TRADE, FOREIGN POLICY AND THE AMERICAN WORKER

HEARING

BEFORE THE

SUBCOMMITTEE ON TERRORISM, NONPROLIFERATION, AND TRADE

OF THE

COMMITTEE ON FOREIGN AFFAIRS
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CONTENTS

Page

WITNESSES

Mr. Lou Dobbs, Anchor and Managing Editor, CNN's *Lou Dobbs Tonight* 8
The Honorable Carla A. Hills, Chair and CEO, Hills & Company, Former United States Trade Representative 12
Ms. Thea Lee, Policy Director, AFL–CIO 40
Mr. Scott N. Paul, Executive Director, Alliance for American Manufacturing .. 46
Ms. Yvette Pena Lopes, Legislative Representative, International Brotherhood of Teamsters 52

LETTERS, STATEMENTS, ETC., SUBMITTED FOR THE HEARING

The Honorable Brad Sherman, a Representative in Congress from the State of California, and Chairman, Subcommittee on Terrorism, Nonproliferation, and Trade: Prepared statement 3
Mr. Lou Dobbs: Prepared statement 10
The Honorable Carla A. Hills: Prepared statement 14
Ms. Thea Lee: Prepared statement 42
Mr. Scott N. Paul: Prepared statement 49
Ms. Yvette Pena Lopes: Prepared statement 55

APPENDIX

The Honorable Marcy Kaptur, a Representative in Congress from the State of Ohio: Prepared statement and submitted material 72

TRADE, FOREIGN POLICY AND THE AMERICAN WORKER

WEDNESDAY, MARCH 28, 2007

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON TERRORISM, NONPROLIFERATION,
AND TRADE,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m. in Room 2176, Rayburn House Office Building, Hon. Brad J. Sherman (chairman of the subcommittee) presiding.

Mr. SHERMAN. I am pleased to announce Mr. David Scott as vice chair of this subcommittee. And this appointment comes at an excellent time because I may be called away for votes at a Judiciary Committee markup, and so you may be chairing this committee for brief interludes.

Mr. SCOTT. I just want to say if I may speak a little out of turn here, thank you so very much for those wonderful words. I look forward to serving as your vice chair, and I want to thank both you and Chairman Tom Lantos for having that kind of confidence in me. Thank you very much.

Mr. SHERMAN. Thank you. The rules of the House vest in the Foreign Affairs Committee jurisdiction over measures to foster commercial intercourse with foreign nations and generally with international economic policy. Again, I want to commend Chairman Lantos for entrusting this subcommittee with that jurisdiction.

This is an opportune time to hold these hearings because at the end of this week the President basically loses his fast track authority. Congress must decide whether to restore that extraordinary power with or without new conditions.

Given the importance of this hearing, I see that we have been joined by two fine Members of Congress who are not members of the Foreign Affairs Committee, and they will be recognized for questions after we hear from the witnesses and after we hear from the questions of those who are members of the committee. With that, my distinguished ranking member, Mr. Royce from California, and myself will both give opening statements of 5 minutes. I will invite other members of the subcommittee to give brief opening statements, hopefully for about 2 minutes, and then we will have additional opening statements at the beginning of the second panel but our first two witnesses here have limited time so we will have limitations on opening statements. Without objection written opening statements will be made part of the record of this hearing.

We boomers grew up in the 1950s and 1960s expecting middle class living standards to get better every year yet as the first chart shows—if we can see it up there on the board—the last generation has seen only slight increases in income for middle class and working class families, and that increase in income has been accompanied by a massive increase in financial insecurity.

Economists tell us that as a country we are richer but that is only because they average in the extraordinary gains of the top 5 percent. A major element in the squeeze on the middle class, the insecurity of the middle class, what Mr. Dobbs calls the war on the middle class, is our trade deficit. As recently as the late 1980s our deficit looked trifling. It was reduced in part by Ronald Reagan demanding that Japanese auto companies have a substantial amount of U.S. value-added in the automobiles that they sold here.

Since then, we have moved in another direction. We have had NAFTA and MFN for China, and our trade deficit has exploded as shown in the chart behind me. We signed NAFTA at a time when we had a slight trade deficit with our immediate neighbors, and now that deficit has grown in just a bit over a decade. It has grown not by 10 percent or 20 percent or 100 percent but rather that deficit has grown by 1,000 percent.

Apologists for failure put forward some interesting excuses. The first is that it is the fault of the wages of American workers. That our workers are paid well. Yet our high wage friends in Europe and Canada do just fine when it comes to exporting. In the chart that should now be on the screens on each side of the room, we see that Europe and Canada export a very large percentage and an increasing percentage of their GDP. The next chart will illustrate how the European Union is able to export substantially more of its GDP than we do, increasing over the last decade the share of its GDP that it exports by roughly a third.

Our trade policies of opening up our market wide have been accompanied by no increase in our imports as a percentage of our GDP. While others increase the percentage of their GDP that they export, we do not. We are told that the fault is that America is a great place to invest, and so we have to deal with trade deficits that result, yet China, we are told, is a great place to invest and China has huge trade surpluses.

We are told that the trade deficit is not the fault of our trade policies but an outgrowth of the U.S. budget deficit. But we had substantial declines of our budget deficits. As a matter of fact we had budget surpluses in the late 1990s and massive increases, as shown in the chart, at the same time in our trade deficit.

We are told that trade policy reduces poverty. Visit the Maquiladoras. We are told that nations with whom we have had strong trade relationships will support our broad foreign policy objectives, visit the U.N. and watch China when it comes to Sudan and Iran. We are told that we now have the largest trade deficit in history, and the solution is more of the same. But the definition of insanity is to keep doing what you have been doing and expect a different result.

And we are told that a President who has strained his powers to the most extreme interpretations should be given even more extraordinary authority. I think we need to think again. I think we

need to learn from the wisdom of Ronald and Nancy Reagan. Ronald Reagan who bargained tough on automobile parts and value-added and Nancy Reagan who must have been thinking of fast track when she announced just say no. With that, let me yield to the gentleman from California, the distinguished ranking member.

[The prepared statement of Mr. Sherman follows:]

PREPARED STATEMENT OF THE HONORABLE BRAD SHERMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND CHAIRMAN, SUBCOMMITTEE ON TERRORISM, NONPROLIFERATION, AND TRADE

THE END OF BALANCED TRADE

For the first three decades after the Second World War, the United States dominated multiple export markets. Several factors provided us with a robust competitive advantage, including: a strong industrial base and dramatic advances in technology and manufacturing techniques.[1]

During the Nixon administration, the U.S. dramatically changed its trade policy with the implementation of Fast Track. Before this, we had a rising standard of living and balanced trade.[2] It is under the trade promotion authority given by Fast Track that the United States has entered into the largest trade imbalance in our history, and last year the federal trade deficit for goods and services hit $764 billion.

