

INTERNATIONAL TRADE AND THE AMERICAN ECONOMY

HEARING BEFORE THE COMMITTEE ON FINANCE UNITED STATES SENATE ONE HUNDRED SEVENTH CONGRESS FIRST SESSION

APRIL 4, 2001



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INTERNATIONAL TRADE AND THE AMERICAN ECONOMY

WEDNESDAY, APRIL 4, 2001

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:00 a.m., in room 215, Dirksen Senate Office Building, Hon. Charles E. Grassley (chairman of the committee) presiding.

Also present: Senators Hatch, Murkowski, Thompson, Snowe, Baucus, Rockefeller, Graham, Bingaman, and Lincoln.

OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. I will call the hearing to order. Normally, I do not start until Senator Baucus is here, but his staff says he is on his way. And since we have a couple of votes coming up this morning, I would like to get started.

I have the pleasure of welcoming Dr. Alan Greenspan, Chairman of the Federal Reserve Board. He is here to discuss one of the most important public policy issues facing Congress today. And that is the role of international trade in the U.S. economy.

International trade is very important to our economy. Over the past 25 years, the real volume of trade has grown twice as fast as real output. Just 25 years ago, it was 20 percent of GDP. Today, it is up to 27 percent.

According to the Office of the U.S. Trade Representative, "Exports accounted for over one-quarter of U.S. economic growth over the last decade and support an estimated 12 million American jobs. In the American agriculture sector, one in three acres are planted for export purposes, and last year American farmers sold more than \$50 billion worth of agriculture products in foreign markets. Export-related jobs pay 13 to 18 percent more than other jobs." From the U.S. Trade Representative's report.

The story of exports is easily told in statistics. But the role of international trade in the American economy and the story of imports is much harder to tell. But its effect on our economy is just as profound. Import competition enhances U.S. competitiveness.

Today, the United States is one of the most competitive economies in the world. Imports enable Americans to purchase more products at lower prices each and every day. Imports enrich our lives in myriads of ways.

Despite the importance of international trade to the U.S. economy, a recent survey conducted by the Women in International

Trade organization showed that only 37 percent of Americans feel they are very or fairly knowledgeable about trade issues. Sixty-two percent of Americans think that they have only a little knowledge or are not knowledgeable at all about international trade. One percent had no views.

Clearly, as public servants and strong believers in the international trading system, we have a lot to do in the way of educating the American public about the importance of international trade. And I hope that Alan Greenspan's testimony today brings every emphasis to the public's understanding of the importance of trade.

Important public policy issues our Nation will face in the near future are directly related to this. One of the most significant is whether the United States should grant the President trade promotion authority. I strongly believe that we should. Our failure to do so will have significant adverse consequences for our workers and our economy.

During testimony given before the Ways and Means International Trade Subcommittee last week, it was evident that our failure to fully engage in the world economy over the past several years has consequences.

As the President of The Business Round Table, Samuel L. Maury, pointed out, "the United States is a party to only two of the over 130 estimated Free Trade Agreements in force today. As a result, the vast majority of FTAs grant our trading partners preferences at our expense."

The result of our non-participation is becoming clear. I do not have time to review the many examples today. But I would encourage you to look at this recent Business Round Table study, "The Case for U.S. Trade Leadership: The United States is Falling Behind."

I also hope that you will review the testimony given during the last week's Ways and Means hearings. You will find it rife with story after story of lost U.S. sales and discriminatory treatment against U.S. products.

It is clear that after 7 years without trade negotiating authority, it is time for the United States to get back in the game and demonstrate the leadership that we did between 1947 and 1995.

We will be faced with a lot of decisions about international trade during this Congress. It is my hope that today's hearing will shed light on this most important, but little understood topic and help us move forward on trade promotion authority.

It is now my privilege to recognize our distinguished ranking member, Senator Baucus.

**OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR
FROM MONTANA**

Senator BAUCUS. Thank you very much, Mr. Chairman. I appreciate your leadership in the committee. And I do appreciate how well you and I have been working together to try to come up with a way to get fast track trade promotion authority working. It looks like every couple of years, there is a new phrase. And I thank you once again for your hard work. It is noted. And it is well done.

I would like to start with the easy part which almost everybody agrees with. And that is continued trade liberalization done fairly really does benefit our economy. There is not much doubt about that. And few would dispute that export-related jobs tend to pay higher wages or that exports have contributed strongly to the economic growth over the past decade.

Now, the hard reality. Trade is not a panacea. We have other concerns. The 1999 Seattle protests, the recent defeats in the fast track legislation, these demonstrate that public support for a WTO and new trade agreements is not very high. The public is not clamoring for these trade measures, and that we must look for solutions on labor and environmental issues.

If we are going to move out of the impasse we find ourselves in, we must leave behind the stale debates of the past. Despite the economic benefits of trade liberalization—and they are great—and despite some previous efforts to address labor and the environment issues, fast track has not had Congressional support for 7 years.

So how do we move forward? How do we build the consensus? I am very eager to hear ideas from both witnesses who will testify before us today. They are experts. Not many people in this room know more than they or have some more ideas. And they will be of great assistance to us.

I myself have been offering suggestions for several months. Passing specific and balanced fast track legislation is the end goal. But there is much work I think needs to be done in advance: passing the Jordan FTA, pushing for WTO reform, increasing the U.S. commitment to the ILO, improving Trade Adjustment Assistance.

Today, though, a lot of focus is on what I think is the single biggest hurdle we have to overcome. It is jobs. Workers fear losing their jobs. It is that simple.

The 1999 Gallup Poll found that 59 percent of Americans think trade hurts American workers. And that was in 1999, the height of our economic growth. So, we are not going to move ahead on free trade unless Americans, the people who are employers, are convinced that it will be fair trade.

I look forward to the Chairman Greenspan's testimony this morning. I have tremendous respect for his efforts as Chairman of the Federal Reserve to keep our economy moving on path toward sustained growth while containing inflation. And I also respect his views in favor of liberal trade. No one can be against the principle of free trade.

I have, however, been concerned by some of the criticism that he has leveled at the U.S. trade laws, specifically antidumping and countervailing duty laws. These laws are aimed at countering foreign protectionism.

In the case of countervailing duty law, this means foreign subsidies. In the case of antidumping law, it means sales below cost or below the price in the home market. A pattern of dumping is often strong evidence of a closed home market or efforts to distort the market.

Unfortunately, these problems are still very real. Canadian lumber subsidies encourage overcutting of Canada's old growth forest to the detriment of both the U.S. lumber industry and the environ-

ment. European agricultural subsidies harm competitive farmers in the United States and around the world.

The operation of Japan's steel cartel results in Japanese steel companies exporting steel to the U.S. market at a price hundreds of dollars per ton less than the price of that very same steel in Japan.

In the 1980's, the Japanese semiconductor companies exported semiconductors to the United States at as little as one-tenth of their cost of production with the express purpose of driving U.S. semiconductor companies out of business.

Another trade law—section 301—is critical to address efforts in the Canadian Wheat Board's practices and may still be used to open the Korean auto market. These are very real problems requiring continued aggressive use of U.S. trade remedies. Beyond that, these laws play a critical role in assuring political support for new efforts to negotiate trade agreements.

Unless Americans, not those inside the beltway, but unless Americans can be assured that free trade will at least take place on a level playing field, they simply will not support new trade agreements.

That was the reality when the global trading system was founded back in 1947. It remains today. These very same discussions occurred when the GATT was formed. And the conclusion was that the fair trade laws are appropriate to be maintained and continued. The same discussion in some respects we are having today.

In fact, I am now circulating a letter on which I hope to obtain the support of my Senate colleagues. The letter underlines the importance of protecting U.S. trade laws as we consider new trade agreements.

I will quickly mention the Jordan FTA. Tomorrow, I meet with King Abdullah of Jordan. I think that both countries are eager to see this agreement put in place. And I introduced implementing legislation just last week.

I hope that the administration will endorse it. I hope it passes quickly. I know I speak for many of my colleagues when I say we are looking forward to that new spirit of cooperation of bipartisan-ship that was promised during the campaign. So let us start with this agreement. It was negotiated. It is a done deal. Let us get on with it.

I look forward today to hearing a lot of good ideas from you, Chairman Greenspan, as well as from Ambassador Kantor at a later time.

Thank you.

The CHAIRMAN. Now, to Chairman Greenspan, would you proceed, please?

STATEMENT OF HON. ALAN GREENSPAN, CHAIRMAN OF THE BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM, WASHINGTON, DC

Dr. GREENSPAN. Thank you very much, Mr. Chairman and members of the committee. I am especially pleased this morning to be invited to discuss some of the important issues concerning international trade and the attendant implications for the U.S. economy and the world economy more generally. In doing so, I want to em-

phasize that I speak for myself and not necessarily for the Federal Reserve.

One of the most impressive and persistent trends of the last several decades is the expansion of international trade. Trade across national borders has increased far faster than world GDP, as you pointed out, Mr. Chairman. As a consequence, imports of goods and services as a percentage of gross domestic products worldwide, on average, have risen from approximately 12 percent 40 years ago to 24 percent today.

To most economists, the evidence is impressively persuasive that the dramatic increase in world competition—a consequence of broadening trade flows—has fostered markedly higher standards of living for almost all countries that have participated in cross-border trade. I include most especially the United States.

Globalization as generally understood involves the increasing interaction of national economic systems. Of necessity, these systems are reasonably compatible and, in at least some important respects, market oriented. Certainly, market-directed capitalism has become the paradigm for most of the world, as central-planning regimes have fallen into disfavor since their undisputed failures around the world in the four decades following World War II.

Globalization, in turn, has been driven importantly by advances in technology. By lowering the costs of gathering information and conducting transactions, new technologies have reduced market frictions and provided significant impetus to the process of broadening world markets. Expanding markets, in turn, have both increased competition and rendered many forms of government intervention either ineffective or perverse.

The international trading system that evolved has enhanced competition and nurtured what Joseph Schumpeter a number of decades ago called “creative destruction,” the continuous scrapping of old technologies to make way for the new. Standards of living rise because the depreciation and other cash flows of industries employing older, increasingly obsolescent technologies are marshaled to finance the newly produced capital assets that almost always embody the cutting-edge technologies. This is the process by which wealth is created incremental step by incremental step. It presupposes a continuous churning of an economy in which the new displaces the old.

But there is also no doubt that this transition to the new high-tech economy, of which rising trade is a part, is proving difficult for a large segment of our workforce that interfaces with our rapidly changing capital stock day by day. This is most evident in the rising fear of job skill obsolescence that has induced a marked increase in experienced workers going back to school—often community colleges—to upgrade their skills for a rapidly changing work environment.

While major advances in standards of living are evident among virtually all nations that have opened their borders to increased competition, the adjustment trauma resulting from technological advances as well as globalization has also distressed those who once thrived in industries that were once at the cutting edge of technology but that have become increasingly noncompetitive. Economists will say that workers should move from the steel dis-

tricts of western Pennsylvania to Silicon Valley or its equivalent. And eventually, they, or more likely their children, will move. But the adjustment process is wrenching to an existing workforce made redundant largely through no fault of their own.

It may be argued that all workers should have the foresight to recognize long-term job opportunity shifts and move in advance of obsolescence. Such forecasting abilities are not in great abundance among workers. But neither are they evident among business managers or the economists who counsel them.

In the end, economic progress clearly rests on competition. It would be a great tragedy were we to stop the wheels of progress because of an incapacity to assist the victims of progress.

Our efforts should be directed at job skills enhancement and retraining—a process in which the private market is already engaged—and if necessary selected income maintenance programs for those over a certain age where retraining is problematic. Thwarting competition by placing barriers to imports will prevent markets in the United States and other nations from deploying capital to the most productive uses, that is, the most cost-effective production of those goods and services most highly valued by consumers.

Protectionism will also slow the inevitable transition of the workforce to more productive endeavors. To be sure, an added few years may enable some workers to reach retirement with dignity, but it will also keep frozen in place younger workers whose opportunities to secure jobs with better long-run prospects diminish with time.

I regret that trade policy has been inextricably linked with job creation. We often try to promote free trade on the mistaken ground, in my judgment, that it will create jobs. The reason should be that it enhances standards of living through the effects of competition on productivity. It is difficult to find credible evidence that trade has affected the level of total employment in this country over the long run. Indeed, in recent months, we have experienced the widest trade deficit in history with unemployment still close to record lows.

Certainly, the distribution of jobs by industry is influenced by international trade, but it is also affected by domestic trade. The relative balance of supply and demand in a competitive market economy determines the mix of employment. When exports fall or imports rise, domestic demand and relative prices have invariably adjusted in the long run to leave total employment generally unaffected.

I also regret that despite the remarkable success over a near half century of GATT, the General Agreement on Trade and Tariffs, and its successor, the World Trade Organization, in reducing trade barriers, our trade laws and negotiating practices are essentially adversarial. They presume that a trade concession extracted from us by our trading partners is to their advantage at our expense and must be countered. Few economists see the world that way. Trade is not a zero sum game.

If trade barriers are lowered by both parties, each clearly benefits. In almost every credible scenario, if one lowers barriers and the other does not, the country that lowered barriers unilaterally would still be better off having done so. Raising barriers to achieve protectionist equality with reluctant trading partners would be nei-

ther to our benefit nor to theirs. The best of all possible worlds for competition is for both parties to lower trade barriers. The worst is for both to keep them up.

For these reasons, we should welcome the opportunity to contribute to the effort of working toward further trade liberalization. If we freeze competitive progress in place, we will almost certainly slow economic growth overall and impart substantial harm to those workers who would otherwise seek more effective, longer term job opportunities. Protecting markets from new technologies has never succeeded. Adjustments to newer technologies have been delayed, but only at significant cost.

Moreover, even should our trading partners not retaliate in the face of increased American trade barriers—an unlikely event—we would do ourselves great harm by lessening the vigor of American competitiveness. The United States has been in the forefront of the postwar opening up of international markets, much to our and the rest of the world's benefit. It would be a great tragedy were that process stopped or reversed.

The United States has been a world leader in terms of free trade and open markets for capital as well as goods and services. We have benefitted enormously from the resulting international competition: We have a wide range of goods and services available for consumption; our industries produce and employ cutting-edge technologies; and the opportunities created by these technologies have attracted capital inflows from abroad. These capital inflows have reduced the costs of building our country's capital stock and added to the productivity of our workers. Most economists would argue that we must reaffirm the U.S. leadership role in the area of international trade policy in order to improve standards of living in the United States and among all of our trading partners.

Mr. Chairman, my remarks are excerpted from my prepared formal remarks. And I request the latter be included in the record.

The CHAIRMAN. Yes. They will be included in the record.

[The prepared statement of Dr. Greenspan appears in the appendix.]

The CHAIRMAN. We thank you very much for taking time out of your business schedule to be with us.

We will take 5-minute turns for members according to their arrival: Senator Grassley, Senator Baucus, Senator Hatch, Senator Bingaman, Senator Thompson, Senator Murkowski, Senator Rockefeller in that order. If there is any disagreement with our clerk watching you come and go, let us know so we can handle it in an amicable way.

Also, we will have votes here shortly. Exactly when, I do not know. It is my intention since we only have the chairman for an hour and a half starting at 10, that we keep the hearing going when we are voting. So besides Senator Baucus and I coordinating, I hope that members will take the opportunities to come back between votes and ask questions of Chairman Greenspan because once 11:30 comes, he has to go.

Dr. Greenspan, during your tenure as chairman, but particularly in the period since the last recession, we have witnessed remarkable combinations of low inflation and low unemployment.

Could you provide some observation on the contribution of trade to lowering the level of inflation and increasing the standard of living in the United States?

Dr. GREENSPAN. Mr. Chairman, as I commented in my prepared remarks, the evidence has become increasingly persuasive that opening up trade to significant international competition is a major force in economic growth and rising standards of living wherever it occurs.

We have observed in this country a remarkable degree of competition. And indeed, what is really remarkable about it is the willingness on the part of the American people to engage in a degree of competition which is rather difficult. I mean, it dislodges a lot of fixed positions, a lot of fixed cultures.

But it is that very fact of willingness to engage in a degree of competition which has moved obsolescent capital into cutting-edge technologies for very important and rising standards of living that we have seen.

