the trade deficit, that these fundamental policies, human
25 resource investment and fiscal policy deal with fundamental

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 problems facing the American economy. These are things that we
2 need to do whether the trade accounts were in surplus or in
3 deficit.

4 Another question?

5 QUESTION: I have to say this has been wonderful
6 because it allows us not only to hear your recommendations, but
7 (Inaudible.)

8 CHAIRMAN WEIDENBAUM: It was very educational,
9 across the board.

10 QUESTION: (Inaudible question from an unmiked
11 location.)

12 CHAIRMAN WEIDENBAUM: My problem was to get them to
13 stop.

14 (Laughter.)

15 COMMISSIONER D'AMATO: That is actually a credit to
16 the Chairman. He really ran a very good Commission.

17 QUESTION: (Inaudible question from an unmiked
18 location.)

19 CHAIRMAN WEIDENBAUM: One of our Commissioners keeps
20 very close tabs on those issues.

21 COMMISSIONER WESSEL: Let me just point out, Mr.
22 Rosen that if you --

23 CHAIRMAN WEIDENBAUM: I meant Commissioner Wessel.

24 (Laughter.)

25 COMMISSIONER D'AMATO: Just look at Chapter 6,

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 you'll find some 30 recommendations, almost all of them are
2 susceptible to legislative action. There's a lot of action. This
3 is really an action document.

4 COMMISSIONER WESSEL: Let me specifically respond on
5 the CJS appropriations because as you know, there's been an effort
6 for over a year and clearly as the U.S.-China -- the U.S.-China
7 accession discussions have been on-going, there's been pressure
8 from all points of view that if the agreement is reached that issue
9 be enforced.

10 We saw that the Administration came up with roughly
11 a \$26.6 million, I believe it was, request for enhancing
12 enforcement and monitoring both at Commerce and at the USTR.
13 Almost none of those funds were appropriated in the House. The
14 Senate decided to do, I believe, was a little over \$25 million. I
15 believe the final agreement included the Senate number. So we've
16 gotten most of the way there, but that's only a small down payment
17 on what's necessary in the long term.

18 QUESTION: (Inaudible question from an unmiked
19 location.)

20 COMMISSIONER WESSEL: Well, the Administration
21 indicated 26. We don't know yet. We advocated broad changes in
22 terms of monitoring enforcement, not only in terms of additional
23 personnel but other monitoring resources that are necessary. We're
24 going to have to have discussions. Congress will have to have
25 discussions with the Administration over the coming months about

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 what number that could be.

2 Commissioner D'Amato talked about the other
3 recommendations in Chapter 6. Many of them are susceptible to
4 legislation. I should point out that the Congressional Trade
5 Office has been introduced as legislation under the leadership both
6 of Max Baucus and I believe also of Senator Byrd who has been a
7 leader on these issues and that is one that would strengthen the
8 analytical tools to do all of this.

9 In the recent accession agreement negotiations in
10 China, my understanding is there were no congressional staff
11 participating as observers and that's a change from prior
12 agreements. We need to beef up what Congress can do to inform its
13 members.

14 CHAIRMAN WEIDENBAUM: Commissioner Thurow tells me
15 I've been leaning to the right. Question on the left here? My
16 left, that is.

17 QUESTION: (Inaudible question from an unmiked
18 location.)

19 CHAIRMAN WEIDENBAUM: Commissioner Krueger?

20 COMMISSIONER KRUEGER: In my view, and obviously,
21 I'm on one side of this issue, but I'm also the only one that's on
22 the Republican side, so I've got to speak up occasionally. In my
23 view, the reason Seattle failed had a great deal to do with the
24 preparatory background and things ahead of time. There was an
25 entirely bracketed text, etcetera, etcetera.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 In my judgment, the way to go -- if we didn't have a
2 WTO, we'd have to invent it. I think that in a sense we all take
3 for granted the many good things that have come about over the past
4 30 or 40 years due to economic growth, due to open markets and the
5 increased competition they bring which by and large are good,
6 although it can have some side effects.