DEFICITS OF THE LATE 70S AND EARLY 80S

The comparatively small trade deficits of the late 1970s grew dramatically in the early 80s, reaching a then-mammoth $145 billion.

Paul Craig Roberts, former Assistant Secretary of the Treasury for Economic Policy during the Reagan administration, credited this deficit mainly to the energy crisis and the need to import larger quantities of foreign oil.[3]

Interestingly, the Reagan administration also penalized the anti-competitive tariff rates of our trade competitors, most notably the Japanese, by raising barriers to entry. The Japanese response was clear: direct investment in the U.S. manufacturing sector in the hopes of gaining access to the American market.[4]

NAFTA

With the end of the Cold War, the world changed, and our trade policy went in a dramatic new direction.

The 1998 Fast Track re-authorization gave the administration of President George Herbert Walker Bush the authority to negotiate NAFTA.

Supporters of the NAFTA model castigated their critics as being anti-trade and overly protectionist, while defending the plan in part on a strong belief that as the United States opened its markets other countries would follow our lead.

More than a decade later, despite the best of intentions by both sides of the issue, we no longer need wonder about the impact of the NAFTA trade model. The numbers are in.

Paralleling the impact of Fast Track, the U.S. has posted a trade deficit with Canada and Mexico every year since the enactment of NAFTA. In 2006, our trade deficit with other NAFTA signatories reached $137 billion.[5]

Rising deficits are not the entire story. During what I call the "NAFTA Era" the United States lost approximately 3 million manufacturing jobs. By the end of 2006, the United States had only 14 million manufacturing jobs left.[6]

CHINA

In the footsteps of NAFTA came the permanent normal trade relations with Communist China.

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[1] U.S. State Department, *An Outline of the U.S. Economy* Chapter 10, "Foreign Trade and Global Economic Policies," February 2001.

[2] Lori Wallach, Statement to House Ways and Means Committee Hearing on Trade and Globalization, January 30, 2007.

[3] Paul Craig Roberts, *Washington Times*, "Trading Away Our Living Standards," January 14, 2002.

[4] Lou Dobbs, *Exporting America*, p. 68–69, 2004.

[5] Department of Commerce, Office of Trade and Industry (OTII), Manufacturing and Services, International Trade Administration, U.S., accessed March 2007.

[6] L. Josh Bivens, *Trade Deficits and Manufacturing Job Loss: Correlation and Causality*, Economic Policy Briefing Paper 171, March 14, 2006.

The results go far beyond a $230 billion trade deficit, the offshoring of jobs, manufacturing facilities, and entire industries.[7]

Today, there is a clear arrangement between the United States and China. China helps finance our trade deficit by buying up our Treasury bonds. And, in 2006, China's dollar reserves exceeded $1 trillion.[8]

China further pegs its currency to the dollar to artificially lower the value of the Yuan, giving them an unfair advantage in exporting even more goods to the United States, while Americans continue to spend themselves into greater foreign held debt, as they buy up products produced with cheap overseas labor.

Since 1999, we have borrowed more than $3 trillion to pay for these imported goods.[9]

In the words of the Nobel Prize winning economist, Joseph Stiglitz, "These imbalances simply can't go on forever." [10]

EXPORTS

The U.S. trade deficit is now 6 times what it was just 20 years ago. In 2006, our imports were equal to the entire GDP of Russia and India combined.[11]

The problem becomes even more apparent when we focus on U.S. exports, particularly when compared to other developed nations.

As a percentage of GDP, Germany, Canada, France, and the UK are all exporting at a rate that crushes the United States.

Germany's exports are five times those of the U.S. as a percentage of its economy.

Canada, France, and the UK all export triple what we do, as a percentage of GDP.[12]

When we compare the United States to the European Union, the same trend emerges.

The European Union is finding new markets for its products, while, on the whole the United States is not.[13]

In the words of one Washington Times editorial—not the strictest critic of our current administration mind you—the United States, "has the export profile of a 19th century Third World economy." [14]

"No other country has the depth and breadth of our capital markets, political stability, rule of law protecting contracts and property rights, strong currency, and accumulation of scientific and technological knowledge that makes the U.S. the high tech leader.[15] "

However, our chief exports are not value-added high tech goods. They are scrap metal, waste paper, cigarettes, rice, cotton, coal, meat, wheat, gold, soybeans, and corn.[16]

The critical assumption of our current trade policy is that significant new markets are being opened up to U.S. goods and services. This is not the case.

Europe, Japan, and China all maintain stronger protectionist policies than the United States.[17]

Economic theory does not change this stark reality.

OTHER FREE TRADE AGREEMENTS

Rather than aggressively pursuing greater market access with our principal trading partners, the Bush administration has negotiated a series of small Free Trade Agreements with relatively minor economies.

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[7] U.S. Census Bureau, www.census.gov, accessed March 2007.

[8] Joseph Stiglitz, *New York Times*. "How to Fix the Global Economy," October 3, 2006.

[9] Paul Krugman, *New York Times*, "Trade Deficit" April 24, 2006.

[10] Joseph Stiglitz, *New York Times*. "How to Fix the Global Economy," October 3, 2006.

[11] Dick K. Nanto, *Congressional Research Service Memorandum*, "Background for Committee Hearing on Trade, Foreign Policy and the American Worker," March 2007.

[12] CIA—The World Fact Book; Tradestats Express-National Trade Data,IMF WTO, accessed March 2007.

[13] CIA—The World Fact Book; Tradestats Express-National Trade Data,IMF WTO, accessed March 2007.

[14] Paul Craig Roberts, *Washington Times*, "Trading away our living standards," February 14, 2004.

[15] Paul Craig Roberts, *Washington Times*, "Trading away our living standards," February 14, 2004.

[16] Paul Craig Roberts, *Washington Times*, "Trading away our living standards," February 14, 2004.

[17] Zbignew Brezinski, *New York Times*, "The Wong Way to Sell Democracy to the Arab World," March 2004.

We have entered into agreements with Jordan, Singapore, Chile, Australia, Morocco, Bahrain, Guatemala, El Salvador, and Honduras.[18]

None of these countries are among our top 10 export markets.[19]

In fact, the combined GDP of the four CAFTA countries that have already enacted the agreement is less than that of the town of Greenwich, Connecticut.

SEPTEMBER 11TH AND THE WAR ON TERRORISM

Following the terrorist attacks on September 11th, we were all told that the world had changed.

Then U.S. Trade Representative Zoellick publicly backed the use of American trade policy as a vital tool in War on Terrorism.[20]

The change that many of us hoped to see never materialized.

Rather than following the example of the Treasury Department, which did develop new tools that have made a substantial difference in efforts to economically cripple terrorist organizations, the USTR used the War on Terrorism to justify business as usual.