There is no question in my mind, Mr. Chairman, that trade is a major factor in this regard because if anything, as the share of our GDP which goes to trade has risen, so has the degree of competition that we have observed throughout the economy. And while nobody likes competition—I certainly did not when I was in the private sector; I did not like competitors in the economic consulting business to endeavor to get my clients, but as much as I disliked it, it made me work a lot harder, and I think for the better. And that is a general consideration which we all confront. It is a dilemma when competition is unquestionably the major factor in standards of living, and that, in turn, is very significantly impacted by trade.

The CHAIRMAN. Do you support renewing for the President trade promotion authority this year? And if so, why would you think that trade promotion authority matters in trade negotiations?

Dr. GREENSPAN. Obviously, I am a strong proponent of free markets and free trade, and I am acutely aware, having been involved in negotiations of various different types, that if the party on the other side of the table knows that the particular agreement you are negotiating is subject to a wide variety of potential amendments from a lot of different sources, he very clearly is going to be very reticent to put his final set of cards on the table.

And while clearly, any negotiation does require the sanction of the Congress, or in the case of a treaty the Senate, it is fairly obvious that if it is an up or down vote in a particular period of time, it increases the negotiating capacity of our trade representatives. I think that is very much to our advantage in doing so.

The CHAIRMAN. Do you have any concerns that a slowing economy could mean a retreat from market-oriented trade policies and a return to protectionism? And if you do, what should we be doing now to prevent that sort of thing from happening?

Dr. GREENSPAN. I am, Mr. Chairman. And, indeed, I remember last summer I made a whole speech on that subject. And the reason it concerns me is because history is very much suggestive that there is a tendency when economic growth slows down that people eschew competitive pressures. Obviously, in a slowing economy, it is tough enough to do business. And there is a normal desire to

seek, I would not use the word "protection," but a lessening of competition. And even though, people may not be philosophically protectionist, we do let down our barriers in a manner which tends to induce increasing protectionist pressures.

And there is no question in my mind that as the economy slows, we of necessity must accelerate our endeavors toward free trade because we are going to find that it will become increasingly more difficult. And as history shows, if we were to move in a protectionist direction, that would create some very significant problems for the American economy.

The CHAIRMAN. You are a student of productivity numbers. And I would wonder whether you could talk about the relationship between open markets and productivity.

Dr. GREENSPAN. Productivity seems to be significantly related to the movement of capital from older technologies to newer technologies. And there is very little doubt that competition enhances the capacity for the newer technologies to become sufficiently viable and the competitive pressures to move capital from the older technologies through depreciation reserves into newer technologies.

Competition enhances that process measurably. And therefore, there is no doubt competition and trade, which enhances it have been and hopefully will continue to be major factors in the extraordinary performance of productivity we have experienced in this country in recent years.

The CHAIRMAN. Thank you.

Senator Baucus.

Senator BAUCUS. Thank you very much, Mr. Chairman. Mr. Chairman, I do not think anybody disagrees with your general statements about how open markets enhances competition which enhances productivity and to develop new technology and therefore higher living standards. I mean, as a general principle, I think that is accurate.

As you know, the difficulty is that an average—that is sort of a theoretical statement which has practical results, but there are many dislocations, as you noted in your statement all around the country and the world for the matter.

And I believe that in this new era of mobilism that the more wealthy one is, the more educated one is, the better geographically positioned one is, the better able one is to take advantage of all these opportunities will increase one's wealth.

And the converse is also true. That is the less wealthy, the less educated, the less geographically positioned, there is a tendency to incomes to decline, all things being equal which they never are, but that is still all things being equal.

And some sectors of the American public I think is experiencing some kind of backlash against globalism. They are not part of the deal. Income disparities in the United States are rising. The wealthy are getting more wealthy, the less a little less so. And that is also happening worldwide.

And I think it is essentially a consequence of globalism. And capital travels at the speed of light. And it does not respect national boundaries. It goes to the greatest rate of return, etcetera. I mean, this is a brave new world. And there is lots going on. It is exciting, but it is also a little bit concerning.

And then, you go and talk to big companies. I went to talk to a big company, PCO, a big company. What is your 5-year plan? Well, actually, we do not have a 5-year plan, but we are kind of doing it on the fly. It is just that things are changing so quickly.

And so my question is, how do we get a consensus, a greater consensus in America on trade and trade policies if we can get fast track, the trade promotion authority passed?

It is difficult, as you know. We could not get it pass the House awhile ago. And I can tell you, in my home State, NAFTA is not popular at all—at all. And I think I for most Senators to say that large segments of the population in their own States, that is also the case.

People just do not trust these trade agreements. They think we are not tough enough. We are chumps. We are taken advantage of. And people are losing jobs in many areas. Sure, we are getting some jobs, but they tend to be lower paying jobs.

I will just say in my State of Montana, we ranked tenth in the Nation in per capita income in 1946 because we are a commodity-based natural resource State: timber, forest products, some mining, and so forth. Guess where we are today? Fiftieth, we rank 50th in the Nation in wage per capita income.

And in my view, it is basically because of the dynamics that I have just discussed. Sure, we have some jobs, but they are lower paying jobs. They are much lower paying jobs. We ranked first in the Nation on the number of jobs per household. It is people have to have two or three jobs per household to make ends meet. And they are low paying jobs.

And you talk to people in my State about trade, oh, we are not too sure about that. So the farmers export wheat, a lot of wheat to the Pacific Rim, but that is about it. Lumber is coming down. A lot of mill workers in Montana are out of work. Free trade for them is Canada subsidizes. Unfair trade, not free trade. And that is not just a throw-away line. That is a real concern.

And I think a majority of Americans do feel yet we continue to have our trade laws and that we should our trade laws and fight protectionism. And you are suggesting that we not address labor and environmental provisions in the trade agreements in any way, as I hear you, and that we should weaken our trade laws with the countervailing, antidumping, or what not. But my judgment is that that would weaken support in America among the public for trade.

So my question is, I wonder what ideas you have as to how we can get a consensus built on trade?

Dr. GREENSPAN. Senator, let me surprise you by first saying, I am surprised that there is as much support for free trade in this country, and indeed around the world, as there is because free trade is one of those characteristics in economic tradeoffs in which it is essentially a long-term benefit with a short-term cost.

And more often than not, people are inclined to take those particular choices which offer short-term advantages and eschew those with long-term advantages and short-term costs.

The notion of in fact allowing trade to prevail in our economy, of necessity like all things in a democratic society, has to have the support of the people and has to be perceived as just and fair. One of the things that makes our country great is that people seriously

believe at the end of the day that what government does or tries to do is just and fair.

And I see the red light is looking me in the face here. I would be delighted to go into the other issues, but just very quickly, my concerns are with respect to the way certain of our laws on countervailing duties and the like are actually counterproductive to our own interest.

And I might just say that is one of the reasons that we have decided to have a World Trade Organization, when in fact it is perfectly proper to be concerned when exporters to the United States are subsidized by their governments so that they are doing things which are contrary to the underlying principles of free trade. It is also contrary over the longer run to the full interest of those countries. And the basic purpose of the WTO, or the GATT in its earlier purpose was to effectively have people recognize that it can set rules which everyone would agree to in advance and have various types of sanctions if they violate them.

My problems are with the sanctions and those sanctions, in my judgment, acting in a counter-productive way which I will try to outline a little more.

Senator BAUCUS. I appreciate that. So what I hear you saying that it is the manner in which our fair trade laws are implemented, it is more bothersome to you than the fact that we have them.

Dr. GREENSPAN. Correct.

Senator BAUCUS. So if they are modified in a way that is less protectionist, but in a way that is targeted more to the true trade barriers, as you see it, overseas, then you support them.

Dr. GREENSPAN. Indeed.

Senator BAUCUS. Thank you very much.

The CHAIRMAN. Now, the International Trade Subcommittee of this committee, Senator Hatch.

Senator HATCH. I am very happy to have you with us, Chairman Greenspan. I appreciate the work that you have done through the years. And I know that you have been on the hot seat for most of your career and certainly today.

My work on the Judiciary Committee has convinced me as to the critical role that intellectual property can play in improving the lives of our economy, of our citizens in strengthening our economy.

And as the world becomes more and more dependent on knowledge-based industries, I think the United States is well positioned to reap the benefits of the enormous amounts of resources that we have plowed into R&D activities. And it is my hope that the United States will continue to lead in so many of the information technology, high technology, computers, biotechnology, and other areas.

And I am in general agreement with those who believe that the United States has to play a leadership role in promoting international trade. And I am hopeful that Congress can arrive at a consensus on adopting legislation with respect to trade promotion authority.

Approval of fast track procedure would certainly send a strong signal to our trading partners that the United States intends to be more active in aggressively pursuing opportunities to expand trade. And when President Bush goes to the negotiations in Quebec city later this month, it would be helpful if Congress could get behind

him in the effort to make progress in the Free Trade Area of the Americas agreement.

And once we negotiate trade agreements, we simply have to do more to see that both the letter and the spirit of the law under the agreement are respected. And this is one reason why I favor immediate implementation of the Carousel provision.

As the Anderson beef case has demonstrated, we cannot afford to win the battles at the WTO and lose the war due to lack of teeth in the implementation provisions. So I am all for globalization and international competition, provided that American workers and industries are competing on a level playing field.

I am also mindful of the fact that for too many Americans, globalization is associated with the risk of loss of U.S. jobs, as the distinguished ranking member has brought out. We also have I think a lot of problems because of our own domestic laws, our domestic political conflicts that we have on the environment, labor, and so many other areas.

We had a good meeting with the President on Monday on the trade agenda. And we all realize from that meeting that we have our work cut out for us. But it is in the Nation's best interest for us to move forward on the trade agenda.

So I want to thank you for attempting to lay out the areas where we face challenges in the trade area and your help in defining what the benefits of free trade are, where common ground might reside and where disagreements may lie.

I guess what I am asking you is, how do we get there from here? How can the United States retain leadership in world trade? And specifically, do you believe that it is possible to reach consensus on trade promotion authority legislation? And if so, how, because I see a lot of politics being played with trade promotion legislation?

Dr. GREENSPAN. Well, Senator, I am not sufficiently knowledgeable to know political ins and outs of what is currently involved in holding trade promotion authority back because through most of my career, it was a bipartisan, fairly strongly held view in which, as my recollection serves me, it kept sailing through various Congresses over the years.

So I am a little bit puzzled myself about why the politics have become so adverse. And I am fearful that we have enjoyed the benefits of trade expansion for so long, and the benefits have continued to increase that we are beginning to take it for granted and not recognizing that efforts are needed to continuously push forward.

I am fearful that we will end up inadvertently pulling back and recognizing only after considerable damage is done that we have removed ourselves from the leadership role in trade. If the United States is not the leader here, it is not evident to me at all who comes and substitutes. So that our failure to lead, in my judgment, will be that it will create a general failure of leadership in international trade. And one of the things that is very evident is that unless you are going forward in trade liberalization, you tend to go backwards. I think that would be very unfortunate for us.

Senator HATCH. Well, as you know, some of the big problems that deterred us from getting fast track through and doing what needs to be done is that we have environmentalists insisting that

environmental language being in these agreements. The trade unions are insisting that trade union being in the agreements.

Having gone to the ILO, the International Labor Organization, for many years, I realize that our Nation has not ratified many of the conventions there, and for good reason because we would have to live up to those that undermine our basic labor laws while many of the other nations that ratified failed to do so.

But do you have any suggestions to us as to how we get around those problems? First of all, I am not sure that the labor and environmental language needs to be in the free trade agreement, but the colleagues on the other side believe that we have to resolve those problems.

Dr. GREENSPAN. Senator, let me lay it out the way I think it occurs to an economist, and obviously, there are considerable disagreements on this issue. I do not think anybody questions that labor standards and an enhanced environment are important goals which clearly deserve attention. But I think it is also important to remember that labor standards and environmental quality are directly related to the degree of prosperity in a particular economy. The ability to create significantly enhanced and civil labor standards is very considerably spurred by having very high standards of living; in other words, having surpluses in the economy of resources which enable not only labor standards, but environmental standards to be of the highest level.

The problem unfortunately is that as standards of living fall, it becomes less and less affordable in the sense that real resources are required to maintain high labor standards and the environment.

And if trade openings are a factor in rising standards of living, it is pretty evident that what we are dealing with is that countries or economies with low per capita incomes are struggling to feed, clothe, and house their population. And for those economies, the resources required to improve the environment and enhance labor standards must come from resources devoted to feeding, clothing, and housing the population.

It is only a move toward higher standards of living that enable various different economies to afford what is essentially luxury goods. We go back and look at our history in the 19th century. Labor standards were abysmal. People worked unbelievably long hours under very adverse conditions. And as we often talk about the satanic mills in the 19th century, they were environmental monsters.

We learned to change that as our economy increased. But if we are trying to impose those standards on economies with low standards of living and, in effect, impose it by restricting our markets, that is, reducing their capacity to export, we are going to lower their incomes even more and make it even more difficult to enhance labor standards and the environment.

So while I am very strongly in favor of endeavoring to enhance through international negotiation these standards, along with all of the related issues of human rights and rights generally, I think that employing trade sanctions as a means of doing that is most counter-productive because I think it does precisely the opposite of what we are trying to do.

The CHAIRMAN. Thank you.

Now, I go to Senator Bingaman. And after Senator Bingaman would be Senator Thompson.

Senator BINGAMAN. Thank you very much, Mr. Chairman.

Thank you for coming to the committee today. I agree with what you said about the benefits of increased trade. One of the disadvantages, that may not be the right word, of increased international trade as I would see it, and tell me if this is right in your view, is the world economy is more integrated, and the more globalization occurs, the more vulnerable our own economy becomes.

In particular, I am concerned about the economic problems in Japan and the impact that those may be having on our own economy because of a variety of reasons, but for one, of course, the enormous amount of trade we have with Japan and the fact that Japan is the biggest market for many of the things that we produce.

Are the economic difficulties that Japan has encountered and continues to encounter a significant factor in your view in reinforcing weakness in our economy?

Dr. GREENSPAN. Senator, I think it does have an effect. It has an effect throughout the world because you cannot have the second largest economy in the world essentially stagnating without impacting the rest of us. Indeed, obviously, as the advantages of globalization continue to expand, the levels of economic activity and overall demand amongst our trading partners increasingly becomes an issue which is relevant to what is happening with the American economy.

And so, the turgid performance of the Japanese economy in recent years, and I guess that is the most appropriate term, has had a dampening effect on their trading partners in East Asia.

And because of their extraordinary size, and, for many decades they have been a very powerful force in expanding markets, expanding trade, and expanding incomes around the world, and their moving from a major factor of growth to stagnation has created a significant element of dampening in the world economic activity and in world economic trade.

And I should certainly hope that they can get their economy back on the track it had been on, as far as I understand it. There is a considerable understanding of the state of their problems and their awareness of the necessity of getting back on track in that economy, and I suspect that they are going to be successful in doing that.

Senator BINGAMAN. When the East Asian economic crisis hit a few years ago, I think many of us were very pleased to see that our own economy was able to remain strong and our growth rate remained very high in spite of what was happening, not just in Japan, but Korea and the rest of the Far East.

Is some of the slow-down we are now experiencing a delayed effect from the economic downturn or the economic crisis in East Asia a few years ago? Or were there factors that allowed us to remain strong then in spite of what was happening in the Far East that are not present today?

Dr. GREENSPAN. Senator, it is hard to assess a significant impact currently on the American economy coming from the 1997–1998 Asian crisis. It clearly had an impact on us then. We saw our financial markets go into a state of paralysis for awhile. And it was, I must say, a quite disturbing period that we managed to come out of.

But with the subsequent, very dramatic expansion in the American economy after the Asian crisis, it is hard to see an underlying weakness coming from that particular period that has moved to and continues to create negative forces in the economy. There are a lot of other factors that are involved, but that does not seem to be a lingering force which is creating significant problems here.

Their current weaknesses clearly are impacting us. And to the extent that one would argue that there was insufficient reform following the Asian crisis in East Asia and that that lack of reform induced the current weakness, then you have sort of a secondary and tertiary effect coming from that period. But clearly, there is no direct one.

Senator BINGAMAN. Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Bingaman.

Senator Thompson.