7 And anything that thwarted that process or prevented
8 the continuing integration of the international economy in the
9 large, I'm not talking about some of the small things here, would
10 be disastrous. I think the WTO has to be strengthened in terms of
11 the support for the Secretariat, etcetera, and it seems to me the
12 best way to do that is to get a new round going with fast track and
13 in that process to sort of recognize that we do -- and I think all
14 the Commissioners recognize that there are huge benefits to the
15 open economy and the real argument is really second order relative
16 to that and what concerns me greatly is that we may be, if you like
17 throwing out the baby with the bath water, as we talk about well it
18 isn't perfect this way and that way and we don't like this side
19 effect which always comes about with change. So I'm very concerned
20 on that score.

21 We do have some preferential trading arrangements in
22 the world, as you know. There was a time when that was actively
23 debated among economists and the buzz words then which were very
24 good, I think, were is this a building block or is it a stumbling
25 block, i.e., these trading blocks to further

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 multilateral integration and my answer is that whenever there are
2 building blocks, that's fine. But there is a risk in this
3 proliferation of regional arrangements because you get tripped up
4 in overlapping ones in all kinds of ways and I'll be happy to give
5 you a 50 minute lecture on the outside later.

6 But be that as it may, I think there's some risk in
7 the regional approach that they may work to some extent in a
8 different direction, but by and large, at least so far, the
9 evidence that I've been -- and I have actually looked at this, been
10 able to call on NAFTA, suggests that most of the trade has been
11 trade creating and has not been a negative from the viewpoint of
12 the multi-lateral trading system which is not to address some of
13 these other issues. It's just to say that it's consistent with for
14 the strengthening of the system and in that sense, we can go
15 forward.

16 I think the WTO is definitely weakened by the
17 failure of the Seattle Ministerial. Not by the demonstrations, per
18 se, but by the failure. And it seems to me that it will be
19 desirable for the next Congress and the next President to reassert
20 American leadership in the multi-lateral system and then to get
21 after that some of these other issues sorted out, but to make a
22 precondition for negotiations, I think, is just not a non-started.

23 CHAIRMAN WEIDENBAUM: Commissioner Becker?

24 COMMISSIONER BECKER: First, I think we need to look
25 at the two countries that generates the greatest amount of deficit

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 with the United States, Japan and China, and the predatory
2 practices that they employ. And you should turn, we should be able
3 to turn to an organization like the WTO to make sure that the
4 trading rules would not enhance or protect those predatory
5 practices, quite the contrary. This is what happened at Seattle
6 and I think President Clinton close to the end of the Seattle round
7 when he appealed to the WTO to change their practices and to
8 incorporate trade union rights and freedom of expression, within
9 that body that was failed, but I think we should continue that on.

10 If you think about the protection of intellectual
11 property, the protection of real property and the protections of
12 financial property that's covered within the framework of the WTO,
13 it's hard for me to imagine that that same framework cannot cover
14 human rights and environmental rights and trade union rights of
15 workers within those countries because those are -- give
16 comparative advantages to countries like Japan and to China. I
17 think we have to address that.

18 I agree with Anne Krueger that if we didn't have a
19 WTO we would have to invent something. We need a world-wide
20 organization, but that world-wide organization should take in
21 consideration the realities in which we trade with today that the
22 predatory practices that we have to -- our manufacturers have to
23 deal with here in the United States are stripping us of our vital
24 industries in this country. And whether we can sustain that now
25 and maybe for the next five years, over time, if this is continued,

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 they'll take it all and the handwriting is on the wall.

2 The trade deficit, that's the balance of what we buy
3 and what we sell and just look at what's happening to this. We are
4 shutting down industry in the United States and we're buying it
5 from overseas. We can't continue and maintain an industrial base
6 in this country. It has to be done through the WTO, but it has to
7 be done the right way, otherwise, it's going to be rejected and
8 it's going to be resisted from virtually every free nation in the
9 world.