The world may have changed after September 11th, but the USTR did not change with it.

Instead, the Nixon Era trade model was treated as a sacred cow.

We are so afraid of disrupting this model and our precious trading relationships that our State Department has failed to sanction a single firm for violating the Iran Sanctions Act (formerly "ILSA"), despite billions of dollars in Western investment flowing into Iran. For ten years we have sacrificed our vital national interest, stopping Iran's drive for nuclear weapons and its support for terrorism, to the alter of so-called free trade.

Instead, when I open the papers, this is what I find:

> This is what Tom Donohue, President of the Chamber of Commerce, had to say about Chairman Lantos' leadership on strengthening sanctions against state sponsors of terror:
>
> > "The sanctions effort is misguided. We should let natural market forces work while sending strong signals about the issue of nuclear weapons."[21]

It appears that we are living under the delusion that market forces alone will some how stop radical governments or terrorist groups from carrying out murder on an unthinkable scale. This is a delusion we can no longer ignore.

Despite honorable intentions, the current fast track model has failed on several fronts. It has failed to raise the standard of living for America's middle class; it has failed to gain the necessary market access for our exports; and it has failed to adapt itself to the new security priorities of the 21st Century.

Congress can no longer afford to abdicate its Constitutional obligation to conduct meaningful oversight and direction of our foreign trade policy, and it is my hope that members of this committee and the other members of Congress take these realities seriously and demand a radical new direction in trade policy.

Mr. ROYCE. I thank you very much, Mr. Chairman. We have distinguished witnesses here today. On our first panel Ambassador Carla Hills who has served our country well opening up markets for our producers, and Mr. Dobbs does powerful reporting, and I want to commend in particular his documentation of our failed immigration system, and the danger of guest worker proposals.

There is in my mind a big difference between the free flow of goods and the illegal flow of labor of people across our borders, and one of the issues that I know the open borders lobby does not agree on but one of the issues that is the consequences of that very real difference, and this next week well we have just had the introduction of legislation that will basically expand radically through an

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[18] *Congressional Research Service, Memorandum*: "Background for Committee Hearing on Trade, Foreign Policy and the American Worker," March 2007.

[19] Dick K. Nanto, *Congressional Research Service Report for Congress*, "U.S. International Trade: Trends and Forecasts," February 2007.

[20] Robert Zoellick, *Washington Post*, "Countering Terror with Trade," September 20, 2001.

[21] Ian Swanson, *The Hill*, "Congress tries to tighten the screws on Tehran," March 23, 2007

amnesty this principal that the open borders lobby believes that, not just the free flow of goods but also the free flow of people.

As Mr. Dobbs has documented, our borders are out of control, and proposed amnesty plans will dramatically worsen the situation, and I also agree with him that U.S. corporate interests are not always synonymous with the interests of American workers or with the interests of U.S. national security. So I look forward to hearing from our witnesses, but I hope that Mr. Dobbs will comment today also on this issue that I have raised because I think this bill with this amnesty proposal and massive guest worker expansion will have the consequences now that we have seen that 1 billion people in the world, according to polling, want to come to the United States. One billion people want to come here.

Primarily the illegal immigration flows we are seeing are people that are without the skills that would really reward them with a higher income. It is unskilled labor. So the families that are coming that do not have the job skills and are drawing government services will end up those households on average costing $30,000 a year. It seems to me that the income that I have seen to the government in the studies that I have looked at is $9,000 a year.

We have a national debt in the United States that is sizable. We have a problem with Social Security. We have a problem with Medicare in terms of the funding, and so now we are looking at a policy that treats as though its trade policy the open migration of people who have been coming illegally and through this amnesty, and subsequently they will be rewarded for breaking the law. So I hope that issue is addressed.

On the issue of market access in California, my home State, nearly 60,000 companies export goods, and California is particularly heavy in agriculture. So we have got 1 million American farm jobs that are tied now to exports. We have to get this right. We have got to ensure better access overseas to our products getting into those markets. The deficit that I mentioned I think is a real concern because as I mentioned we are now $9 trillion in debt as a country, and we will hear today how the Federal deficit hurts our trading position and the economy, and subsidies are a part of growing that deficit.

When you look at things like agricultural subsidies in the United States, there are over $20 billion in agricultural subsidies every year, most of which go to corporations. These subsidies are a roadblock to opening foreign markets. So again I look forward to hearing from our witnesses. So I will yield the balance of my time right now but I again thank them very much for appearing here today.

Mr. SHERMAN. Let me now recognize the distinguished vice chair of this subcommittee, the gentleman from Georgia.

Mr. SCOTT. Thank you very much, Mr. Chairman, and I too want to extend our appreciation to both of our distinguished panelists, both Mr. Dobbs and Ambassador Hills, and I might mention, Mr. Lou Dobbs, you are a fine alumni from Harvard University, and it is a great school. I quickly want to say, however, that I am a graduate of the Wharton School, and of course, as you know, Harvard and Wharton have great competition, but I think you will agree that of course Wharton is the finest business school.

But with that, I come with an understanding and I understand the view of many economists and trade policy experts who feel that labor is a commodity to be traded like any other but those who view labor only in the abstract sense fail to comprehend the very real, very human face of our nation's offshore sourcing problem, and you have done a commendable job to show the great tragedy of the outsourcing of jobs and the impact that that has on the middle class and the numerous specials that you have done on CNN, and I want to congratulate you for that.

And especially the negative aspect of the loss of jobs, and such American industries and name brands like Levis now who have closed the last Levi plant. We depend so much now on the clothes we wear, the automobiles we buy, all of those products even right down to the dollar stores based upon a very warped trade policy that has yielded a very, very negative result as it applies to our own economy.

Industry after industry has fled our country to other countries, and namely because of their lax wage and labor standards, and what a cruel blow this is especially to our labor unions and the labor movement who historically have provided the very anchor, the very reason why America has the highest quality of life, has been because of the advances spurred in our economy by the labor movement itself, and we work hard to protect that.

The other area that concerns me and one of which you touched as well is on the foreign debt. If you look through history and you look at the fall of many great nations and civilizations, there are certain characteristics that jump out at you. One is dwindling resources at home, which we are having with our oil and petroleum and the dependence of that. A failure to protect our borders, which is happening. And most egregiously ballooning debt, and our debt is so magnified even greater because of the extraordinary amount of debt in the hands of foreign governments and foreign nations.

The great tragedy is that in these last 5 years this nation and not just the President, we in Congress have acquiesced, we have borrowed more money from foreign governments and foreign nations in the last 5 years than all of the preceding administrations have done since 1789. That is a tragedy of soaring magnitude which must be addressed, and just the interest we are paying on that is the fastest growing part of our budget, and the other travesty is that the borrowing is coming from those nations that not too long ago were our enemies and could very well be our enemies again, China and then some of the unstable areas of the OPEC regions.