Senator THOMPSON. Thank you, Mr. Chairman. Over the last ten years, other countries have entered 130 trade agreements. We have been a party to two and negotiated a third. It seems like the whole world is going in one direction, and we are going in another while claiming leadership. It should be of concern to all of us as we consider these matters.

I do think, too, if in fact we in the Senate reach a consensus that free trade is good, that lowering our barriers is good, and that sometimes even our concept of fairness does not necessarily work to our overall economic advantage, if that is the case, I think we as leaders have a certain responsibility of leadership and communication to the American people.

I am concerned that we do not have more support in some sectors of our society for a concept, a principle, where there seems to be a growing consensus that it is a good thing for us. And it is a good thing for those very people who are most concerned about it.

But you mentioned the effect on developing countries, other countries who would like to push in a better direction in terms of environmental and labor standards, and the effect that our sanctions or our conditions would have on them.

I would ask you what effect such sanctions or conditions would have on our own economy? Just take a country that does not comport to what we believe to be fair standards in those areas. The criticism here would be that they are getting an economic advantage over our workers by having those lower standards. And therefore, we are disadvantaged with regard to that trading relationship. Would you respond to that criticism?

Dr. GREENSPAN. Senator, there is no doubt that if you take two countries and one country subsidizes a single industry very substantially to an extent that it very markedly undercuts the competitive capability of one of our comparable industries, there is no doubt in that case that the principles of free trade are not being complied with which is the reason why to solve that dilemma that

we have a World Trade Organization because that other country could not for any protracted period of time subsidize all of its industries. What the WTO rules endeavor to do is to set up a system in which everybody essentially agrees that if we want to have free trade, we cannot do the individual industry subsidization. And so we have countervailing duties on such endeavors.

My concern about the countervailing duties is not that they are there, indeed, sanctioning somebody who breaks the rule of a general agreement, which is what effectively is involved here, is what should happen. The question is whether the sanction itself should be increased trade protectionism—as I gather the Administration currently is beginning to think, or at least a number of members of it, including Trade Representative Bob Zoellick—or that we use cash or other means unrelated to trade as a means of implying the sanctions.

Senator THOMPSON. Let me get back to my original question. Clearly, your illustration is not according to WTO rules. It is not in the class of free trade principles for a country to subsidize its industries.

My question is, who is it hurting? You stated in your opening statement that even a unilateral lowering of barriers was beneficial to our country. I would take from that that we have other values obviously that could come into play from time to time.

But strictly from an economic standpoint, it would seem to me that such a country would be hurting itself and not necessarily hurting the United States just as, and probably a more appropriate, more timely example, just as a country that did not comport to our environmental or labor standards, from an economic standpoint would not hurt us. Am I correct in that?

Dr. GREENSPAN. I think the best example in the context in which you raised the question—and you are quite right, Senator, there are different values—remember that if somebody wants to sell a good here cheaper than they could produce it, somebody here is consuming it at a low price. And what happens in these negotiations is that the consumer is never part of the negotiation because if you get a foreign producer significantly subsidizing a consumer good or indirectly a capital good which lowers the cost of consumer goods, it is obvious that we benefit. And the problem that we have is—

Senator THOMPSON. Subsidizing our consumption?

Dr. GREENSPAN. I mean, there is always the argument that if someone wants to give their goods away, why are we not accepting them? And the problem basically is clearly there are problems with the producers of those goods. But that strikes me as precisely what should be on the table in negotiating these various different types of treaties.

Senator THOMPSON. Thank you.

Senator BAUCUS. Thank you, Senator Thompson.

Senator Murkowski.

Senator MURKOWSKI. I will try to be very brief. I will disappoint you if I did not comment on energy, Dr. Greenspan. And as a consequence of our trade deficit of the year 2000, in goods and services, I guess it was about \$370 billion. About \$110 billion is the price of imported oil.

Energy is, of course, the life blood of our economy, including the much vaunted new economy. It seems to me it is somewhat different in whether you are talking about dependence on energy and an issue like television sets or whatever coming into the country.

Yesterday, we had, and maybe you are familiar with, Mr. Matt Simmons. He is a respected energy investment banker who made the prediction, we have not seen anything yet. This energy crisis is underway. It is going to be worse than it was in 1973. And his rationale was pretty simple. He said simply higher prices for gasoline because we are going into the spring season and we do not have the reserves.

Natural gas use has increased dramatically. We are pulling down our natural gas reserves on a higher rate than ever before. And while, we have more natural gas, it is not necessarily available and developed and two factors: one, its transmission capability of electricity as well as transmission capability of natural gas.

He predicts a very, very bleak future that is going to affect the economy of this country. And I do not think we are paying much attention to that. And I know you have from time to time expressed your concern, but we seem to be lost in the euphoria.

Well, the lights go on. So what? And California, there is a little rumble out there. And others tell us that we are somewhat dependent on the weather patterns to determine whether or not we are going to get through this crisis.

Could you give us a short overview inasmuch as I am the last one here and there are two votes on and I am going to be tardy? But I would appreciate your generalization on whether you agree with Mr. Matt Simmons or not.

Dr. GREENSPAN. Well, I do not know whether I can agree with any of his individual points because I have not actually seen them. But clearly, the issue has emerged as a very significant question in this country largely because even though we have moved increasingly toward a high-tech, almost impalpable value-added economy, we still have very large energy requirements in this country. And while they are growing less than GDP, they are growing. And what is not growing at anywhere near the same pace is our capacity domestically to meet those demands.

In fact, as a consequence of our newer technologies, we dissipate gas reservoirs at a much faster pace, as you know, than we used to in the past which means the need to continuously get gross additions to natural gas reserves has become significantly escalated, which means that with our growing activity and all other activities, if we are going to do that, increasing our gas supply is essential.

Alternatively, we need a very significant increase in liquefied natural gas imported from abroad which is a very difficult thing to do and requires very major changes in the infrastructure for import facilities in the United States so that there are very obvious shortfalls coming on the supply side. And, as you mentioned, we are having difficulties clearly in the generation and transmission of electric power.

And as a consequence, I think there are very major endeavors to start to focus on what do we do about the supply problem. And we can resolve the basic problems of transmission and generation of electricity by building new plants, but we still have to fuel them.

The question is, do we go back to cold fired plants to an extended extent? Do we go to nuclear? What do we do? One of the obvious answers is we try to reduce consumption which I think clearly has to be on the table.

But my impression is that it is going to require both movements, such as metering electric use to a very much greater extent than we do and increasing sources of supply of the fuels that we need to maintain energy expansion.

So I cannot say that we have a crisis, but we certainly have something which is going to impact on our attention quite vividly for quite a good number of quarters in front of us and perhaps a number of years.

Senator MURKOWSKI. I thank you very much. I am sorry, but I am going to have to ask that we go into recess. I have been asked if you are available for a few minutes after 11:30. There is some questions. But you will have to respond to that as you see fit.

I see Senator Hatch is back. And we are between votes now. So I am going to have to excuse myself.

But I do want to point out that the testimony yesterday, it was rather interesting. CAFE standards suggested that if we put 80-mile-per-gallon cars on the road and made them available and say we had 1 million of them, that would actually save 55,000 barrels of fuel. Yet, we use about 20 billion a day. So we are way of short of this. And the ramifications are very significant.

Thank you very much.

Please excuse me, Senator Hatch.

Senator HATCH. Well, Mr. Chairman, just a couple more questions. I do think we have some other people who want to come back and ask some questions of you. So maybe, I can fill in the time until they get here hopefully with some intelligent questions.

In 1998, the United States ran an \$83 billion trade surplus in services. In comparison, we had a \$31 billion surplus in capital goods and only a \$16 billion surplus in agriculture. That was in 1998. Now, it is hard for me to use the words "only" and "\$16 billion" in the same sentence.

But I want to ask you, given these numbers and the competitive advantage we have in services, how important is it to get new WTO trade talks underway so that we can further liberalize trade in services?

Dr. GREENSPAN. There is no question that we do have very significant advantages in services because a goodly part of the increase in our growing surplus in trade services up until very recently has been in those areas where we are most proficient, specifically in high-tech areas, business services, information services, and financial services. We also, of course, have a considerable capacity to involve ourselves in all the old-fashioned services: travel and payments.

But what is most interesting about services is unlike what our problem is with respect to large and growing deficits in goods is that the economics are different for services in a fundamental way. As I think I may have testified before this Committee over the years, we have observed that the propensity to import goods in the United States relative to our incomes is much greater than that of the rest of the world. And therefore, if you presume everyone is

growing at the same rate, we will have an increasingly chronic and rising deficit in goods which puts us in a position where the deficit, under stable equilibrium conditions continues to rise.

Fortunately, we will see exactly the opposite in services: we have a capacity to expand our exports of services faster than other people's incomes. And the result of that has been, as our goods deficit widened our trade deficit, our trade surplus in services increased. And in the broad sense of things, there really is not that much difference between goods and services, from a financial sense. Indeed, there is none. And if we view expanding our services capability still further, even though we have problems in the goods area, it makes our overall balance much more potentially stable. So it strikes me that especially because we have all these advantages in the services area, that endeavoring in the World Trade Organization or negotiated agreements, generally, in the service areas does serve our interests quite importantly as far as I can see.

Senator HATCH. Well, thank you. As you know, Harvard University Professor Jeff Franco estimates that a new round of WTO trade negotiations could put about \$2 trillion in new economic benefits into American pockets.

Now, if my math is correct, that is more than \$7,000 for every American citizen or about \$28,000 for a family of four. Now, that is more than the average family would see from the President's tax cut. Yet, in spite of this, we are going to have a difficult time building the domestic political consensus we need to move forward with trade liberalization.

How did we miss? And I would like your advice on this. How did we miss communicating the good news about trade to the American people, assuming those figures are right? And I would be happy to have you dispute those figures if you would care to.

Dr. GREENSPAN. Well, I have not seen the numbers, but Jeffrey Frantzel is a very reputable economist.

Senator HATCH. Well, he is certainly somebody you cannot ignore when he said that if we had a new round of WTO trade negotiations, we could put about \$2 trillion in new economic benefits into the American people's pockets.

Dr. GREENSPAN. One of the most difficult things we have to convey as economists is the view which is remarkably uniform across the economics profession that trade is a generally major good and indeed is not a zero sum game and it creates advantages throughout economies over the years, fully recognizing that it does not help everybody in all respects at all times.

One of the most difficult things that an economist has had to do is to try to convey the important average advantages of trade in trying to make people understand that even though there is a large distribution of people who benefit and people who do not benefit, but on the average, there is a very clear advantage to the American people and indeed to all trading partners.

I think there is no other way than just to continuously indicate what the facts are. And the facts over the years have basically carried the day. There has been an extraordinary awareness after World War II of how debilitating the trade protectionism of the 1930's had been to everybody, and that everyone was protecting themselves from economic adversity, an effect of which was that

they continued to transfer adversity from one place to the other. And I think the message got across in a way that is rare that a concept as abstract as trade can be sold into the post-World War II period which led to major leadership on the part of the United States in the trade area.

One becomes a little fearful that one of the reasons why we are backing off recently is that one element which was important, although not to trade, but to the selling of trade, was our adversarial relationship with the Soviet Union and that trade became an issue which brought together the West against the Soviet block. With the dissolution of that Soviet entity, it is possible, but I cannot say I know for sure, but I sense that we have lost some of the urgency that we felt in earlier years, and it is crucially important not to allow the efforts which created so much good in the world to wane.

Senator HATCH. Thank you.

Senator Lincoln, we will turn to you.

Senator LINCOLN. Thank you.

Welcome, Mr. Chairman. We are glad to have you in the committee.

Dr. GREENSPAN. Thank you.

Senator LINCOLN. The economy of my home State in Arkansas is extremely dependent on export markets for a majority of the commodities that we produce, whether it be rice, poultry, certainly timber products, and others.

I am glad that you are here. Everyone likes to hang onto your every word. And I have been working diligently in the 10 years that I have been in Congress to try and focus on agriculture and what our needs are internationally in export markets.

I would just like to ask you, in your estimation, how fair have we been to our agriculture producers in terms of leveling the playing field for free trade? And what would you suggest that we do differently than we currently are in trying to focus on the importance of agricultural production, as well as our natural resources?

I had a gentleman one time approach me on the campaign trail, an older gentleman who said, you can really judge the economy and where it is going by what is happening to the natural resources in terms of commodities, whether it be oil or timber or production agriculture, grains and cattle.

I would really be interested to see what you think we have done in these past 10 to 15 years and what should we be doing differently.

Dr. GREENSPAN. Senator, one of the things that people are not as acutely aware of as they should be is how extraordinary productivity growth in agriculture has been. If you take a look at the crop yields in wheat, corn, soybeans, it has been remarkable. And I remember years ago, wheat yields used to be a mere fraction of what they are today. Especially in soybeans, it has been the case.

Senator LINCOLN. The government has encouraged that.

Dr. GREENSPAN. Well, it is basically technology which has done it.

Senator LINCOLN. Well, it is technology and price. In order to survive, they have to be more efficient every year.

Dr. GREENSPAN. Yes, I certainly do not disagree with that. But what has happened is that even in agriculture, and take a look in

your State and what has happened to the productivity in producing chicken, and the output per hour, if you want to put it in very simple terms, it has just been awesome.

The problem that you run into is that the amount of food that a human being can eat is, or should be, limited. [Laughter.] And that means that you do not get the demand domestically rising as fast as production has been, which has always meant in the United States that we need export markets.

Senator LINCOLN. Absolutely.

Dr. GREENSPAN. And export markets in agriculture in years past have always been the major factor in our trade patterns. If you go back and look at the old data, it was agriculture and then, there was everything else.

The problem that we clearly have had is that our trading partners have put up all sorts of barriers; I mean, the common agricultural policy in Europe which is sanctioning the production of crops at costs very significantly above those in other nations prevents the movement of export goods throughout the world.

If we had wholly open markets in agricultural trade, we would have a very much larger export market for our food products because our capacities are just really quite remarkable. We should do anything we can to overcome the extraordinary reluctance on the part of not only Europe, but I must say, a good part of the rest of the world in trying to find reasons why our agricultural commodities should not come in. And some of the explanations are pretty bizarre.

Senator LINCOLN. Well, without a doubt, with the EU's strong commitment to export subsidies in agriculture, it puts our farmers at an enormous disadvantage not just trying to be competitive with other farmers, but obviously they are put in a position that they are competing with other nations.

They have gotten productive. They have done so because right now, their commodity prices are roughly the same that they received during the depression.

And I guess I would just say that in response to your comment about agriculture being dealt with in trade negotiations, they always seem to be the last one on the list.

I just wonder how important that is to our overall economy if we are going to address something that other nations have recognized to be a very important part of their sustainability as a nation, and that is domestic production, is it not wise for us to be looking for more ways that we can support our own domestic production in a way that they are going to be able to sustain themselves?

Dr. GREENSPAN. There is no point in promoting our domestic production if we do not sell it. And the reason we cannot sell it is basically there are barriers abroad. And if we support our domestic production and produce more, but do not have the ability to sell it, then we end up with still lower prices.

So I think our priorities have got to be to try to convince those of our trading partners who at least by having joined the WTO, are saying that free trade is good to indicate that free trade means free trade.

Senator LINCOLN. Yes.

Dr. GREENSPAN. And that some of their practices in agriculture can scarcely fall under that meaning.

Senator LINCOLN. Well, I appreciate that. And I hope you will continue to echo it. Thank you for joining us on the committee.

Senator HATCH. It is my understanding that you need to leave in 5 minutes. And Senator Rockefeller, is coming back is my understanding, has asked for the privilege of asking you some questions. Maybe, while we are waiting, I can ask you one more. If he is not here within the next 4 minutes, I am going to let you go.

Dr. GREENSPAN. Well, let me just say, Senator, in the event that that happens, I will be glad to answer any questions that any of the Senators have in writing.

Senator LINCOLN. Well, if there is a few moments, Mr. Chairman, I would be glad to ask one more.

Senator HATCH. Well, I would be happy if you do it. [Laughter.]

Senator LINCOLN. Many of us have been very involved in the recent expiration of the softwood lumber agreement which did expire at the end of last month. This week was the first opportunity that companies had an opportunity to file suits. We are seeing that happening.

Our concerns obviously stem around whether the Canadians will be searching the market and what will be happening and how effective we can be in monitoring that.