10 CHAIRMAN WEIDENBAUM: By the way I would note that
11 year in and year out the United States maintains an excess of high
12 tech exports over high tech imports at the same time that the
13 textile and shoe domestic employment and production have in some
14 cases slowed down or gone down. Aerospace, information technology,
15 telecommunications, the high tech industries are booming and as
16 noted earlier, they have large numbers of very good jobs that are
17 going begging.

18 COMMISSIONER THUROW: Murray, can I make a comment?

19 CHAIRMAN WEIDENBAUM: Sure.

20 COMMISSIONER THUROW: One of the things we do in
21 this report is we talk about the service trade. America has a
22 surplus in its service trade, but there is no way you can imagine
23 an American service exports being big enough to cover the
24 manufacturing gap.

25 First of all, services aren't covered in WTO and

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 most of them are protected and so there's a very limited market out
2 there, but service exports and imports are just a small fraction of
3 the total. And so when you're talking about the trade deficit you
4 are, in fact, talking about manufacturing. There is no way to
5 balance the American balance of payments without basically a
6 surplus in manufacturing exports because we import a lot of oil.
7 And the only thing we can sell to pay for that, if you imagine
8 balanced trade, basically has to be in the manufacturing sector
9 because services are important, but they're not big when it comes
10 to international trade.

11 CHAIRMAN WEIDENBAUM: But if you look at
12 manufacturing you find the split between high tech and low tech in
13 terms of our trade performance is striking. I think there's a
14 moral to that tale. We do have a demonstrated comparative
15 advantage in high tech manufacturing and not in low tech
16 manufacturing.

17 COMMISSIONER BECKER: Manufacturing of exports would
18 have to increase by 30 percent in order to balance the trade
19 deficit.

20 CHAIRMAN WEIDENBAUM: Question?

21 QUESTION: (Inaudible question from an unmiked
22 location.)

23 CHAIRMAN WEIDENBAUM: Economists tend to think in
24 incremental terms and having spent quite a bit of time in this town
25 since the Truman Administration, I'm struck by the fact that you

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 build trust and confidence in small steps. In fact, I would guess
2 in this environment if a comprehensive trade policy were presented
3 to the Congress, it would fail.

4 On the other hand, I think the prospects for the
5 relatively modest incremental changes that we all agree on in this
6 Commission would be a good starting point in order to demonstrate
7 the capability of government to enact and carry through positive
8 improvements in our trade policy and it could become a cumulative
9 process.

10 COMMISSIONER KRUEGER: If I could add, in my
11 judgment the two most important things one could do in the longer
12 term to strengthen the economy in general and improve prospects and
13 so on would be in the realm of education and in the realm of
14 amending the disincentives in our current system for saving. Both
15 of those things would address at least to some extent the important
16 issues and at the same time they would have secondary effects with
17 regard to the current account balance that would move it in not the
18 wrong direction, let me put it that way and probably more.

19 It seems to me that the fact that we can
20 -- we do not agree on what I'll call the second order with trade
21 policy in part suggests that maybe that's not the correct
22 instrument to get at some of the very real concerns that some of my
23 colleagues feel very strongly about and I would just argue that the
24 problem in a sense is that we agree on the problems. Where we're
25 disagreeing is the role of the trade things directly as solutions,

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 but that isn't to say that there's broad disagreement. I think the
2 disagreement is much more focused than not.

3 CHAIRMAN WEIDENBAUM: There's no disagreement on the
4 fact that we've run out of time. Who would like to ask the last
5 question?

6 Yes sir? Oh, just stretching. Thank you all for
7 your cooperation and participation. This last meeting of the
8 Commission is thankfully adjourned.

9 (Whereupon, at 11:21 a.m., the proceedings were
10 concluded.)

11
12
13
14
15
16
17
18