This is an important hearing, and we have some very important issues to examine in terms of our debt, in terms of our trade policies. I thank the chairman for pulling this together. I look forward to each of your testimonies, and thank you very much.

Mr. SHERMAN. The gentleman from Illinois, Mr. Manzullo.

Mr. MANZULLO. I came to hear the witnesses. I would like my statement to be part of the record. Thank you.

Mr. SHERMAN. Without objection. And the gentleman from Colorado.

Mr. TANCREDO. No statement.

Mr. SHERMAN. Thank you. Our first witness is Mr. Lou Dobbs. He is Managing Editor and Anchor of CNN's Lou Dobbs Tonight, and has won nearly every major award for television journalism. In 2005, the National Academy of Television, Arts and Sciences awarded Mr. Dobbs the Emmy for lifetime achievement. The prior year, the Academy presented him with an Emmy for his series Exporting America.

He is the author of the best-selling books, *War on the Middle Class* and *Exporting America*. He is a graduate of Harvard University, as Mr. Scott pointed out, with a degree in economics. Mr. Dobbs.

STATEMENT OF MR. LOU DOBBS, ANCHOR AND MANAGING EDITOR, CNN'S "LOU DOBBS TONIGHT"

Mr. DOBBS. Thank you very much, Mr. Chairman. Can you hear me?

Mr. SHERMAN. Yes.

Mr. DOBBS. It is an old habit checking the technology. I am absolutely delighted at your invitation. I thank you very much. I thank you all for the kind words. Ambassador Hills, it is great to see you again, and I have great respect for you, and I am delighted to be sitting here with you.

The United States has sustained 31 consecutive years of trade deficits. Those deficits have reached successively higher records in each of the past 5 years. The U.S. trade deficit has in fact more than doubled since President George W. Bush took office. The U.S. trade deficit has been a drag on our economic growth in 18 of the 24 quarters of George W. Bush's presidency, 18 of his 24 quarters.

Our current account deficit in 2006 reached almost $857 billion. That is also a new record. It now represents 6½ percent of our GDP. Since 1994, the first full year in which the North American Free Trade Agreement was in effect, the United States has accumulated more than $5 trillion in external or trade debt.

The United States has been a debtor nation for almost three decades now, and with our trade debt now rising at a faster rate than our national debt, as Congressman Scott pointed out which has reached $9 trillion, the United States could be consigned to debtor nation status in perpetuity. That is, unless the United States Government adopts a pragmatic and responsible new direction in its fiscal and trade policies.

Congress is being called upon this year to renew fast track authority, and the Bush administration as it did 5 years ago is insisting that Congress continue to cede its constitutional power and responsibility of trade policymaking and to renew so-called fast track trade promotional authority which diminishes Congressional prerogative and reduces representation of domestic interest in the same of so-called free trade.

As I have already pointed out, free trade has been the most expensive trade policy this nation has ever pursued. There is absolutely nothing free about ever larger trade deficits, mounting trade debts and the loss of millions of good paying American jobs. Since the beginning of this new century, the United States has lost more than 3 million manufacturing jobs.

Three million more jobs have been lost to cheap overseas labor markets in the name of outsourcing, as corporate America campaigns relentlessly for what it calls higher productivity, efficiency and competitiveness. All three words have been revealed to mean nothing more than they are code words, code words for the cheapest possible labor in the world.

Corporate America and our country's political elites have combined to put this country's middle class, working men and women, into direct competition with the world's cheapest labor. Salaries and wages now represent the lowest share of our national income than at any time since 1929. Corporate profits now have the largest share of our national income than at any time since 1950.

The pursuit of so-called free trade has resulted in the opening of the world's richest consumer market to foreign competitors without negotiating a reciprocal opening of world markets for U.S. goods and services. That is not free trade by any definition, whether that of classical economists like Adam Smith and David Richardo or that of current propaganda ministers who use the almost Orwellian term of free trade to promote continuation of trade policies followed for the past three decades.

How important is it that we reverse the course of these shortsighted and destructive policies? More than 6 years ago the Board of Governors of the Federal Reserve had this to say about what happens when trade deficits exceed 5 percent of GDP: "We find that a typical current account reversal begins when the current account deficit is about 5 percent of GDP." Again, our current account deficit is now 6½ percent of GDP.

The authors of the study went on to say, "In general, these episodes involve a declining net international investment position that levels off but does not reverse a few years after the current account begins its recovery." It is important to note, I believe, that no recovery is underway and that most importantly the United States last year suffered negative investment flows.

The cumulative effect of more than three decades of trade deficits and mounting external debt has produced our first investment income deficit on record. This is the first time that Americans have earned less on investments abroad than foreigners earned on their investments in the United States since 1946, and that was the year the Commerce Department began keeping such records.

Amazingly even our own top trade officials admit U.S. free trade policies are not working unless they consider trade surpluses for our trading partners to be the objective of U.S. trade policy. U.S. Trade Representative, Susan Schwab, appears to understand the consequences of the past few administrations' free trade policies but she has shown little willingness to shift that policy.

Ambassador Schwab said, "Our trade deficits are too high. We cannot pretend that the trade imbalance can just keep getting bigger with no cost," and Ambassador Schwab's Deputy Trade Representative, Karen Bhatia, said outright, "From Chile to Singapore to Mexico, the history of our free trade agreements is that bilateral trade surpluses of our trading partners go up."

Because I seek balance and reciprocity of our trade policies, I have been called a table thumping protectionist, and the Bush administration has hurled at me its favorite public epithet, at least

in terms of economic policy, calling me an economic isolationist. Nothing could be farther from the truth. I believe, as I hope you and the majority of all members of this Congress believe, irrespective of your political party, in the importance of an international system of trade and finance that is orderly predictive, well regulated, mutual and fair.

Reciprocity does not in any way connote protectionism. Mutuality does not in any way connote economic isolationism. But both terms when applied to our trade policy require a pragmatism and a commitment to the domestic and national interests of this country in all international agreements, and I believe, as I hope you do, that no international agreement of any kind should ever again be signed by this government without clear, honest understanding of the potentially awesome impact that such agreements have on the lives of our working men and women, our environment, and the quality of life.

I salute and commend you, Mr. Chairman, and this committee for beginning the process of achieving that understanding, and for the first time in a very long time I am encouraged that this branch of our Government is looking upon the United States first as a nation, and secondarily as an economy. It is choosing to represent Americans first as citizens rather than as consumers or units of labor.

You have my thanks. I appreciate the opportunity to speak before you. I wish you all the best at what I hope becomes a turning point in our great country's history. Thank you.