Obviously, the government is continuing to subsidize the production of lumber regardless of what market forces are indicating to them. And what it is doing to us in particular in Arkansas, we closed 10 mills in Arkansas over the past several months.

Do you have any recommendations in terms of how we can be addressing this situation in a better form or fashion?

Dr. GREENSPAN. I had lunch the other day with Bob Zoellick, a good and old friend. And I indicated that the difficulties that he has are far more intractable than the ones that we at the Federal Reserve have. And one of the things that came to mind is this Canadian lumber issue. And having said what I said to Zoellick, my good friend, I presume I am off the hook on answering the question. [Laughter.]

In truth though, Senator, it is a tough issue. As you know, it involves the question as to, as I recall, what the Canadian government's subsidies are supposed to be. As they put it, it is the cost of replenishment of their forest reserves in that regard and not a subsidy. And it is a very tough issue which I do not pretend to know the answer to.

Senator LINCOLN. Well, just taking from your comments earlier where you did mention your concern about the protectionism of counter duty suits and problems with those kinds of mechanisms, the antidumping laws that we have, but you did qualify that by saying that there were occasions when that was warranted.

And in light of what we are being faced with from everywhere across this Nation, east to west coast, north to south in terms of our timber industries and what they are being forced into in terms of shutdown, we are only left with one resort at this point.

Dr. GREENSPAN. Yes. What I would say, Senator, is that it is important that we just get to the table with our trading partners and

say, look, we all benefit if we across-the-board have essentially unsubsidized trade. You cannot have the part without the whole.

And that is what the World Trade Organization is all about. In effect, people have generally agreed that it is the right thing to do. They set up a set of rules, and presumably, you abide by them. And the reason you abide by them is that you realize that it is in everybody's self-interest to do so. And if anybody tries to get a little bit of an advantage here or there, it is counter to the whole general view that I tried to express in the various trade issues in my prepared remarks.

Senator LINCOLN. Sure. Well, we appreciate that. We just hope that when we do find those situations and folks are not willing to agree with it that we do have an alternative. And since coming through that agreement, we did not feel like that our counterparts there were actually adhering to the agreement, we were left with no other recourse.

But we appreciate it. And I certainly am appreciative of the fact that you recognize how delicate and yet how important those issues are for us.

Dr. GREENSPAN. They are, Senator.

Senator LINCOLN. Thank you, Mr. Chairman.

Senator HATCH. I understand that you have to go. We promised to let you go at 11:30, but Senator Rockefeller has a question or two. Would you mind answering those?

Dr. GREENSPAN. I always am most willing to try to answer the questions.

Senator ROCKEFELLER. I am the Senator from West Virginia. And I had thoughts about Carl Philipp Emmanuel Bach.

Dr. GREENSPAN. I was listening to Arcangelo Corelli this morning, I was thinking of you, Senator. [Laughter.]

Senator ROCKEFELLER. Chairman Greenspan, all things being equal which they are not, in an increasingly dangerous world which declassified intelligence reports say are going to be much more dangerous and entrepreneurial terrorism and all the rest of it, do you think that America as a matter of requirement for the national interest should have a steel industry?

Dr. GREENSPAN. That question, leaving the steel or anything else, always arises.

Senator ROCKEFELLER. I do not want to leave the question of steel aside.

Dr. GREENSPAN. I will get back to it if I may.

Senator ROCKEFELLER. All right.

Dr. GREENSPAN. The problem that we have usually comes to the defense industries because the general notion of international trade and the division of labor of necessity means that if you let open markets function, there will be certain industries which will not exist in certain economies.

And indeed, if we have that sort of free market, open economy without belligerence, without periodically the system breaking down, then effectively the answer is, no, there are no industries which are indispensable since you can always import particular goods from abroad.

The judgment that must be made is under which conditions should one be hedging against that. I would say at this particular

stage that in the marketplace, as it exists today without any subsidies or protectionism, we would have a steel industry in this country. There are innumerable technologies which are in place amongst many of the firms which create adequate rates of return and rates of return which would maintain the industry. I am speaking mainly of the mini-mills, but there are other technologies which are coming forward.

If you ask me whether in fact the older technologies are competitive in this world, I would respond this way: I have grown up with the American steel industry. In fact, when I was in private business, my first clients were American steel companies. So I know the industry very well. And I am very closely associated with it. I have been very much chagrined at what has happened to the industry over the years. It was the quintessential, high-tech industry when I first got into business 50 years ago.

I do not know what the future will be with respect to the underlying coke oven, glass furnace, steel furnace operations in the years ahead. I do know that they are running into competitive difficulties both here and abroad. The mini-mill based on electric arc furnaces has clearly been producing steel at a lower cost than the integrated systems. But clearly, if you do not have enough scrap, eventually those will be running into some difficulties too.

So I do not think one can answer the question. My only impression is that we will have a steel industry in this country. I do not know what the particular size will be.

I am not, by any means, convinced that our endeavor to slow the rate of decline in the industry, which has been quite extensive over the years, has even been marginally successful. If you take a look at the total employment in the steel works and rolling mills, it has been coming down very dramatically despite all the actions that we have taken. I am not sure what the answer at the end of the day is, but I do not think what we are doing now is necessarily going to enhance the outlook for the industry as a whole.

Senator ROCKEFELLER. Well, what the industry has been doing now and for the last 10 years, without a single nickel of government, has been modernizing itself so now it produces at a lower cost per ton, per man hour per ton than any other country in the world.

Now, you indicated that when you were in private practice and you got competition, you just worked harder. And that was a good thing for you because you had to work harder.

I could make a real direct comparison between that experience of yours and the steel industry. You did not have the government, for example, subsidizing your competition. Or nobody was slashing your tires every morning.

Dr. GREENSPAN. Let me just say this, I am not in favor of foreign governments subsidizing their steel industry.

Senator ROCKEFELLER. But you recognize that that is happening.

Dr. GREENSPAN. Oh, absolutely.

Senator ROCKEFELLER. Right. Now, you indicated, and it is on the Federal Reserve website, but I will just paraphrase what you said this morning, that "workers should have the foresight to recognize long-term job opportunities and move in advance of obsolescence."

That is sort of steel country, from West Virginia to the Silicon Valley. They should have which means that geographic advantage that California has that West Virginia, let us say, does not have.

Now, in 1934, we created something called——

Dr. GREENSPAN. Well, Senator, you did not quote the sentence that I had immediately subsequent to that which effectively is saying that——

Senator ROCKEFELLER. “Should move from the steel districts of western Pennsylvania to Silicon Valley or its equivalent.”

Dr. GREENSPAN. Yes. What I am trying to say is that the presumption that they would have foresight presumes that they have a much greater insight than the people who employed them or have less insight.

Senator ROCKEFELLER. And you did say that.

Dr. GREENSPAN. Yes.

Senator ROCKEFELLER. And you are quite correct on that.

In 1934, we created the Universal Service Fund which by definition says that some States have disadvantages as compared to other States. And as a result, Virginians help subsidize West Virginia telephone rates so as to make them more equal.

And the concept of that was that in the United States, everybody has the right to communicate. Everybody ought to have the right to be able to have a telephone. And this is one way that it was encouraged. And we are also clearly struggling with that on the whole question of the digital divide in terms of Internet access and the rest.

Now, I would posit to you that being able to communicate with each other is a tremendously important thing for which the government made national policy and the Universal Service Fund was set up to subsidize. I am arguing against myself here, but making my point I hope.

And yet, do not people also have the right to expect the government to help in some respect where there is unfair competition involved and stay in their geographical disadvantaged place and not have to move somewhere else because a job is as important and perhaps more important than being able to communicate on the telephone?

Dr. GREENSPAN. Senator, it depends on how one views the overall issue of how standards of living increase. If you freeze people in geographical areas, you will, of necessity, freeze the capital stock in that area because they could not continue their jobs unless that were the case.

If you do that, I grant you, you will keep them in their geographical location. Their levels of real incomes will be lower than they would have otherwise been.

So you have to trade off the advantages of staying in a single place, staying in the single industry which you can do. It is an issue here that one does not necessarily say that the only thing that people should be involved in and therefore the only thing that government should be involved in is the question of higher standards of living.

There may be values, such as staying where you are, but there are costs to that. And the costs are that you do not move the depre-

ciation reserves from declining industries into cutting-edge industries which history tell us raises average standards of living.

So I would submit, yes, you could do what you are suggesting. And indeed, I am not saying that it is inappropriate. I am just saying that it does have a cost. And the cost is in average standards of living for the individuals who live in a geographic area. And to the extent that other people interact with people in that geographic area, they are negatively affected as well. So it is a fundamental value choice which indeed is what the Congress has to do.

The economists cannot make these judgments. At the end of the day in a democratic society, in our society, it has got to be the Congress which makes these judgments. These are political judgments in the best sense of the word.

Senator ROCKEFELLER. So you agree?

I am holding you. And I apologize

You agree that economists will look at a rural situation and look at the interaction of economies as around the world and that the flow of capital will go where the flow of capital should go, but that you will also perhaps that where an industry is playing by the book, has modernized itself to the lowest per man hour per ton cost of any steel industry in the world and where there is government subsidy that the Congress and the government should not remain passive to that condition?

Dr. GREENSPAN. Let me just stipulate that there are two issues which are involved. One is that the costs have been lowered to the lowest point in the world. If that is true, then without a foreign government subsidy, the steel industry should be able to compete very easily.

So the question is, what are the degrees of subsidies and what is happening within the industry? But this is the issue which I raised earlier, namely, that the WTO or any multilateral trade agreement must be postulated on the issue of individual countries cannot or should not—well, they cannot subsidize all of their industries.

And you are basically saying to these other trading partners that unless they abide by a whole set of rules that free trade in a global sense cannot exist and cannot therefore create higher standards of living worldwide. So effectively, if there is failure to agree, then we go to a protectionist mode.

I am basically saying if that happens, it may solve a number of problems that concern individual States or individual industries, but there are costs. And those costs are a lower standard of living. And I know of no way to get around that. The obvious thing that we should be trying to do is to get other countries to stop subsidizing their steel industries.

Senator ROCKEFELLER. And dumping?

Dr. GREENSPAN. Dumping gets to an issue definition which will take us quite a long while.

Senator ROCKEFELLER. And I will continue that.

Dr. GREENSPAN. Look, I am not saying it is an easy solution. It is a very tough problem for the Congress.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

Senator HATCH. Thank you, Senator.

Mr. Chairman, we appreciate your testimony. Unless you are willing to talk some more about short-term interest rates, we are going to let you go. [Laughter.]

Dr. GREENSPAN. Thank you.

Senator HATCH. That was a cheap shot, I have to admit. [Laughter.] We appreciate the work you are doing. We appreciate the service you have given this country. And I look forward to a lot more. Thank you.

Dr. GREENSPAN. Thank you very much.

Senator HATCH. Our next witness is Hon. Mickey Kantor. Mr. Kantor has a long and distinguished history of public service, having served as both the Secretary of Commerce and the U.S. Trade Representative. Mr. Kantor is currently a partner in the law firm of Mayer, Brown and Platt where he represents companies in corporate and financial transactions on worldwide basis.

Mickey, I am not going to be able to stay very much longer. I probably will not be able to ask questions. So let me just ask you to consider answering a couple of my questions as you talk?

Mr. KANTOR. Of course, Senator, I would be happy to.

Senator HATCH. And let me outline now. In your testimony, I heard you strike the drum beat for the inclusion of labor and the environmental provisions in trade agreements. My colleagues on the Democratic side of this committee have made this point as well, as you know.

And frankly, I am uneasy about taking any steps too zealously, intermingle the trade policy with labor and environmental issues, as you were when you were the trade representative.

Now, my colleagues on my side of the aisle are trying to get a precise fix on what Democrats mean by suitable labor and environmental provisions. On the other hand, I think you will find support for education or the limitation of forced labor or to curtail abuses of child labor, as you call for in your testimony.

But on the other hand, your testimony also states on labor and environmental provisions should be treated as any other principal negotiation objectives and that these standards should be harmonized and that they should be harmonized upward, to use your language. But what exactly does that mean?

You do not have to answer right now. I want you to make your statement. But I would like to at least pose these questions because I have to leave.

Mr. KANTOR. Sure.

Senator HATCH. And as chairman of the Subcommittee on Trade, I would like to have this in the record.

What exactly does that mean? For example, do you think it would be proper or improper for the United States to negotiate with our trading partners over minimal wages, for instance?

We hear all the general talk about leveling the playing field. Does that include people in other lands? With all the commotion that minimum wage legislation caused us in our own U.S. Congress, should we enter this minimum wage provision overseas through trade negotiations or through trade restrictions in legislation that we might pass?

So that is a complex issue. It is one that I think can scuttle our opportunities in trade negotiations and could cost jobs overseas. We

have got to come up with some middle ground, some way of handling this problem.

And I would like for you to cover throughout your testimony and in answering questions here today. I think it would be helpful for the record. And you have a particular experience that I think would be beneficial for this committee.

So with that, we will turn the table over to you.

STATEMENT OF HON. MICKEY KANTOR, FORMER SECRETARY OF COMMERCE AND FORMER U.S. TRADE REPRESENTATIVE, WASHINGTON, DC

Mr. KANTOR. Thank you, Senator Hatch and Senator Rockefeller. It is an honor to be here today to appear before the committee.

I will attempt to answer your question in the best way possible, Senator, as I go through.

Let me say that core labor standards do not include minimum wages, do not include wages at all. Core labor standards have been adopted through the ILO or other means by 177 nations in the world. Every member of the WTO has adopted core labor standards one way or the other in their regimes.

Therefore, this is nothing new, different, or extraordinary to call for, anymore than protecting intellectual property rights. It would not be anything new, different, or extraordinary to call for in trade agreements. And I will get to this.

The failure to make a principal negotiating objective, labor or environmental standards, puts American business and workers at a decided disadvantage, just as though we would fail to put in principal negotiating objectives the protection of intellectual property rights.

Now, you and I are great advocates of protecting intellectual property rights. You have been a leader in that.

Senator HATCH. I think we are both advocates of good labor laws as well.

Mr. KANTOR. But the failure to protect against the abusive child labor, slave labor, prison labor, forced labor, the right to collectively bargain, or freedom of association, discrimination in the work place which are core labor standards tend to harmonize down world trade, puts you as workers and business at a disadvantage, and does not help the countries that failed to initiate these standards. Just as if you fail to implement and enforce intellectual property right protection in trade agreements would do the same.

So as I go through, I will continue to talk about that and I hope in a flexible, meaningful way that move us at least a little closer to working together, to cooperation, involving both sides of the aisle.

Senator HATCH. Your testimony is very important because if it is inflexible, we are not going to have the trade legislation that we really do need. And thus far, I am not sure it is not in the mode of inflexibility, and politics rather than doing what is in the best interest of our workers, our communities, our businesses, our small businesses, and businesses that do business overseas.

Mr. KANTOR. We can use a little less theology and a little more common sense.

Senator HATCH. That is right. And you might—if I could just interrupt you one more time because I wish I could stay for the whole testimony. But let me just ask you this, would it better for us to put the labor agreements into side agreements with these companies rather than have them in the actual Jordanian agreement or Vietnamese agreement or whatever the agreement may be?

Mr. KANTOR. Not in my view, Senator. I think these are as important today as protecting or dealing with agriculture in trade agreements, dealing with intellectual property rights, dealing with investment, dealing with continuing to lower tariffs where we have done a good job over the years I think, or other non-trade barriers. It is just as important, just as meaningful in an interdependent world.

Senator HATCH. Well, as I looked at the Kyoto accord and as you know, a lot of times, we agree. And we live up to the agreements. A lot of other nations do not.

I have had a lot experience with the International Labor Organization and some experience with environmental international problems. And I am very concerned that we get ourselves into quagmire where we are at a tremendous disadvantage. And I view the Kyoto accord as a tremendous advantageous development.

But be that as it may, whatever you can help us understand about these matters would be very much appreciate by me. I am sorry to interrupt.

Mr. KANTOR. No, you are not. Just let me say one aside maybe on the Kyoto accords. In one hand, we have said by walking away from them, we want American businesses to be competitive. Then, if we want American business to be competitive, we ought to have environmental considerations in trade agreements and others will raise their standards and start to bring them slowly but truly up to our level.

