SENATOR GRAMM: Well, Mr. Chairman, thank you very much for these hearings. And let me say that I am very flattered to be here among so many distinguished Americans.

I think it is interesting that you have so many people who came to this committee hearing. When we have hearings and we have legislative authority to do something about it directly, we have relatively limited attendance. So I think this is a testament to the importance of citizen government.

You're going to hear a very different view from me than you just heard from the previous panel. Let me try to state it in a simple and concise way. From the time that the first immigrant set foot on soil at Jamestown, Virginia and the first pilgrim stepped on Plymouth Rock until World War I started to boil over in Europe, America fairly consistently ran deficits in its current trade balance.

In the vernacular of the political debate today, we were the greatest debtor nation in the history of the world, though it's hard to claim that when some foreign investor comes and builds a plant in your state, that's somehow debt. But that all seems to get lost in this debate.
America was built with foreign equity and foreign debt. We thrived and prospered and became the greatest and most powerful nation in the history of the world.

Debt can be a path to poverty or riches depending on what you use it for. If you borrow money and invest it productively so that you can not only pay it back but earn on the basis of the loan or the investment, then you grow richer. If you borrow money and you squander it and you can't pay it back, you grow poorer.

So the important thing, it seems to me, in all of this discussion about debt and current services deficits is not whether you are a debtor nation or a creditor nation, not whether you are running a trade surplus or a deficit, but why.

Now, what is happening in contemporary America? Well, what is happening is that American capital markets are drawing capital from all over the world. People want to come and invest in America because the rate of return on investment in America, when you take everything into account, is consistently the highest rate of return being earned anywhere on the planet.
As every student knows who has taken a good freshman economics course, basically your trade balance is a mirror image of your capital balance.

We had a trade deficit from the colonial period to World War I because there was a huge capital inflow into America. And in every way, it made us richer. We have a trade deficit today because of flow of massive amounts of capital into the United States.

Does anybody believe that we should build a wall and prevent people from building factories in America? Does anybody believe that we are somehow hurt by this equity investment? I don't think so, though, believe it or not, there are people who argue that we're poorer if foreigners invest here and create jobs because that means we have foreign ownership, and that we're poorer because we import goods because that must mean we're exporting jobs.

It's interesting that nobody ever explains where these jobs go. We are creating more jobs than the rest of the developed world combined. So if we are by importing goods exporting jobs, where are they going?

The plain truth is that while there are legitimate reasons for monitoring the trade deficit in the current account balance, while there are reasons
that we want to follow it to try to figure out what is happening in America, and while we should be greatly concerned about it if we had a trade deficit because the government was borrowing tremendous amounts of money that weren't being put to productive use, most people who are talking about trade deficits are protectionist who want to use concerns about trade deficits to promote their own greedy special interest at the expense of the general public.

In every way, we are better off by having more trade. In every way, we are better off by having foreign investment. It is an interesting paradox. And I am afraid, Mr. Chairman and members of this Committee, that I don't understand those that believe the opposite to be true.

I believe this even in the midst of an economic golden age, when we have people at work who under any other circumstance would be unemployed, when we have engineering students at every college in America who are endangered whenever they go get a beer
after class because impressment gangs might come and knock them in the head and drag them off to a factory.

At this very moment it defies all logic to figure out why protectionist forces are so powerful in America. It is a very frightening thing. And I hope it frightens you.

A final point. I think it is important to remember that good things that happen can be reversed. Most people who have looked at trade remember that we had a growth in world trade prior to World War I. And it looked like that we were moving into an era of economic openness.

Wages were growing. Prosperity was spreading. But then came World War I and the Depression. It was the mid-70s before we ever reached the degree of world trade that we had prior to World War I. So this is a very important issue. Things could go in the wrong direction. So I think it is very important that those who understand trade stand up and defend it.
Of all the issues that I deal with in my public life, trade is the most difficult issue. It is an issue where ordinarily intelligent and well-educated people find it counterintuitive to understand comparative advantage in world trade. And special interests prey on that lack of understanding and knowledge.

It is a great threat to our prosperity, and I appreciate having an opportunity to come here and say so.

CHAIRMAN WEIDENBAUM: Thank you, Senator Gramm.

Senator Hagel?