[The prepared statement of Mr. Dobbs follows:]

PREPARED STATEMENT OF MR. LOU DOBBS, ANCHOR AND MANAGING EDITOR, CNN'S "LOU DOBBS TONIGHT"

THERE'S NOTHING FREE ABOUT FREE TRADE

The United States has sustained 31 consecutive years of trade deficits, and those deficits have reached successively higher records in each of the past five years. The trade deficit has more than doubled since President George W. Bush took office. The U.S. trade deficit has been a drag on our economic growth in 18 of the 24 quarters of George W. Bush's presidency.

The current account deficit in 2006 reached almost $857 billion, also a new record, and now represents 6.5 percent of our total GDP. Since 1994, the first full year in which the North American Free Trade Agreement was in effect, the United States has accumulated more than $5 trillion in external or trade debt.

The United States has been a debtor nation for almost three decades now, and with our trade debt now rising at a faster rate than the national debt, the United States could be consigned to international debtor status in perpetuity. That is, unless the U.S. government adopts a pragmatic and responsible new direction in its fiscal and trade policies.

Congress is being called upon this year to renew fast-track authority, and the Bush administration, as it did five years ago, is insisting that Congress continue to cede its Constitutional power and responsibility of trade policymaking and to renew so-called "fast-track" trade promotional authority, which diminishes Congressional prerogative and reduces representation of domestic interest in the name of so-called "free trade."

As I've already pointed out, free trade has been the most expensive trade policy this nation has ever pursued. There is nothing free about ever-larger trade deficits, mounting trade debts and the loss of millions of good-paying American jobs.

Since the beginning of this new century, the United States has lost more than three million manufacturing jobs. Three million more jobs have been lost to cheap overseas labor markets as corporate America campaigns relentlessly for "higher productivity, "efficiency," and "competitiveness," all of which have been revealed to be nothing more than code words for the cheapest possible labor in the world.

Corporate America and our country's political elites have combined to put this country's middle-class working men and women into direct competition with the world's cheapest labor. Salaries and wages now represent the lowest share of our national income than any time since 1929. Corporate profits have the largest share of our national income than at any time since 1950.

The pursuit of so-called free trade has resulted in the opening of the world's richest consumer market to foreign competitors without negotiating a reciprocal opening of world markets for U.S. goods and services. That isn't free trade by any definition, whether that of classical economists like Adam Smith and David Ricardo or that of current propaganda ministers who use the almost Orwellian term to promote continuation of the trade policies followed for the last three decades.

How important is it that we reverse the course of these short-sighted and destructive policies? More than six years ago, the Board of Governors of the Federal Reserve System had this to say about what happens when trade deficits exceed 5 percent of GDP: "We find that a typical current account reversal begins when the current account deficit is about 5 percent of GDP." Again, our current account deficit now represents 6.5 percent of GDP. The authors of the study go on to say: "In general, these episodes involve a declining net international investment position that levels off, but does not reverse, a few years after the current account begins its recovery."

It is important to note that no recovery is underway, and that most importantly, the United States last year suffered negative investment flows. The cumulative effect of more than three decades of trade deficits and mounting external debt has produced our first investment income deficit on record. This is the first time that Americans have earned less on investments abroad than foreigners earned on their investments in the United States since 1946, when the Commerce Department began keeping records.

Amazingly, even our own top trade officials admit that U.S. free trade policies aren't working, unless they consider trade surpluses for our trading partners to be the objective of U.S. trade policy.

U.S. Trade Representative Susan Schwab appears to understand the consequences of the past few administrations' free trade policies, but she's shown little willingness to shift that policy. Schwab said, ". . . Our trade deficits are too high. We can't . . . pretend that the trade imbalance can just keep getting bigger with no cost."

And Ambassador Schwab's Deputy Trade Representative, Karan Bhatia, said outright, "From Chile to Singapore to Mexico, the history of our [Free Trade Agreements] is that bilateral trade surpluses of our trading partners go up."

Because I seek balance and reciprocity in our trade policies, I've been called a "table-thumping protectionist," and the Bush administration has hurled at me its favorite public epithet, "economic isolationist." Nothing could be farther from the truth. I believe, as I hope you and the majority of all members of this Congress believe, irrespective of your political party, in the importance of an international system of trade and finance that is orderly, predictive, well-regulated, mutual and fair.

Reciprocity does not in any way connote protectionism. Mutuality does not in way connote economic isolationism. But both terms when applied to our trade policy require a pragmatism and a commitment to the domestic and national interests of this country in all international agreements. And I believe, as I hope you do, that no international agreement of any kind should ever again be signed by this government without clear, honest understanding of the potentially awesome impact that such agreements have on the lives of our working men and women, our environment, and our quality of life.

I salute and commend you, Mr. Chairman, and this committee for beginning the process of achieving that understanding, and for the first time in a very long time, I am encouraged that this branch of our government is looking upon the United States first as a nation and secondarily as an economy, and is choosing to represent Americans first as citizens, rather than consumers or units of labor.

You have my thanks, and I appreciate the opportunity to speak before you. I wish you all the best in what I hope becomes a turning point in our great country's history.

Mr. SHERMAN. Mr. Dobbs, thank you for your remarks, and thank you for coming here a long distance, and most importantly thank you for your show which illuminates these issues for Americans every evening.

Next I welcome the Honorable Carla Hills, chair and chief executive officer of Hills & Company International Consultants. Ambassador Hills served as U.S. Trade Representative under President

George H. W. Bush. During the Ford administration, she served as Secretary of the Department of Housing and Urban Development, and in that role she was the third woman in our history to hold a cabinet position. Ambassador Hills, thank you for joining us.

STATEMENT OF THE HONORABLE CARLA A. HILLS, CHAIR AND CEO, HILLS & COMPANY, FORMER UNITED STATES TRADE REPRESENTATIVE

Ambassador HILLS. Thank you, Mr. Chairman, and members of the subcommittee. I thank you for inviting me to say a few words about trade, foreign policy and the American worker. For more than 50 years under both Democratic and Republican administrations, the United States has led the world in opening global markets. World trade has exploded, and standards of living have soared at home and abroad. Economist Gary Hufbauer, in a study published in 2005 by the Peterson Institute for International Economics, calculates that the 50 years of opening global markets has made the United States richer by $1 trillion per year, making the average U.S. household $9,000 richer per year.

Dr. Hufbauer's study calculates that going forward open global markets could raise U.S. income by another $500 billion per year, making average households richer by an additional $4,500 a year. No other policy decision could come close to having such a positive impact on the United States' economic well-being.

Developing countries have also gained from the opening of global markets. On average poor countries that have opened their markets have grown nearly five times faster than those who have kept their markets closed. World Bank studies show that economic interdependence has raised some 375 million people out of poverty over the past two decades.