And so it seems to me a perfect example why environmental considerations need to be in trade agreements.

Senator HATCH. Well, I agree with that, except as you know, some of the major industrialized countries are not going to live up to those standards. And some of them will not even sign the accords. And it puts us at a tremendous disadvantage vis-a-vis the competition.

So those are some of the things that worry me. I thank you for be willing to consider some of these things.

Mr. KANTOR. I appreciate it. And you do not have to worry about taking my time. It is nice for an old war horse to be able to come up and be in public again.

Senator HATCH. Well, am I the old war horse? Or are you the old war horse?

Mr. KANTOR. I am the old war horse, Senator. You get younger. I get older.

I interested with great interest to the testimony of my friend, Chairman Greenspan. I agree with his conclusions regarding the importance of international trade to our economy and the global growth. I obviously have enormous respect for Chairman Greenspan for his experience, his expertise, and his intellectual prowess.

The shaping of international trade policy is not a theoretical or theological exercise. There are profound consequences to the

choices the United States will make as we pursue an ever more expansive trade agenda in a world driven by globalization.

They key words are credibility, common sense, and consensus. Many of our challenges will involve political questions, but we should not allow them to become partisan questions. No significant trade legislation in our modern history has been achieved without bipartisan consensus.

In my view, the long-term trade agenda would involve new bilateral agreements, address serious problems with the European Union, and accelerate liberalization of APEC. These would serve as stepping stones towards larger multilateral progress.

We need to take on new challenges, such as bribery and corruption in international trade, how to deal with worker rights in the environment of trade policy, digitized trade, biotechnology, and discrimination against U.S. audio-visual products. Also, we need to reform the processes and procedures of the WTO.

The obvious starting point is to address the pending trade agenda, the trade agreement with Jordan, the Vietnam agreement, the re-authorization of the GSP, the Andean Trade Pact, pursuing service and agricultural negotiations at the WTO, and a strengthened approach for the earliest implementation of the Free Trade Area of the Americas, the FTAA.

The administration is pursuing this agenda and deserves support for their efforts. But in order to pursue a vigorous trade agenda, trade promotion authority, or TPA, is vital. It is difficult to initiate trade negotiations without such authority and even more difficult to complete an agreement in the absence of what we formerly called "fast track."

More significantly, TPA symbolizes our National commitment to trade expansion and international leadership. President Bush and Ambassador Zoellick need this authority in the form of legislation that builds credibility for trade and is supported by a bipartisan majority. Ambassador Zoellick has indicated the administration's support for this approach. And I applaud him for it.

The debate surrounding TPA has focused on whether or not TPA would involve core labor standards and environmental protection as principal negotiating objectives, or PNO. It is important to note that both the Business Round Table and the AFL-CIO support the inclusion of labor and environmental provisions in principal negotiating objectives.

The inclusion of core labor standards in trade agreements are a matter of common sense. Increasingly, the global economy makes an inclusion of new topics essential to a meaningful pursuit of expanded world trade.

First, as recently as 1994, multilateral trade rules did not cover agriculture, services, investment, or intellectual property. Core labor standards and environmental concerns are now ripe for inclusion and are just as important to world trade.

Second, the inclusion of workers rights or environmental rules in trade arrangements has long been a staple of U.S. agreements and legislation. The 1988 Trade Act included worker rights as a principal negotiating objective.

Similarly, GSP, section 301, the NAFTA, the Caribbean Basin Economic Recovery Act, the African Growth and Opportunity Act

of 2000, and the 1999 United States-Cambodia Textile Agreement have included these types of provisions.

Third, a country's failure to adhere to core labor standards constitutes an unfair comparative advantage. A failure to enforce core labor standards through trade agreements places U.S. goods and services at a disadvantage and tempts business to relocate to the detriment of U.S. workers.

Fourth, our trading partners will also be well served by these commitments. Study after study indicates that the implementation and enforcement of core labor standards tends to grow the GDP of the initiating country. In addition, support for a market economy and enhanced democracy are aided by these changes.

Fifth, legitimate competition and trade, as well as stability and economic growth lend credibility to trade and trade policy. The support of the American people for an expansion trade policy is dramatically enhanced.

For example, a study of U.S. public attitudes at the University of Maryland said the following: "A majority of Americans support the growth of international trade. However, the benefits of trade today are seen as barely out winning the cost for most sectors of society, except for the business community. A strong majority feels trade has not grown in a way that adequately incorporates concerns for American workers, international labor standards, and the environment. Support for fast track is low, apparently because it signifies the increase of trade without incorporating these concerns. Americans are very quick to favor withholding trade in support of these and other concerns."

To the extent that these concerns are addressed, a strong majority in the poll, 78 percent, Senator Rockefeller, said it would support the further growth of international trade.

How do we build a consensus in order to move forward on trade. This is complex. In my view, there are four critical principles that would be helpful.

First, all trade obligations should be treated equally. Labor and environmental provisions should be treated like any other principal negotiating objective, both as the standards for enforcement and the means of enforcement to be used in the event of a violation.

Second, agreements should ensure that standards are harmonized upward, not downward.

Third, a full range of enforcement mechanisms should be placed on the menu of options, including consultation, negotiation, incentives, fines, and trade sanctions. Any enforcement mechanism concerning any of the many commitments made in an agreement should be as flexible as possible, tempered by the assurance of enforcement.

The existence of sanctions as part of a menu of alternatives in dispute settlement mechanism makes an enormous difference when it comes to effective enforcement.

Fourth, the enforcement mechanism should cover actions and lack of action which affect trade and the requirement of the considerations that parties effectively enforce relevant domestic laws.

There is another area which I believe is critical to any discussion of strengthening the constituency of international trade. And that is enforcement of our domestic trade laws. These laws, including

section 201, our antidumping and countervailing duty laws, and section 301, all seek to address specific problems in international trade.

Our domestic trade laws provide remedies for some of these abuses. And we should apply our laws without apology. In addition, it is not in the U.S. interest to indicate that our domestic trade laws are subject to alteration in a trade negotiation. By suggesting publicly or privately that U.S. trade laws are open to negotiation, public support is undermined.

Drawing lessons from history is an easier task than charting the future. In the area of international trade, our experiences over the past century provide clear guidance. The U.S. economy has always prospered when we have opened ourselves to international competition. By contrast, our history has also witnessed the crippling effects of closing our borders to trade.

Building credibility for open trade in the United States will continue to challenge your wisdom and patience. Your leadership in ensuring that we address an ever more interdependent world by strengthening and enforcing our domestic laws and trade agreements, taking on the new issues of trade, and paying attention to the legitimate concerns of the developing world will serve us well.

This committee has placed itself in the middle of a critical discussion about how to strike that formula. I look forward to being part of that discussion today.

I would ask, Mr. Chairman, that my full statement be placed in the record.

The CHAIRMAN. Your full statement will be placed in the record.

[The prepared statement of Mr. Kantor appears in the appendix.]

The CHAIRMAN. And I did not get a chance to introduce you. I hope you understand that we had votes over on the floor of the Senate. In fact, it was my amendment. And I had to stay over there and work the floor. As it turned out, it did not do any good for me to work the floor. Other people were involved that produced the results we had.

But I do want to apologize for not being here to introduce you. And I welcome you back to this committee. And I also want to relate to the period of time that you were U.S. Trade Representative and also Secretary of Commerce that I have a very good working relationship with you. I appreciate that very much, particularly as we were working on the issues of NAFTA and the issues of the GATT agreement.

We will have 5-minute turns here.

In June of 1994, you proposed an extension of the President's trade negotiating authority that included labor and the environment as two of the seven U.S. principal negotiating objectives. The proposal was withdrawn. And trade negotiating authority subsequently lapsed.

Do you think that the 1994 proposal still has relevance today? And if so, what are the advantages?

Mr. KANTOR. Even more relevant today, Mr. Chairman, than in 1994 when you and I worked together. And I appreciate that time. And thank you for having me back.

The world has become interdependent, as we have the value in adding to the trade agenda over the last number of years issues

such as agricultural and multilateral negotiations, intellectual property rights, the protection of investment, other non-tariff barriers, as well as continuing to lower tariffs.

We have to understand that increasingly the need to enforce core labor standards and environmental considerations, along with what I would call other new issue of trade, including trying to do something about a real scourge in international trade which is bribery and corruption, have become even more necessary if we are going to do two things principally.

One, put American business and workers on a level playing field eventually. And two, raise the standards of a rules-based trading system, not just in the developed world, but the developing world as well.

If I might add, Mr. Chairman, that is going to take some form of a grand bargain, as some would call it—I think Mr. Stokes in the National Journal—or at least a tradeoff.

And let me explain the grand bargaining. One would be that we recognize the developing world is being increasingly crushed by a burden of debt. We need to work with other developed nations in the world to do something about that debt, either restructuring it or relieving it in some ways. And second, we need to open our markets further in all developed countries, the developing world.

The second part of the tradeoff is for U.S. workers. No trade agreement is perfect. Although I agree with Chairman Greenspan, trade in general is a win-win situation. Trade agreements not being perfect in the short run, some people will lose their jobs. And some industries will be dislocated to some extent.

Therefore, we need to strengthen the trade adjustment assistance. And I would suggest that we ideas, such as wage insurance in order to protect workers who are at the second half of their careers who have tremendous obligations, but cannot sustain with lower paying jobs as a result of certain trade agreements.

The third part of that is the United States and others need to have a level playing field in trade. We need a rules-based trading system. We need to harmonize up. The invocation of not only labor and environment, but other new issues of trade, along with traditional issues of trade will accomplish those purposes.

Now, we are not going to solve this overnight. But the failure to recognize core labor standards which does not include wages, of course. Core labor standards which have been adopted by 177 nations continues to put us a competitive disadvantage.

The CHAIRMAN. I would like to refer to a statement that you made, I think it was this February about the International Labor Organization: "The ILO has no enforcement mechanism worth its salt." Now, that is an argument that I have heard many times. There really is not enough teeth there.

But I would like to ask if the real issue is not how many teeth that the ILO might have in terms of legal authority, but on the issue of the commitment. For instance, article 33 of the ILO constitution permits economic sanctions, but they are seldom used.

A good example is a recent resolution condemning Aamar about their use of forced labor. The ILO resolution banned that country from the recent ILO meetings. But even that very modest penalty attracted opposition from ILO member governments.

So again, I ask you, if you have legal authority to act, but do not act, is not the basic problem then a lack of political will?

Mr. KANTOR. There is legal authority under article 33. And I agree with you. And in the Amanar situation, it should be utilized. ILO has over the years shown an inability to act and to use article 33 in some of the most egregious situations. This is not a criticism. It is a matter of fact.

The WTO is a contract organization. It has operated as both a GATT and WTO in a fairly effective way, in fact, under the new dispute settlement mechanism, a very effective way. We may be in some ways frustrated over issues, such as beef and bananas and the failure of the European Union to change their regimes in this regard and the WTO has recognized it.

It is not just that labor and environment need to be enforced and that we should find some way to do it whether it is a WTO or otherwise. Labor and environment have an economic effect on trade. They affect it in a very dramatic way.

Failure to implement core labor standards or to have basic environmental protections and enforcement not only put the U.S. workers at a disadvantage, developing countries disadvantage each other in these ways. This is not just about values, although it is about values to some extent. This is really about plain old economics.

These inclusion of these new topics will make a difference, make a difference in harmonizing up standards and increasing trade flows and frankly building the economies of the countries which initiate them.

The CHAIRMAN. Thank you.

Now, I turn to Senator Baucus.

Senator BAUCUS. Mr. Chairman, thank you.

Mr. Kantor, first, I want to thank you very much. I think I speak on behalf of most everyone who is aware of all that you have done in building bipartisan conclusions in various areas. One is NAFTA. That was not an easy matter. Second is WTO. And that was not easy. Third is the negotiation of the intellectual property rights, dealing with China.

Mr. KANTOR. Thank you.

Senator BAUCUS. You have worked very hard to get a consensus, a bipartisan consensus on these issues. And you have been very successful. I want you to know how much so many of us appreciate those efforts.

One of the issues that has been discussed a bit lately, as we try to get a bipartisan consensus on trade, is what to do about our trade laws. Should they be on the table or not when we negotiate future trade agreements or perhaps even trade negotiating authority, fast track, or what not.

Some argue that they should be on the table. Some not. Your advice?

Mr. KANTOR. First of all, thank you for your kind words. When I became USTR, Senator, we began to work together. If you remember, I was 6 feet 4 and blond. [Laughter.] It is a difficult job, but a good one.

I tried to cover in my statement, as you know, the enforcement of our trade laws from the point of view that it builds confidence

in an international trade system and creates then more of a consensus in the country which we need desperately to do.

I know you had a discussion with Chairman Greenspan about building this kind of consensus or confidence in our trade regime because we need the support of the American people or we are not going to be able to move forward.

But to put our trade laws on the table runs directly against our need to do that. The American people want our trade laws enforced. They recognize correctly not all is fair in international trade.

And from time to time, other countries or industries in other countries are heavily subsidized, engaged in over production, or as the result of state trading companies, as we have seen in the case of Canadian wheat in the Canadian wheat board, take advantage of the U.S. market and disadvantage us as a result. We mean American business, American workers. It affects our capital adversely. And therefore, we cannot grow.

If we indicate that we are willing to negotiate these laws, first of all, I think that we are kidding ourselves. I do not believe that the Congress of the United States is prepared to endorse any agreement where our trade laws are weakened.

And if that is the case, what we are doing is leading our trading partners down a primrose path and attempting to indicate to them, we are willing to negotiate these matters, but we are not willing to sustain them in the Congress of the United States.

Second, the laws in and of themselves operate fairly. Frankly, when I was Secretary of Commerce, frankly there were times that I was frustrated by the International Trade Commission or others who would not adopt what I thought was good policy by their decisions. We have a very balanced approach to enforcing these laws.

Third, if we are going to ever have a level playing field in trade, if we are going to ensure that we are going to have support, if we are going to make sure that our trading partners act in a way that is conducive to competition—conducive to competition, we have got to deal with these issues of subsidies and dumping, such as the state trading corporation or export subsidies, as the European Union uses in agriculture to hurt not only the United States, but many other agricultural exporting nations.

And so I would suggest strongly that we do not put our trade laws on the table for negotiation. Frankly, we should remember, our trade laws were adopted by—or not adopted by. I should say sustained by the Uruguay Round or the World Trade Organization when we adopted it on December 15, early in the morning December 16, 1993.

Senator BAUCUS. If you add in the concept of the American export market is often the market of first and last resort for many countries, that is the American consumers that have sustained the growth of many countries, how does that affect your answer? I assume it strengthens it. I just wondered.

Mr. KANTOR. Yes, it strengthens it. It makes it stronger. I was really thinking about, first of all, your leadership on working to keep the American wheat industry competitive which you have done so well over the years, supported by Senator Grassley I might add.

The fact is that we know the state trading corporation, the wheat board in Canada is active in a way that has disadvantaged American wheat farmers, particularly in the northwest portion of our Nation. And that disadvantaged those hidden subsidies. The inability to have a free market in Canada for wheat, as you know, is exactly the kind of practice I am talking about.

And I will just say again, you have been a leader in trying to deal with those practices. I know there is now a 301 investigation I guess into those practices. And I would hope that would continue to go forward.

Senator BAUCUS. Could you also expand a little bit on how we approach, say, trade and environmental issues as we move forward to get American more in the forefront of trade negotiations and more American leadership because it is such a difficult question?

It is interesting, as I think about it, how much trade laws have evolved over the years. It was not too many years ago that I first came to this committee. I forgot what round it was. It was working towards one of the trade rounds.

But earlier, it was tariff barriers. The big deal was every country had tariff barriers. And then after awhile, it was non-tariff barriers. After that, we kind of dealt with a lot of the tariff barriers. And then, it was services. And then, intellectual property came along.

It just seems to me that as the world evolves, our trading regime begins to also evolve, or at least it should, to take up and deal with some of the new developments and some of the new trends. And my feeling is that the labor and environmental issues are here. They have arrived.

And just as it was difficult, I am sure, on getting agreement on non-tariff trade barriers or some agreement on intellectual property and so forth, it is difficult to find the right solution here with respect to environment and labor.

How do we do this? Many of us were down at the White House, talking to the President. The Chairman was there and others of us were there in trying to advise the President on what the solution would be. And as you might guess, there was a wide range of opinions on what to do about this.

But my thought is to advance the ball and to get American consensus and also Congressional consensus on this matter, we have to deal with trade environmental and labor issues in a meaningful way. Now, of course, that only begs the issue of what is meaningful?

But my thought is that the President's negotiated agreements and the USTR's negotiated agreements, you have the fines and sanctions and incentives and what not because each country is different. Each situation is a little bit different. The circumstances vary and so forth.

Your thoughts on why we can constructively get from where we all want to get, namely, strong bipartisan consensus.

Mr. KANTOR. Right.

Senator BAUCUS. How we approach these issues?

Mr. KANTOR. I would start at the history of trade negotiations and trade agreements over the last number of years, the last 20 to 25 years. The Tokyo Round completed in 1979 only included tariff

and non-tariff barriers, in other words, trade problems at the border.

As we have become increasingly globalized, driven by technology, we have become interdependent. That means other issues came to the floor in the late 1980's, investment, intellectual property, agriculture, services.

Things never before thought to be part of multilateral trade negotiations began to be discussed and negotiated in the Uruguay Round which lasted, as you know, 7-½ or 8 years.

When it was completed in 1993, we covered those subjects that I just articulated. And as we have become more interdependent, other subjects come to the floor, not just labor and environment, but they are important.

And they have been part of U.S. trade regimes even before 1993. As you know, 301 and GSP, other trade laws or agreements had labor and environment considerations in them.

The fact is even the declaration of the WTO or the end of the Uruguay Round in Marrakesh referenced these notions. They were not left out. They were referenced in the declaration although we did not move it as far as certainly I would have wanted it to be moved at that particular point. So the history is clear.

As we move forward, more and more issues because the interdependence becomes part of trade and a legitimate part of trade. Now, if you are going to negotiate these issues and they are going to have a real effect on trade, you need some form of enforcement. You cannot move forward without enforcing these commitments.

And if you believe the commitments are important, then enforcement has to be there, but it can be flexible. Let me explain. You can have consultations. You can have negotiations. You can have even incentives. You can have fines. You can have trade sanctions.

Now, let me quickly say unless you have trade sanctions at the end of the day to make sure commitments of the trade agreement can be enforced, then it is not worth the paper it is written on. And what we have to make sure is even though we can have flexibility and have a wide range of alternatives, at the end of the day, as we did frankly in the NAFTA side agreements, there has to be trade sanctions in order to make sure these very important trade commitments are enforced.

Senator BAUCUS. Yes. I think that is a good point. If I might, Mr. Chairman, a follow up question?

The CHAIRMAN. Yes.

Senator BAUCUS. For example, when we are negotiating intellectual property with China, frankly it seems to me that if we had imposed a fine only on China, I do not think it would get very far. There was a threat of sanctions that I think brought China to the table both in the negotiated agreement, as well as enforcement. But that is just my view. I mean, you were there at the time.

If we had only fines and there is no threat of a sanction and we said, we are going to fine you in China, I guess the question is, who is going to fine China? How is that all going to work?

If you could just talk about that because the fines have sort of risen up now in the last couple of months as sort of the remedy. And like a lot of new ideas, some of them are good and some of

them are not so good. Just your thoughts on no sanctions, but fines?

Mr. KANTOR. Fines may be adequate in certain circumstances, but only with the back-up of trade sanctions.

In my view and in my experience, just having fines available would not have brought China to the table to negotiate and to complete two historical intellectual property agreements for which Ambassador Barchefsky should take great credit. She worked with me at that time and was, as you know, tremendously active in that. I was going to say, I think I moved from 6' to 5'10" at that point.

The fact is that we threatened sanctions twice with regard to China in order to move them forward. We were prepared to invoke sanctions against China. My guess is if only fines had been available, we would not have made the progress. We would not have had the agreements.

And we would not have had the tremendous progress China has made in enforcing intellectual property laws in that country. They deserve great praise for what they have done. But they were brought to the table because we had a bipartisan support for a very focused trade policy which would allow all of us, Republicans and Democrats, to work together to move China into the right place.

Senator BAUCUS. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much. And thank you for keeping the hearing going. Well, before I ask two questions and then I will not have anymore questions, by the way, you and I should have said that Chairman Greenspan may get some questions in writing.

So we would hope if you do from members that cannot be here that those are to be responded to in a couple of weeks.

Mr. KANTOR. Absolutely, Mr. Chairman.

The CHAIRMAN. One point about using some precedent of our negotiations where we have included labor and environment, maybe like Jordan, once in awhile, people use GSP as an example. GSP is not a reciprocal agreement. It is a one-way agreement.

So I do not think we can use that as one example of a rationale that we have started down this road that it is all right to continue going. And I am not raising any issue with people who want to use precedents because they are out there. And so I have to take those into consideration, as well. But I do not think that we can use GSP.

As you know, since we face this intense opposition from our trading partners by including labor and environment, and particularly I want you to look at the FTAA region and the negotiations that might go on given this negotiating climate, what price should the United States be willing to pay for progress in these areas or on these issues of labor and environment?

And are there ways to lessen the acrimony associated with the difference of views between the United States vis-a-vis FTAA on labor and environment?

Mr. KANTOR. I think so, Mr. Chairman, although it is easy for me to say, sitting here and not having the responsibility anymore. It is a very difficult process.

I suggested earlier, and you may not have been in the room at the time, you may have been on the floor, that it seems to me that

a tradeoff is necessary. And the tradeoff is a legitimate one and an important one.

For developing nations, it is more open markets in the United States and other developed countries, as well as doing something to relieve these nations of the crushing burden of debt they carry at this point which is hurting not only their economies and their workers and their business, but hurts us eventually because we are so interdependent.

It seems to me that as a result, if we are sensitive to those issues and we deal with them in a legitimate fashion, then I would suggest that we can make some progress in trying to address the issues, such as labor and environment. As I have suggested, these are not the only issues that will be difficult that are new issues in trade.

Digitized trade or bribery or corruption or dealing with biotechnology are all difficult issues we are going to have to face, or protecting our audio-visual industry which has become so large in the United States. All those issues will be difficult to deal with.

But if we recognize, one, their concerns, two, are flexible in our approach, three, we keep our focus on what is important to us and to build a consensus in the United States which is labor and environment, as I cited in that poll done by the unit of the University of Maryland, I believe that we can make progress. In fact, I believe we can accomplish our goals.

The CHAIRMAN. Let me follow on then to your suggestion of other areas to negotiate biotechnology, digitized trade, bribery, and corruption. How do we make sure that we are not over burdening trade negotiations because obviously trade negotiations are very difficult just by themselves? And when you add additional issues to the agenda, it seems to me that you could have a situation that they will collapse in their weight.

And before you answer that question, a comment then. Just hypothetically, let me say, where would we draw the line after labor and environment, health standards, sexual discrimination, animal rights? What is the test that we should apply from your experience in negotiating in determining what is and what is not an appropriate subject for negotiations in a trade agreement?

Mr. KANTOR. First of all, it changes as time will change. Although I think at this point, it is clear that there are certain issues that are ripe for negotiation. Let me explain my answer to your very good question.

If an item affects trade, if affects it in a way that can cause discrimination against the exports of another nation or a number of nations, then it is ripe for negotiation. I would only go back historically, as I have said before, but I think we have to.

if you had suggested to Bob Strauss and his counterparts in 1979 in Tokyo that intellectual property or that information technology agreements or financial services agreements or telecommunication agreements should be part of the Tokyo Round, they would have looked at you in a rather blank way.

We were not ready for it. The world did not see itself as interdependent as we do today. Many of those industries had not grown yet or some did not even exist at that point.

So as we have moved forward over the last 20 to 25 years, we have begun to understand that core labor standards, not wages, not sexual discrimination, not other issues, make a huge difference in terms of disadvantage, putting at a disadvantage workers from the United States and our businesses. We are not talking about that.

We are talking about slave labor, child labor. We are talking about the use of forced labor. We are talking about the freedom of association, the right to collectively bargain, and, of course, discrimination in the work place of the most abusive kind.

These standards have been adopted all around the world. They need to be enforced. They do affect trade, as do lack of environmental standards. I said to Senator Hatch with reference to the Kyoto treaty and its failure in his view to keep U.S. business competitive.

Now, whether I agree with that or not, by the same token, we ought to look at trade negotiations. And enhancing environmental concern is making U.S. businesses more competitive. And so therefore, it seems to me by the same rationale that some would back away from the Kyoto treaty, ought to be supporting more and more a greater invocation of protecting the environment in trade agreements as well.

The CHAIRMAN. Responding to your statement about at certain times in history, certain things are ripe for negotiation, I guess you cannot argue with that. But that is maybe from our point of view. What about the regime we are in, a 138 nations of the WTO?

Three-fourths of those would tell you right now they are not ready for labor negotiation. If you and I agreed 100 percent on this issue—we do not, but we are going to get to an agreement some day—and we pass that right now, if we did it particularly, let us just say, the way the labor unions want to do it, that could have the effect of 77 nations of the developing nations saying, we are not going to sit down and talk with you at that point.

That tells me that rightness is not only when we say it is right, it is has to be right for those people that we expect to have respect for us and we ought to have respect for them.

Mr. KANTOR. I think this is a matter of technical and strategic importance. And you raise the correct issue, Mr. Chairman. In my view, we should not be moving towards a round at the WTO at all right now. It is not right not only on those issues, but many other issues as well.

We should finish services and agricultural negotiations there which are so important, including, as you know, dealing with export subsidies from Europe or state trading corporations in Canada, or other issues that we all three of us have concerned ourselves with over the years.

Second, we ought to deal with other issues that are pulling apart the United States and Europe on trade, everything from bananas and beef, to foreign sales corporations, to hush kits, to subsidies, to biotechnology. There are many different issues.

And I think we ought to look towards at least having a mutual recognition agreement with Europe with standards and testing are brought together or even for a free trade agreement with the European Union.

Now, why do I want to say that? If we were able to make that kind of progress and fully open up trade to the United States in Europe and address issues like labor and environment which would be fairly simple between the United States and Europe, we would move the whole multilateral system forward. And in addition to that, we should work on the FTAA, moving APEC more quickly towards free and open trade in the Pacific region.

And if we made progress in all three areas on a regional basis, I am convinced then that we would move the multilateral system forward in a dramatic fashion. And that is part of the answer with the earlier answers I gave, I think, on how we can deal with the developing nations in many of these regards.

The CHAIRMAN. I have to go to go on. I am sure you want to go.

Mr. KANTOR. No, I am having fun. [Laughter.]

The CHAIRMAN. Let me suggest that I think that there is an implication when it comes to the WTO that if they are not ready to negotiate with us, that we wait until they come around to our point of view, I do not know whether we would have made the progress we did the last 50 years that we have on trade and that we have learned a lesson from Smoot-Hawley if we had had that attitude.

Mr. KANTOR. May I speak to that, Mr. Chairman? I am sorry to interrupt.

The CHAIRMAN. No, no, please do.

Mr. KANTOR. When we worked on the WTO negotiation, it was not just frankly the Clinton administration. The Bush administration did a terrific job on that. Carla Hills, my predecessor, did a good job on that. And we all tried to work together. And trade was frankly much more bipartisan it seems to me in those days, just a few years ago.

The fact is that we understood that in moving those forward that we could not accomplish everything at once and that the WTO was supposed to be a continuing negotiating forum. In fact, many of us believed that there would never be another round nor was it necessary.

Immediately after the adoption of the WTO, we got the information technology agreement. We had the telecommunications agreement and the financial services agreement.

Frankly, taken together, they had more impact on the U.S. economy overall than the WTO or the Uruguay Round itself. We were making tremendous progress. And we had, of course, the schedule of taking on services in agriculture which we are now in the middle of right now.

I believe it is a mistake and was a mistake for us to try to implement another round in Geneva until we had made progress in bilateral and regional concerns first. And I think the problem of dealing with labor and environment with some of our trading partners, especially in the developing world, is a result of that.

The CHAIRMAN. I thank you for your response.

Senator Baucus, do you have any questions?

Senator BAUCUS. I have actually a lot of questions, but I do not have the time to pursue them.

Mr. KANTOR. Yes.

Senator BAUCUS. But this has been very helpful, Mr. Ambassador. Thank you very, very much.

Mr. KANTOR. Thank you.

Thank you for having me, Mr. Chairman.

The CHAIRMAN. Mr. Ambassador, thank you.

The hearing is adjourned.

[Whereupon, at 12:34 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF HON. ALAN GREENSPAN

I am pleased to be invited to discuss some of the important issues concerning international trade and the attendant implications for the U.S. economy and the world economy more generally. In doing so, I want to emphasize that I speak for myself and not necessarily for the Federal Reserve.

One of the most impressive and persistent trends of the last several decades is the expansion of international trade. Trade across national borders has increased far faster than world GDP. As a consequence, imports of goods and services as a percentage of gross domestic products worldwide, on average, have risen from approximately 12 percent forty years ago to 24 percent today.

To most economists, the evidence is impressively persuasive that the dramatic increase in world competition—a consequence of broadening trade flows—has fostered markedly higher standards of living for almost all countries that have participated in cross-border trade. I include most especially the United States.

Globalization as generally understood involves the increasing interaction of national economic systems. Of necessity, these systems are reasonably compatible and, in at least some important respects, market oriented. Certainly, market-directed capitalism has become the paradigm for most of the world, as central-planning regimes have fallen into disfavor since their undisputed failures around the world in the four decades following World War II.

Globalization, in turn, has been driven importantly by advances in technology. By lowering the costs of gathering information and conducting transactions, new technologies have reduced market frictions and provided significant impetus to the process of broadening world markets. Expanding markets, in turn, have both increased competition and rendered many forms of government intervention either ineffective or perverse.

The recognition of this prosperity-enhancing sea-change in world markets and, in that context, of the counterproductive consequences of pervasive intervention has led many governments to reduce tariffs and trade barriers and, where necessary, to deregulate markets. These actions themselves have further promoted the very globalization that, interacting with advancing technology, spurred the deregulatory initiatives in the first place. The result of this process has been an advance and diffusion of technical change that has raised living standards in much of the world.

The international trading system that evolved has enhanced competition and nurtured what Joseph Schumpeter a number of decades ago called “creative destruction,” the continuous scrapping of old technologies to make way for the new. Standards of living rise because the depreciation and other cash flows of industries employing older, increasingly obsolescent technologies are marshaled to finance the newly produced capital assets that almost always embody the cutting-edge technologies. This is the process by which wealth is created incremental step by incremental step. It presupposes a continuous churning of an economy in which the new displaces the old.

But there is also no doubt that this transition to the new high-tech economy, of which rising trade is a part, is proving difficult for a large segment of our workforce that interfaces with our rapidly changing capital stock day by day. This is most evident in the rising fear of job skill obsolescence that has induced a marked increase in experienced workers going back to school—often community colleges—to upgrade their skills for a rapidly changing work environment.

While major advances in standards of living are evident among virtually all nations that have opened their borders to increased competition, the adjustment trauma

ma resulting from technological advances as well as globalization has also distressed those who once thrived in industries that were once at the cutting edge of technology but that have become increasingly noncompetitive. Economists will say that workers should move from the steel districts of western Pennsylvania to Silicon Valley or its equivalent. And eventually they, or more likely their children, will move. But the adjustment process is wrenching to an existing workforce made redundant largely through no fault of their own. It may be argued that all workers should have the foresight to recognize long-term job opportunity shifts and move in advance of obsolescence. Such forecasting abilities are not in great abundance among workers. But neither are they evident among business managers or the economists who counsel them.

Yet the protectionist propensity to thwart the process of the competitive flow of capital, from failing technologies to the more productive, is unwise and surely self-defeating. History tells us that, not only is it unwise to try to hold back innovation, it is also not possible over the longer run. Generation after generation has experienced episodes in which those rendered technologically obsolescent endeavored to undermine progress, often appealing to the very real short-term costs of adjusting to a changing economic environment. In the end, these attacks did not prevail, and long-term advances in standards of living resumed.