A broad agreement in the Doha Round could further integrate poor countries into the global trading system and has the potential of raising an additional 500 million people out of poverty. Also, a strong multilateral agreement would strengthen failing states that make it more difficult for our Government to deal effectively with problems such as terrorism and proliferation of weapons of mass destruction.

For example, three World Trade Organization members—Bangladesh, Pakistan and Indonesia—each have 100 million people living in dire poverty. Six African members add another 200 million persons in poverty. All are located in regions of instability. Dr. Cline calculates that on average a 1 percent increase in a country's ratio of trade translates to a 1 percent decrease in poverty.

On foreign policy, our nation has broad interests—economic, strategic, and military—that shape our foreign policy. Not all are of equal importance, and those that rank high cannot always be pressed at the same time. Trade is one of our interests that must be balanced against our other interests. At times trade can help achieve our other objectives. We have used trade sanctions against state sponsors of terrorism and states that seek to acquire nuclear weapons. Nations with whom we have a strong trading relationship usually are more supportive of our broad policy goals than others.

Today our trade deficit is large and not sustainable over the long-term, but it is hard to conclude that it hinders our foreign pol-

icy objectives. The three best ways to reduce our trade deficit are: First, open foreign markets through trade negotiations so we have more opportunities to export; second, increase domestic savings particularly by reducing the Federal budget deficit; and third, encourage flexible exchange rates.

It is interesting to note that nations with whom we do have free trade agreements account for almost half our exports. Over 80 percent of our trade deficit is with nations with whom we do not have a free trade agreement.

The American worker has benefitted from our open trade policy. The average family incomes are higher per year as a result of steady opening of global markets. But it is true that technology has transformed the manufacturing sector in the last decade, enabling 22 percent fewer workers to produce 30 percent more goods.

Rapid transformation of our work force has made our economy one of the most dynamic in the world with historically low unemployment, but this rapid change has fueled high job anxiety. Studies, again at the Peterson Institute, that calculate a $1 trillion yearly gain for the U.S. economy from past market openings also calculate that the lifetime costs of worker displacement to be roughly $50 billion a year. Currently our nation spends about $2 billion annually to address directly the costs connected with displacement.

In my view to maintain public support for open markets which generate growth for our economy, we need to allocate more of the gains derived from trade to assist those who are displaced, whether from foreign competition or from technology. Wage insurance is one way to supplement the income of a displaced worker who takes an entry level job in a new sector. Such a program encourages the worker to stay in the work force thereby reducing the outlays for unemployment insurance while providing the most effective job training possible, and that is training on a real job.

There is a wage insurance component in our trade adjustment assistance program but it does not cover service workers who comprise 80 percent of our work force, and it only covers workers who are 50 years or older. And it has a $10,000 cap. Also subsidizing a portion of the workers' health insurance premiums would help relieve anxiety.

Studies again by the Peterson Institute estimate that the cost of expanding both trade adjustment assistance and health care tax program to cover displaced workers to be between $3 billion and $12 billion a year, depending on the breadth of coverage and the amount of benefits.

Finally, I believe more attention needs to be given to education and skill building. In our rapidly changing world, it is not acceptable that 30 percent of our high school students fail to graduate. For years Washington has given tax incentives to encourage capital investment. To keep our nation competitive, policymakers must find an effective way to encourage similar investment in human capital.

Trade promotion authority permits our Government to negotiate agreements to continue to level the playing field. Looking at the 14 regional and bilateral trade agreements that the United States has negotiated, except for Australia and Canada, all 12 of those nations

before negotiations began had substantially duty free access to our market through our various preference programs. Regarding those agreements awaiting Congressional approval, Colombia has 90 percent free access to our market, Panama has 95 percent, and Peru has 98 percent. In all three cases, our producers face substantial trade restrictions in those three markets. When these agreements are approved, our producers and workers will gain more export opportunity. In addition these trade agreements will encourage rule of law, respect for property and transparency.

In conclusion, I believe we need to stay focused on three goals: First, to work hard to get global markets opened to create opportunities that will raise standards of living worldwide and here at home; secondly to educate and train American workers to be the very best in the world; and finally to develop programs to assist our work force cope more effectively with rapid change, and progress in those three areas will guarantee a strong, confident, and prosperous America. And thank you.

[The prepared statement of Ms. Hills follows:]

PREPARED STATEMENT OF THE HONORABLE CARLA A. HILLS, CHAIR AND CEO, HILLS & COMPANY, FORMER UNITED STATES TRADE REPRESENTATIVE

Mr. Chairman and members of the Subcommittee, I am pleased to join you today to discuss how our trade policy substantially advances our nation's economic, security, and strategic interests worldwide.

U.S. Trade Policy of Opening Markets Boosts Economic Growth

For more than 50 years, under both Democratic and Republic administrations, the United States has led the world in opening global markets. To that end, the United States worked to establish a series of international organizations, including the General Agreement on Tariffs and Trade (GATT) in 1947 and the World Trade Organization (WTO) in 1995. In 1947, only 23 nations participated in the first round of trade negotiations. Today, 150 nations are participating in the ninth round, the Doha Round.

Our experience proves that increased economic interdependence boosts economic growth and encourages political stability. The results to date have been spectacular. World trade has exploded and standards of living have soared at home and abroad. Economist Gary Hufbauer in a comprehensive study published in 2005 by the Institute for International Economics, now the Peterson Institute for International Economics, calculates that 50 years of globalization, defined as the free flow of goods, services, capital, and ideas, has made the United States richer by $1 trillion per year or about $9,000 added wealth per year for the average U.S. household. Dr. Hufbauer's studies calculate that, going forward, open global trade would raise U.S. income by $500 billion per year, making the average U.S. household richer by an additional $4,500 per year. No other policy decision could come close to having such a positive impact on U.S. economic well-being.

U.S. Trade Policy of Opening Markets Reduces Poverty

Developing countries have also gained from the opening of global markets. On average, poor countries that have opened their markets to trade and investment have growth nearly five times faster than those that kept their markets closed. Studies conducted by the World Bank show that globalization has raised some 375 million people out of extreme poverty over the past 20 years.

A broad agreement in the Doha Round could further help to reduce global poverty by integrating poor nations into the global trading system. Today nearly three billion people, almost half the world's population, live below the international poverty line of $2 per day. According to studies by economist William Cline at the Center for Global Development, removing global trade barriers would yield $200 billion annually in long term economic benefits for poor countries and lift 500 million people out of poverty. About half the benefit would come from opening markets in agriculture goods, which account for roughly a quarter of poor countries' exports and represents the sector that employs roughly half their population.

Today, tariffs on agriculture goods are five times higher than tariffs on industrial goods, and it is the only sector where export subsidies and tariff rate quotas are

still permitted. A multilateral agreement dealing with agriculture barriers will maximize poverty alleviation for it will require commitments from all nations. Developing countries as a group have higher tariffs than industrial countries and trade disproportionately with other developing countries. Thus, a global trade agreement will best integrate poorer nations into the global trade system by maximizing opportunity for their people and stimulating their economic growth.

U.S. Trade Policy of Opening Markets Helps Strengthen Failing States

A strong multilateral agreement that reduced barriers to trade in agriculture and manufactured goods and opened up markets for services could help strengthen weak and failing states that jeopardize U.S. Security. Impoverished states often lack the ability to enforce their laws and secure their borders, making it much more difficult for the U.S. government to deal effectively with transnational problems such as terrorism, organized crime, narcotics trafficking, money laundering, illegal arms sales, disease pandemics, and environmental degradation.

William Cline's studies that I earlier mentioned meticulously map global poverty. Three WTO members—Bangladesh, Indonesia, and Pakistan—each have roughly 100 million people living below the international poverty line. Six African members—the Democratic Republic of the Congo, Kenya, Mozambique, Nigeria, Tanzania, and Uganda, together account for another 200 million people living in dire poverty. All are located in regions beset by instability. Dr. Cline calculates that on average a one percent increase in a country's ratio of trade to output eventually boosts its income by one-half percent, which translates into a one percent reduction in poverty and a concomitant increase in stability.

Relationship of Trade Policy to Foreign Policy

The United States has many interests, economic, strategic, and military, that need to be balanced. Not all issues in any one category are of equal importance in advancing our national interest. Even those that rank high cannot always be pressed effectively at the same time.

Business, labor, agricultural, environmental, human rights, ethnic, and religious groups vigorously compete for the attention of U.S. policy makers to move their issues to the top of the new global agenda. The input of concerned groups of citizens is a fundamental part of our democratic process, and it influences both the content and implementation of our nation's trade and foreign policy.

Ultimately it is the responsibility of the President and the members of his cabinet tasked with responsibilities for foreign affairs, security, finance, and trade working with Congress to develop a sound multi-dimensional policy that strikes a proper balance among our varied national interests—and is comprehensible—not only to other nations but to our own citizens.

Trade policy is by no means supreme or sacrosanct. It is one of the many interests that our government must weigh and balance along with our foreign policy and strategic objectives. At times trade can play a role in helping to achieve these objectives. For example, the United States has used economic and trade sanctions against state sponsors of terrorism, non-state terrorism and states that seek to acquire nuclear weapons. And, our government does not begin trade negotiations unless foreign policy and national security officials believe that a successful agreement will advance our nation's broad policy and strategic goals as well as its commercial interests. In this regard it is noteworthy that trade negotiations with Thailand were suspended after the coup. On the positive side, nations with whom we have a strong trading relationship are usually more supportive of our broad policy objectives than those with whom our trade is of minor importance.

Impact of Our Trade Deficit on Our Foreign Policy

It is hard to conclude that the U.S. trade deficit hinders our foreign policy objectives. The United States is the world's largest customer, which is more important to those that trade with us than our balance sheet. Having said that, there is no question but that as an economic proposition our trade deficit is too large to be sustained indefinitely, and we should look for ways to reduce it.

The three best ways to trim the trade deficit are (1) open foreign markets through trade negotiations; (2) increase domestic savings, particularly by reducing the federal budget deficit; and (3) encourage flexible exchange rates.

It is interesting to note that the nations with whom we have a free trade agreement account for almost half (44 percent) of our exports and about one third of our imports. The vast bulk of our trade deficit (in excess of 80 percent) is with nations with whom we do not have a free trade agreement.

Relationship of Trade Agreements to Anti-Terrorism and Weapons Proliferation

While trade agreements can help to create the resources to combat terrorism or weapons proliferation, there are other fora and policy tools to deal more directly with those challenges. Having said that, trade agreements that open markets encourage growth, help to alleviate poverty and encourage transparency, respect for property and rule of law that contribute to global stability, one antidote to terrorism.

I do not pretend to be an expert on proliferation, but it is interesting to note that the nations that have persistently tried to acquire nuclear weapons were for the most part nations that when they set their nuclear acquisition program in motion did not have a big stake in international trade or investment. I have reference to India, Iraq Iran, Pakistan, Libya, and North Korea. It is also interesting to note that all of the nations that were successfully persuaded by the United States to refrain from acquiring nuclear weapons had a substantial stake in the global economy. I have reference to Brazil, South Africa, South Korea, and Taiwan.

The Impact of U.S. Trade Policy on the American Worker

As I noted earlier, trade through open markets over the past half century has increased average family incomes by close to $10,000 per year. American workers would be worse off had we failed to open global markets over the past half century.

By opening global markets, our trade agreements create new opportunities for our services, farm and factory producers to increase their exports. The U.S. economy suffers when exports lag. In addition, firms engaged in international trade on average pay better wages, expand faster, and have more stable employment than those that do not. Thus having more U.S. firms engaged in trade benefits American workers.

We have seen a steady shift of jobs from the manufacturing sector to the services sector over the past four decades. Helped by faster and cheaper transportation and communications, manufacturing enterprises have transformed themselves from being vertically integrated to more fragmented enterprises—sourcing components from around the world.

U.S. manufacturers are significant investors overseas. At the same time foreign companies have invested here, creating more than 6 million jobs and contributing exports of more than $160 billion. In fact, globalization of production has caused our manufacturing productivity to soar, and with it our overall standard of living.

In the last decade alone, output by manufacturing enterprises has jumped 30 percent, with 22 million fewer workers. According to Alliance Capital Management, job losses in manufacturing are not peculiar to the U.S. The losses have been global. Over the past 10 years, Japan's manufacturing employment has dropped by 16 percent; China's by 15, Brazil's by 20, and the U.S. by 11.

Studies document that trade has played a very small part in this transformation of employment in the United States; notwithstanding that trade agreements are often portrayed as the enemy of the American worker. The real driver has been technology—cheaper and faster communication and transportation.

Technology has eliminated some jobs, for example by substituting ATMs for bank tellers, computers for dictation, and robotics for manpower on assembly lines while creating others like computer engineers. Technology has also created jobs like computer engineers and programmers. Of the 20 occupations the Bureau of Labor Statistics projects to grow the fastest to 2010, ten are IT related. The top five are all IT related. Most of these jobs did not exist a decade ago.

This continuing transformation of work force has made our economy one of the most dynamic in the world. U.S. unemployment at 4.5 percent is low by historic standards. According to the Bureau of Labor Statistics, more jobs were created on average than lost every year in the past decade. Between 1992 and 2004, on average 32.5 million jobs were created each year whereas on average 30.8 million jobs were lost each year.