Nonetheless, the campaign to expand free trade is never won. It is a continuing battle. Though tariffs in industrial countries have come down sharply over the past half-century, other barriers have become more prevalent. Administrative protection in the form of antidumping suits and countervailing duties is a case in point. These forms of protection have often been imposed under the label of promoting "fair trade," but oftentimes they are just simple guises for inhibiting competition. Typically, antidumping duties are levied when foreign average prices are below the average cost of production. But that also describes a practice that often emerges as a wholly appropriate response to a softening in demand. It is the rare case that prices fall below marginal cost, which would be a more relevant standard. In the view of many economists, antidumping initiatives should be reserved for those cases in which anticompetitive behavior is involved. Contrary to popular notions about antidumping suits, under U.S. law, it is not required to show evidence of predatory behavior, or of intention to monopolize, or of any other intentional efforts to drive competitors out of business.

In the end, economic progress clearly rests on competition. It would be a great tragedy were we to stop the wheels of progress because of an incapacity to assist the victims of progress.

Our efforts should be directed at job skills enhancement and retraining—a process in which the private market is already engaged—and, if necessary, selected income maintenance programs for those over a certain age, where retraining is problematic. Thwarting competition, by placing barriers to imports, will prevent markets in the United States and other nations from deploying capital to their most productive uses, that is, the most cost-effective production of those goods and services most highly valued by consumers.

Protectionism will also slow the inevitable transition of the workforce to more productive endeavors. To be sure, an added few years may enable some workers to reach retirement with dignity, but it will also keep frozen in place younger workers whose opportunities to secure jobs with better long-run prospects diminish with time.

I regret that trade policy has been inextricably linked with job creation. We often try to promote free trade on the mistaken ground, in my judgment, that it will create jobs. The reason should be that it enhances standards of living through the effects of competition on productivity. It is difficult to find credible evidence that trade has affected the level of total employment in this country over the long run. Indeed, in recent months we have experienced the widest trade deficit in history with unemployment still close to record lows.

Certainly, the *distribution* of jobs by industry is influenced by international trade, but it is also affected by domestic trade. The relative balance of supply and demand in a competitive market economy determines the mix of employment. When exports fall or imports rise, domestic demand and relative prices have invariably adjusted in the long run to leave total employment generally unaffected.

I also regret that, despite the remarkable success over a near half-century of GATT, the General Agreement on Trade and Tariffs, and its successor, the World Trade Organization, in reducing trade barriers, our trade laws and negotiating practices are essentially adversarial. They presume that a trade concession extracted from us by our trading partners is to their advantage at our expense and must be countered. Few economists see the world that way; trade is not a zero sum game.

If trade barriers are lowered by both parties, each clearly benefits. In almost every credible scenario, if one lowers barriers and the other does not, the country that lowered barriers unilaterally would still be better off having done so. Raising barriers to achieve protectionist equality with reluctant trading partners would be neither to our benefit nor to theirs. The best of all possible worlds for competition is for both parties to lower trade barriers. The worst is for both to keep them up.

For these reasons, we should welcome the opportunity to contribute to the effort of working toward further trade liberalization. If we freeze competitive progress in place, we will almost certainly slow economic growth overall and impart substantial harm to those workers who would otherwise seek more-effective longer-term job opportunities. Protecting markets from new technologies has never succeeded. Adjustments to newer technologies have been delayed, but only at significant cost.

Moreover, even should our trading partners not retaliate in the face of increased American trade barriers—an unlikely event—we would do ourselves great harm by lessening the vigor of American competitiveness. The United States has been in the forefront of the postwar opening up of international markets, much to our and the rest of the world's benefit. It would be a great tragedy were that process stopped or reversed.

The arguments against the global trading system that emerged first in Seattle and then spread over the past year and a half arguably touched a chord in many people partly, in the judgment of many analysts, by raising the fear that they would lose local political control of their destinies. Clearly, the risk is that support for restrictions on trade is not dead, only quiescent.

Those who protest against "globalization" appear too often to be self-designated representatives of developing country interests. For all the reasons that I have cited earlier, these protests, however well intentioned, are wrong-headed. In particular, it is essential to note that probably the best single action that the industrial countries could actually take to alleviate the terrible problem of poverty in many developing countries would be to open, unilaterally, markets to imports from these countries. Such countries need more globalization, not less.

In many important respects, the past half-century has represented an uneven struggle to repair the close linkages among national economies that existed before the first World War. The hostilities bred of war, the substantial disruptions to established trading patterns associated with that conflict, and the subsequent poor economic performance over the next few decades engendered the erection of trade barriers around the world that have taken even longer to dismantle. To repeat that error would increase poverty among a significant segment of the world's population.

The United States has been a world leader in terms of free trade and open markets for capital as well as goods and services. We have benefited enormously from the resulting international competition: We have a wide range of goods and services available for consumption; our industries produce and employ cutting-edge technologies; and the opportunities created by these technologies have attracted capital inflows from abroad. These capital inflows have reduced the costs of building our country's capital stock and added to the productivity of our workers. Most economists would argue that we must reaffirm the United States' leadership role in the area of international trade policy in order to improve standards of living in the United States and among all of our trading partners.

PREPARED STATEMENT OF MICKEY KANTOR

Thank you Mr. Chairman, Senator Baucus and members of the Committee for the opportunity to appear before you today.

The shaping of international trade policy is not a theoretical exercise. There are profound consequences to the choices the United States will make as we pursue an ever more expansive trade agenda in a world driven by globalization. This agenda requires U.S. attention and leadership, poses questions and challenges which are daunting, requires consensus and has direct consequences for the American people.

In order to construct consensus, U.S. policymakers need to develop credibility for a realistic, pragmatic trade regime. It is no longer true that we, as a nation, either do not see or care about the connection between trade and our economy. It is clear that the U.S. economy is no longer self-contained—those days are long past. Our standard of living, jobs, economic growth and international influence and leadership are inextricably connected to trade policy choices. Although U.S. pursuit of new agreements and, therefore, expanded markets through trade agreements have dramatically risen in the last decade, a strong consensus on open trade has not developed.

This is the area of concern where I would like to offer a few observations. Hopefully it represents a practical analysis. How do we realize the benefits of trade against a backdrop of deep public concern, indeed, in some cases, strident opposition? How do we take advantage of the potential of the global economy in the face of tear gas in the streets of Seattle? How do we continually and constantly build support among American workers, farmers, consumers and business people for an aggressive international trade agenda?

Many of our challenges will involve political questions—but we must not allow them to become partisan questions. No significant trade legislation in our modern history has been achieved without bipartisan consensus. Look at the last decade: Fast Track in 1991, NAFTA in 1993, the Uruguay Round in 1994 and PNTR for China last year—all of these required bipartisan leadership and a bipartisan majority. No future trade initiative will be possible without support from both sides of the aisle.

The challenge we face is how to achieve success while confronting difficult hurdles and obstacles. Any consensus must not only satisfy a bipartisan majority in the Congress but address the pressing concerns of the American people. It is, therefore, imperative that we build lasting credibility with a pragmatic trade policy. Common sense dictates that we not only promote and implement a policy that addresses the needs and concerns of U.S. workers, farmers, consumers and businesses but also recognizes the aspirations of developed and developing nations alike.

For the United States we must implement policies that keep us competitive, ensure that growth is sustainable and reflect our values. It must be an approach that appreciates that economic security has become a vital part of national security in an interdependent world, driven by technology and ever more globalized.

In broad terms, it dictates agreements that continually eliminate trade barriers, create enforceable rules, harmonize standards in an upward direction, ensure that we finally reach a level playing field as to obligations and that recognize legitimate issues of sovereignty.

Not everyone wins in the short term as a result of individual trade agreements. Some people will lose their jobs. Therefore, U.S. workers must be able to rely on a vigorous trade adjustment assistance program supplemented by new ideas and programs, such as wage insurance, that will result in less anxiety and pain for these workers.

The developing world must view continuing trade expansion and more open markets as beneficial—both short and long term. Trade policy cannot be developed in a vacuum. Debt restructuring or relief, longer phase in of trade obligations and the opening of markets in the developed world to the least developed economies will help build trust and support.

In my view, a long term trade agenda would involve new bilateral agreements, address serious problems with the European Union and accelerate liberalization of the Asia Pacific Economic Cooperation Forum (APEC). These would serve as stepping stones towards larger multilateral progress. Second, we need to take on new challenges such as bribery and corruption in international trade, how to deal with worker rights and the environment in trade policy, digitized trade, discrimination against U.S. audio-visual products and the requirement that we successfully negotiate services and agriculture in the WTO.

The obvious starting point is to address the pending trade agenda—the trade agreement with Jordan, the Vietnam agreement, the reauthorization of GSP, the Andean Trade Pact and a strengthened approach to promoting the earliest implementation of the Free Trade Area of the Americas (FTAA). The Administration is pursuing this agenda and deserves support for their efforts.

But in order to pursue a vigorous trade agenda, trade promotion authority (TPA) for the Administration is vital both symbolically and in real terms. It is difficult to initiate trade negotiations without such authority and even more difficult to complete an agreement in the absence of what we formerly called “fast track.” More significantly, TPA symbolizes our national commitment to trade expansion and international leadership. President Bush and Ambassador Zoellick need this authority in the form of legislation that builds credibility for trade and is supported by a bipartisan majority. Ambassador Zoellick has indicated the Administration’s support for this approach and I applaud him for it.

The debate surrounding TPA has, in the last number of years, been largely an argument over principal negotiating objectives. The controversy has focused on whether or not TPA would involve core labor standards and environmental protection as principal negotiating objectives. Two points should be made clear:

1. Labor and environment are only two vital areas, in addition to traditional objectives, which should be in TPA legislation. Other areas should be covered as well including digitized trade, bribery and corruption, agricultural issues

such as state trading corporations and export subsidies, audio-visual concerns and biotechnology;

2. There are substantial reasons, economic and political, which dictate that labor and environmental concerns should not only be included in TPA but these issues should be treated exactly like other negotiating objectives, e.g., investment and intellectual property rights. It is important to note that both the Business Round Table and the AFL-CIO support the inclusion of labor and environmental provisions in principal negotiating objectives.

The inclusion of core labor standards in the principal negotiating objectives of the TPA is justified, indeed mandated, by reason of economics, credibility and values. If we are going to be successful in constructing a supportable policy it must ultimately rest on creating a level playing field for U.S. business and workers, grounded on standards that are "harmonized up," not an exercise in a race to the bottom. These core labor standards which have been endorsed through the International Labor Organization (ILO) by nearly every nation on earth include:

- Elimination of forced labor
- Practices that abuse child labor
- Freedom of association and the right to collectively bargain
- Elimination of discrimination in respect of employment.

As recently as 1994, multilateral trade rules did not cover agriculture, services, investment or intellectual property. It would seem bizarre today not to discuss new trade arrangements in the absence of these subjects. Increasingly the global economy made inclusion of these topics essential to a meaningful discussion of world trade. Subjects heretofore considered internal to a country's economy now have profound external implications. We are truly "in each other's pockets."

The other side of this rhetorical coin is that the inclusion of worker rights or environmental rules in trade agreements has long been a staple of U.S. trade agreements and legislation. The 1988 Trade Act included worker rights as a principal negotiating objective—similarly GSP, Section 301, the NAFTA, the Caribbean Basin Economic Recovery Act, the African Growth and Opportunity Act of 2000 and the 1999 U.S.-Cambodia Textile Agreement, have included these types of provisions.

A country's failure to adhere to core labor standards constitutes an unfair comparative advantage. U.S. workers, businesses and farmers are put at a comparative disadvantage if core labor standards and the environment are not included in new trade agreements. A legitimate comparative advantage might include the cost of financing, land cost, proximity to market, special skills or wages. But not, by contrast, child or forced labor or denying freedom of association or denial of any other core labor standard. A failure to enforce core labor standards through trade agreements places U.S. goods and services at a disadvantage and tempts business to relocate to the detriment of U.S. workers.

But our trading partners will also be well served by these commitments. Studies indicate that the implementation and enforcement of core labor standards tends to grow the GDP of the initiating country. In addition, support for a market economy and enhanced democracy are aided by these changes. Studies also indicate that the size of the middle class increases, as does the stability of the country. In the short term, by contrast, exports from nations which implement these standards will shrink but later will recover.

Implementation and enforcement of core labor standards will raise standards of living and thus spread the benefits of trade. To the extent these benefits inure to more and more people, income gaps will tend to shrink.

Legitimate competition in trade as well as stability and economic growth lend credibility to trade and trade policy. The support of the American people for an expansive trade policy is dramatically enhanced. For example, a study of U.S. public attitudes entitled "Americans on Globalization" commissioned by the Center for the Study of Public Attitudes and the Center for International and Security Studies at the Maryland School of Public Affairs, University of Maryland, dated November 22, 1999 found:

In principle, a majority of Americans supports the growth of international trade. However, the benefits of trade to date are seen as barely outweighing the costs for most sectors of society, except for the business community. A strong majority feels trade has not grown in a way that adequately incorporates concerns for American workers, international labor standards and the environment. Support for fast track is low, apparently because it signifies the increase of trade without incorporating these concerns.

Americans are very quick to favor withholding trade in support of these and other concerns. To the extent these concerns are addressed, a strong majority said it would support the further growth of international trade. Americans indicated overwhelming support in the poll for two central concepts—a reciprocal lowering of trade

barriers and a desire for labor and environmental concerns to be included in trade agreements.

In the cited poll, 61 percent of Americans agreed that America should lower its trade barriers if another country is “willing to lower its barriers to products from the U.S.”

The following question was asked in the same poll:

Currently there is some debate over whether the World Trade Organization (WTO) should consider issues like labor standards and the environment when it makes decisions on trade. Some say the WTO should consider these issues because they are closely related to trade. . . . Others say the WTO should not consider these issues because . . . trying to bring in these other concerns will interfere with the growth of trade. Do you think the WTO should or should not consider [these issues] when it makes decisions about trade?

By a huge majority, 78 percent of Americans believe that the WTO should consider labor and environment when it makes decisions, versus 18 percent who disagreed.

Given the strength of the economic argument for workers’ rights and environmental considerations in trade agreements, it would be appropriate to note this approach similarly supports American values. Certain broad principals should underlie our approach to these issues:

1. Labor and environmental provisions should be treated like any other principal negotiating objective, both as to standards for enforcement and the means of enforcement to be used in the event of a violation. All trade obligations should be treated equally.
2. Agreements should ensure that standards are harmonized upward.
3. A full range of enforcement mechanisms should be placed on the menu of options including consultation, negotiation, incentives, fines and trade sanctions. Any enforcement mechanism concerning any of the many commitments made in an agreement should be as flexible as possible, tempered by the assurance of enforcement.
4. The enforcement mechanism should cover actions and lack of action which “affect trade” and require, among other considerations, that parties effectively enforce relevant domestic laws.

The existence of sanctions as part of a menu of alternatives in a dispute settlement mechanism makes an enormous difference when it comes to effective enforcement. In many cases, the credible threat of sanctions was critical to achieving the desired result. We saw this with beef in Korea, with IPR protection in China, with magazine sales in Canada—and in a host of other disputes.

Again, it is useful to turn back the clock ten years. At that time, public confidence in the old GATT system had cratered. Why? Because no effective mechanism existed to enforce obligations. As the GATT system proved, lack of a credible enforcement system leads to lack of compliance. Lack of compliance, in turn, results in a diminution of confidence and is part of what makes the public cynical about international trade.

Winning public support for trade requires us to keep up with the times—to continue to address the issues that arise as the world economy evolves. One clear example today is the digital economy. When we concluded the Uruguay Round in 1993, there were a grand total of 130 sites on the World Wide Web. Today, there are 476 web sites devoted to pop singer Britney Spears alone. E-commerce is a business as large or larger than most of the world’s economies.

Our trade policies have not caught up.

The Internet and electronic commerce have changed the way we do business in the digital economy and our trade policies must keep pace. Today more than 300 million people around the world are online; by 2005 about one billion people will be connected to the Internet, and by 2004 business-to-business electronic commerce will grow to more than \$7 trillion. Given the importance of this sector, U.S. negotiators must ensure that new trade agreements safeguard intellectual property and facilitate trade in digital goods and services. This is one further example of an issue which must be dealt with.

There is another area which I believe is critical to any discussion of strengthening the constituency on international trade—and that is enforcement of our domestic trade laws. These laws, including Section 201, our antidumping and countervailing duty laws and Section 301—all seek to address specific problems with international trade.

Our domestic trade laws provide remedies for some of these abuses—and we should apply our laws without apology.

Make no mistake, when we use our laws we will face international criticism—though our laws are fully consistent with the WTO. What’s even more irritating is

the criticism we will hear from the so-called trade experts in the media and at think tanks, most of whom have never been within ten miles of a trade negotiation. They will say that application of our domestic trade laws violates the sanctity of “free trade.” They’re wrong. It is a failure to enforce our trade laws that undermines free and open trade. Americans are far more likely to support future trade negotiation if they believe that their government is their champion. In some cases, that will mean tough action through the WTO—or through our domestic trade laws.

Our Constitution gives Congress primacy on international trade. Our domestic trade laws are one manifestation of that primacy and I encourage you to continue to play a role as strong advocates of the U.S. national interest.

It is not in the U.S. interest to indicate that our domestic trade laws are subject to alteration in a trade negotiation. By suggesting publicly or privately that U.S. trade laws are open to negotiation, public support is undermined.

Drawing lessons from history is an easier task than charting the future. In the area of international trade our experiences over the past century provide clear guidance. The U.S. economy has always prospered when we have opened ourselves to international competition. By contrast, our history has also witnessed the crippling effects of closing our borders to trade.

Building credibility for open trade in the U.S. will continue to challenge your wisdom and patience. Your leadership in ensuring that we address an ever more interdependent world by strengthening and enforcing our domestic trade laws and trade agreements, taking on the new issues of trade and paying attention to the legitimate concerns of the developing world, will serve us well.

Our broad course may be obvious but that does not mean it is easy. American leadership on the international stage has always required the support of the American people. We are still seeking the formula that will result in strong support of the American people for international trade. Clearly, a true spirit of give-and-take will be necessary.

This Committee has placed itself in the middle of a critical discussion about how to strike that formula. I look forward to being part of that discussion today.

COMMUNICATIONS

STATEMENT OF THE ADVANCED MEDICAL TECHNOLOGY ASSOCIATION (ADVAMED)

The Economic Benefits of Trade

As the world's largest medical technology association, representing over 800 of the world's leading medical technology innovators and manufacturers of medical devices, diagnostic products and medical information systems, AdvaMed strongly believes that international trade yields significant economic benefits for both America and our trading partners. Global trade and competition help to ensure that patients throughout the world have access to the lifesaving and life-enhancing innovations developed in America—innovations that help keep health care costs down by enhancing productivity in the health care system. Our industry is dedicated to the development of new technologies that achieve these goals.

AdvaMed members manufacture nearly 90 percent of the \$71 billion in life-enhancing health care technology products purchased annually in the United States, as well as 50 percent of the \$165 billion in medical technology products purchased globally. Our industry currently enjoys a trade surplus of \$7.1 billion vis-a-vis our trading partners.

The Paradigm Shift to a New Health Economy

No one understands the impact productivity has on growing the economy more than Chairman Greenspan, who is testifying today. Chairman Greenspan acknowledged the impact technology is having in the health care sector when he testified before the National Bipartisan Commission on the Future of Medicare in 1998:

"Medical diagnoses are more thorough, accurate and far faster, with access to heretofore unavailable information. Treatment is accordingly hastened, and hours of procedures eliminated. . . . the new technologies also carried other significant benefits, contributing both to enormous improvements in the post-operative vision of cataract patients and to longer life expectancies and higher quality of life among heart attack survivors."

America is on the cusp of a revolution in medical technology. Through advances in technology we can detect diseases at the early stages when they are easier and less costly to treat, provide more effective and less invasive treatment options, reduce recovery times and enable people to return to work much more quickly.

Because of global trade, the rest of the world can benefit from this revolution and participate in the paradigm shift that is already taking place to a New Health Economy. Medical technology has advanced to the point where it is fundamentally transforming our health care system in ways that improve quality and reduce costs. For example:

- Angioplasty and other minimally invasive heart procedures have greatly reduced the need for riskier, more expensive heart bypass procedures. An angioplasty procedure costs \$20,960 on average, compared to \$49,160 for open-heart surgery. Surgeons can complete an angioplasty procedure in 90 minutes compared to 2–4 hours for open bypass surgery. Patients can leave the hospital in one day instead of 5–6 days, and recovery only takes one week rather than 4–6 weeks for bypass.
- Total knee replacement produces an average one-time health care cost savings of \$50,000 per patient; a savings of \$11.5 billion in 1994 alone, according to the American Academy of Orthopedic Surgeon (AAOS).
- Three types of laparoscopic surgery have generated approximately \$1.9 billion annually in increased productivity by enabling people to return to work more quickly, according to a study by DRI-McGraw Hill.

Steady declines in mortality rates, medical procedure times, hospital stays and patient recovery times all illustrate the emergence of the New Health Economy.

Gains in workforce productivity and accelerating declines in disability rates point to this shift as well.

Global Challenges

Innovative medical technologies offer an important solution for industrialized nations, including Japan and European Union members that face serious health care budget constraints and the demands of aging populations. Advanced medical technology can not only save and improve patients' lives, but also lower health care costs, improve the efficiency of the health care delivery system, and improve productivity by allowing people to return to work sooner.

However, when regulatory policies and payment systems for medical technology are complex, non-transparent, or overly burdensome, they can significantly delay or deny patient access to the latest, state-of-the-art innovations. They can also serve as non-tariff barriers, preventing U.S. products from reaching patients in need of innovative health care treatments.

AdvaMed applauds President Bush's support of international trade initiatives. To allow the President, the U.S. Trade Representative (USTR) Robert B. Zoellick, and Commerce Secretary Donald Evans to reduce tariffs and non-tariff barriers throughout the globe, we would like to echo the comments made by the President in his recent address to the joint session of Congress in calling for Congress to give him presidential trade promotion authority. It should be extended to ensure further work on regional and global trade negotiations, including the Free Trade Area of the Americas (FTAA), the Asia-Pacific Economic Cooperation (APEC) forum, the World Trade Organization (WTO) and the Transatlantic Business Dialogue (TABD) with Europe. In addition, the President and USTR should use this authority to continue to pursue bilateral trade agreements in the medical technology sector with our major trading partners.

AdvaMed believes the USTR, Department of Commerce and Congress should monitor regulatory, technology assessment and reimbursement policies in foreign health care systems and push for the creation or maintenance of transparent assessment processes and the opportunity for industry participation in decision making. We look to the Administration and Congress to actively oppose excessive regulation, government price controls and arbitrary, across-the-board reimbursement cuts imposed on foreign medical devices and diagnostics.

Multilateral Opportunities Should be Utilized to Establish Basic Principles to Expand Global Trade and Patient Access to New Technologies

A primary goal of all economies is to provide high quality, cost effective healthcare products and services to all citizens. The mission, and sovereign right, of a government's regulatory agency is to oversee the efforts of medical technology manufacturers to ensure that their products are safe and effective.

Another mission is to ensure their citizens have timely access to state-of-the-art, life-saving equipment and that compliance procedures are efficient and effective. To further expand patient access to safe and effective medical devices and ensure cost effective regulatory compliance, USTR should seek to ensure that regulatory agencies around the world make their policies and practices conform to the relevant and appropriate international trading rules established by the WTO.

Toward that end, member economies should agree to make their medical device regulatory regimes conform to these guiding principles:

- Acceptance of International Standards;
- Conformity/Provision of Transparency and National Treatment;
- Use of Harmonized Quality or Good Manufacturing Practice Inspections;
- Recognition of Others Product Approvals (or the Data Used for Those Approvals);
- Development of Harmonized Auditing and Vigilance Reporting Rules;
- Use of Non-Governmental Accredited Expert Third Parties Bodies for Inspections and Approvals, where possible.

Similarly, many economies require purchases of medical technologies to take place through centralized and/or government-administered insurance reimbursement systems. To ensure timely patient access to advanced medical technologies supplied by foreign as well as domestic sources, member economies should agree to adopt these guiding principles regarding the reimbursement of medical technologies:

- Establish clear and transparent rules for decision-making;
- Develop reasonable time frames for decision-making;
- Data requirements should be sensitive to the medical innovation process;
- Ensure balanced opportunity for the primary suppliers and developers of technology to participate in decision-making, e.g., national treatment.
- Establish meaningful appeals processes.

Multilateral and Regional Forums Should be Utilized to Eliminate Tariff and Non-Tariff Barriers to Trade that Unnecessarily Increase the Cost of Health Care

Many countries maintain significant tariff and nontariff barriers to trade for medical technology. Such barriers represent a self-imposed and unnecessary tax that substantially increases both the cost of health care to their own citizens. Such barriers also delay the introduction of new cost-effective, medically beneficial treatments. As a result, regional forums are striving to enhance market access for a number of important sectors. The APEC forum has made significant strides in developing a tariff reduction schedule that will facilitate trade and access in key developed and emerging markets, though implementation of the Accelerated Tariff Liberalization (ATL) package stalled due to the inability to launch another WTO round. USTR should take strides to ensure ATL and non-tariff barrier reduction initiatives developed under APEC reach fruition via the appropriate trade forum. Moreover, a new WTO round should be seen as an opportunity to improve access to new medical technology on a global basis.

With regard to Europe in particular, the U.S. medical technology industry supports the activities of the TABD. TABD provides industry leaders an opportunity to engage in dialogue with high-level U.S. and EU government leaders on important trade and policy issues related to medical technologies. TABD has become an important vehicle for ensuring that the European Union (EU) and US markets remain open to innovative medical technologies. The success of the medical technology MRA can be attributed in large part to TABD. It is through the TABD that industry expects to make progress on important issues, including technology assessment, reimbursement practices, and appropriate regulations for innovative medical technologies. The medical technology industry looks forward to the new Administration's support for TABD.

Key Markets: Japan and Europe

Efforts to oversee foreign policies impacting the export and sale of US medical devices abroad should primarily focus on our two largest foreign markets, Japan and the European Union (EU). After the U.S., Japan is by far the largest global market for medical technologies (\$24 billion) followed by Germany (\$16 billion) and France (\$7 billion.) US manufacturers annually export over \$2 billion to Japan and manufacture another \$6.5 billion in the region for the Japanese market. Our trade surplus with Japan is an impressive \$1.1 billion. We believe that this statistic is a good indicator our industry's global competitiveness in the field of medical technology and it strongly underscores the importance of critical ongoing efforts with the U.S. government to open the Japanese market further to cost-saving and life-enhancing medical technologies. U.S. manufacturers also export nearly \$8 billion annually to the EU and maintain a \$3.6 billion trade surplus with the EU.

Japan: Financial Crisis Beggars for Structural Reforms that Utilize Medical Technology

Japan's health care system is facing a grave funding crisis—with estimates of a nearly \$40 billion shortfall and several major insurance associations facing potential bankruptcy within the next 2–3 years. To date, however, Japan has resisted making much-needed structural changes, such as reducing the extraordinarily long average hospital stays (over 30 days) with the help of technological advances, and has instead sought reductions in expenditures by cutting reimbursements for medical technologies and pharmaceuticals, and by shifting some costs to patients. Persistent price-cutting, coupled with slowing safety approval and reimbursement processes for new technologies, has made it difficult to introduce state-of-the-art health care that would increase the productivity of the Japanese health care system.

Medical Technology Provides Japan With A Cost-Effective Health Care Solution

Since 1995 the price index for “healthcare products and devices” has fallen from 100 to 93.5, including a 2.5% price drop in 2000, according to the Japanese consumer price index. In addition to falling prices, medical technology is helping to increase the quality of care and the productivity of the Japanese health care system. Although medical technology accounts for only 7% of all health care expenditures in Japan, we believe that new technology is an integral part of the future solution to managing the total cost of care in Japan. Japan can achieve this goal by instituting policy measures that create the right incentives and remove some of the structural barriers that preclude the full use and value of medical technology in Japan.

Enact Reimbursement and Regulatory Policies that are More Responsive to the Innovation Process

The Administration, USTR and Commerce must continue to exert leadership in promoting market-opening measures in Japan's healthcare market, including reforms that help Japan to manage the total cost of care and avoid "quick fixes":

I. Create Incentives to Introduce Improved Technologies.

New technologies can benefit Japan if the policy structure, especially reimbursement policy, creates the right incentives among competing health care inputs. MHLW evaluation of medical products should focus on: 1) whether the device performs as intended; 2) its medical benefit, 3) its likely economic benefit, e.g., shorter hospital stays, and/or 4) its value in maintaining a productive workforce as the Japanese population shrinks and ages.

II. Abandon Proposal to Incorporate "Foreign Reference Pricing" in the Price-Setting Process.

Since many Japanese devices are not sold in other markets, "foreign reference pricing" appears discriminatory and constitutes an unfair trade barrier. This "follow the leader" approach also appears to make Japan a second-class place for health care. Lastly, the policy ignores the high cost of doing business in Japan, including differences in medical, reimbursement and business practices.

III. Enact Reimbursement Policies that Are More Responsive to the Innovation Process.

Japan should eliminate excessive arbitrary price cuts, which have recently totaled 20 to 50%, and implement measures to expedite the coverage, payment and access to brand-new-to-Japan medical technologies (category C2) by: (1) offering provisional coverage within a specified time frame, (2) limiting introduction to specialized "centers of excellence," (3) targeting availability to specialized patient populations and/or certain indications. Currently, products (with an average 18 month product life cycle) are ineligible for any reimbursement for two years after safety approval. Lastly, Japan should accept reimbursement decisions based solely on foreign clinical data and make them eligible for reimbursement.

IV. Introduce Streamlined and Transparent Safety Approval Procedures, including:

Japan should clarify definitions and criteria within the product classification system, such as offer an improved "pre-consultations" process, submissions "checklist," harmonized international standards (including for reasonable "adverse event reporting"), and regular "real time" reviews with the applicant.

V. Enforce Existing Trade Agreements in Japan That Require Meaningful Consultations.

The 1986 U.S.-Japan MOSS trade agreement for medical devices (and pharmaceuticals) contains a long-standing and honored commitment by the Japanese government to consult with U.S. government/industry when seeking changes in regulatory/reimbursement policies that have a substantial impact on U.S. industry. Japan has recently reduced prices using more arbitrary means, such as reducing the number of product reimbursement categories, and by slowing approval and reimbursement of innovative U.S.-made devices.

Europe: Seek Appropriate Policies That Improve Patient Access to Innovative Medical Technologies

In the EU, enforcement of current trade agreements is key. The US-EU Mutual Recognition Agreement (MRA) must be fully implemented. Bringing healthcare products to the market faster is an important priority consistent with the protection of public health and the reduction of regulatory costs and redundancy. The European Commission (CEC) should be encouraged to take all proper measures to ensure that the MRA is operational by January 2002, when the current three-year transitional period is scheduled to end.

In addition, European Member States should be encouraged to adopt policies for their health technology assessment (HTA) decisions affecting medical technologies that are transparent and timely, and industry participation should be allowed. US firms, as the leaders in innovative medical technologies, stand to suffer disproportionately from unnecessarily long delays in HTA decisions in Europe. The CEC should ensure that the EU Medical Devices Directives are implemented uniformly by the Member States. Uniform implementation of the Devices Directives is essential to the furtherance of the European Single Market—a concept strongly advocated

by the TABD. To the extent that additional regulatory requirements are deemed necessary in Europe, Member State must be advised to consult with industry in advance and to ensure that such requirements are consistent with the objectives of global harmonization.

AdvaMed supports the Safe Harbor agreement struck between the EU and US—an agreement that promises the uninterrupted data flow from the EU to the US. The agreement, reached in response to the 1995 EU Data Privacy Directive, provides additional flexibility (along with specific data privacy contracts or compliance with the actual directive itself) for US firms to continue to receive data from EU-based companies. AdvaMed and its member companies look forward to working with both sides on implementing the agreement in such a way that supports transatlantic business and economic activities and, in particular, supports industry's efforts to research, develop, and bring to market medical technologies that offer great promise for patients on both sides of the Atlantic.

Conclusion

AdvaMed appreciates the President's commitment to expanding international trade opportunities and is fully prepared to work with the President, USTR Ambassador Zoellick, Commerce Secretary Evans and other interested government agencies to encourage positive action and help secure presidential trade authority to monitor, enforce and advance multilateral, regional and bilateral trade agreements particularly with our key trading partners.