These unemployment figures must be read in light of our remarkably flexible labor market. It is that flexibility that makes the U.S. economy so productive. But it takes a toll on our workers. On average one of five Americans gain or lose a job each year. American workers change jobs more often than workers in most Western countries and often when they do, even with reemployment, they suffer earnings losses. This churn in our labor market fuels high worker anxiety and can create hardship. Today we are suffering from very high worker anxiety.

The studies at the Peterson Institute for International Economics that calculate gains for the U.S. economy of $1 trillion per year from past market openings and additional gains of $500 billion per year from new market openings also calculate the lifetime costs of worker displacement to be roughly $50 billion per year. Cur-

rently the nation spends about $2 billion annually to address directly the costs connected to displacement.

To maintain public support for open trade that advances our nation's economic and strategic interests, and significantly improves the well being of average Americans, our nation needs to allocate more of the gains derived from trade to assist those who are dislocated whether from trade or technology.

Wage insurance is one way to supplement the income of the displaced worker who takes an entry-level job in a new, more promising sector. Such a program encourages the worker to stay in the workforce, thus reducing the outlays for unemployment insurance, while providing the most effective job training possible, which is training on a real job.

There is a wage insurance component in our Trade Adjustment Assistance Program, but it is extremely limited. The program does not cover service workers who now comprise 80 percent of our workforce. It only applies to workers 50 years of age or older, and it has a $10,000 cap. Also subsidizing a portion of the displaced worker's health insurance premiums is another.

Studies by the Peterson Institute for International Economics estimate the costs of expanding both the Trade Adjustment Assistance Program and the Health Care Tax program to cover dislocated workers to be between $3 to $12 billion per year depending on the breadth of coverage and the amount of benefits——far less than the $1 trillion gains that the United States presently gains from open trade and far less than the additional gains that we could secure by a further opening of global markets.

I also believe that our nation must devote more attention and resources to education and skill building. We live in the knowledge age. It is not acceptable that 30 percent of our high school students fail to graduate. That number soars to close to 50 percent in our inner cities. For years, Washington has given tax credits to encourage capital investment. To keep our nation competitive, policymakers need to find effective ways to encourage similar investment in human capital.

The challenge in keeping our work force the best trained and most productive in the world is not limited to government. Business could do more. Some companies have launched effective educational programs for their employees. For example United Technology reports that it pays the tuition costs and gives paid time off for its employees to attend accredited universities. Since the program began in 1996, 15 percent of UTC's domestic employees are upgrading their education, which is about three times the national average. About 16,000 employees have obtained degrees since the program began.

In addition the company offers a 4-year scholarship to any employee who is displaced because of job relocation. The company pledges that if an employee at UTC loses a UTC job due to work relocation, whether that be to Delhi or Dallas, the company will pay for four years of college.

What we should be talking about is not how to slow down the opening of markets to trade and investment that will give our economy a tremendous boost, but instead how to help those who are adversely affected by today's rapid technological change and increased international competition.

Trade Promotion Authority and Trade Agreements are Vital to U.S. Interests

The economic case for continuing to work for open global markets is clear. When the United States persuades other nations to open their markets, our economy receives a substantial economic boost which benefits American households and helps to alleviate poverty in some of the most challenging regions of the world. The combination of multilateral, regional and bilateral agreements creates new markets for our farm and factory producers and our service providers.

Looking at the 14 regional and bilateral agreements that the United States has negotiated over the years, with the exception of our agreement with Canada and Australia, all of the nations involved before the negotiations commenced had substantially duty free access to our market through our various General System of Preference programs, the Caribbean Basin Initiative, the Andean Trade Preference Act, and the African Growth and Opportunity Act. Illustrative are the three bilateral agreements awaiting Congressional approval: Today Colombia has 90 percent free access to our markets; Panama has 95 percent; and Peru has 98 percent. And, in all three cases, our producers of goods and services face substantial trade restrictions. When these agreements are approved, our producers and their workers will see a substantial reduction in tariffs and other trade restrictions gaining new export opportunity. Some would call this leveling the playing field.

And, trade pays off in more ways than purely economic. Our trade agreements encourage rule of law, respect for property, and transparency. In the world at large there is a strong correlation between more open economies and the growth of a mid-

dle class that inevitably clamors for clean air, clean water, safe streets, and a more accountable government.

Our efforts to open markets require trade promotion authority. Without it, the United States is sidelined, loosing a proven engine for economic growth, a demonstrated means for alleviating poverty, and a valuable tool for foreign policy objectives.

Conclusion

As we look to the future, we need to stay focused on three key goals: (1) to work hard to get global markets open to create opportunity that will raise standards of living at home and abroad; (2) to educate and train American workers to be the very best in the world; and (3) to develop programs to assist our work force to cope more effectively with rapid pace of change that will continue to affect job opportunities worldwide. Progress in these three areas will guarantee a strong, confident, and prosperous America.

Mr. SHERMAN. Thank you, Ambassador Hills. We are going to have probably two votes called in they say 5 minutes. So that means 10 or 15. I will ask the witnesses to stay during that period. If it was just one vote we could kind of work around it, but with two votes we are going to need to take a break. Ambassador Hills, you say at the beginning of your statement that free trade has added $9,000 a year to the income of the average American family.

If they put up chart number one again, you will see that over the last generation the middle class American families have increased their inflation adjusted income by roughly $3,000 or $4,000, and yet we are supposed to have gained $9,000 just from trade policies.

At the U.S. Census Bureau, do they have the statistics wrong? Are the feelings of American families wrong? Are the people who buy Mr. Dobbs' book about a squeezed middle class, are they crazy? Are we really $9,000 richer just as a result of trade? And then of course richer because we have got new science and technology and because we now have two earner families predominating? Or is your statistic just wrong?

Ambassador HILLS. Mr. Chairman, those statistics come from 1947 when the first round of trade talks were beginning to open markets and reduce tariffs to 1995, and that opening of markets on the calculation of Dr. Hufbauer, which are agreed to by many economists at the World Bank, show that our economy is $1 trillion richer per year. If you take the average——

Mr. SHERMAN. I have limited time so let me interrupt at this point. So what you are saying is the trade policies enriched American families before my chart, which starts in 1980. So the trade policies we had in the 1950s and 1960s helped our country, and then it was in the 1980s and 1990s that we started failing to see increases in household income.

Shifting to Mr. Dobbs, Ambassador Hills—and I will ask you to comment on this as well—has told us that we need to reduce our budget deficit, we need to spend more money to educate our workers and our kids, and we need to finance benefit programs and retraining programs and insurance programs by those who are ravished by our free trade policies. You are a pretty astute observer of the American body politic. Are we ready to pay enormous additional taxes in order to both balance our budget and pay for the ravages of free trade?

Mr. DOBBS. Well, Mr. Chairman, first I agree with Ambassador Hills that we should be without question opening foreign markets. As to investing in education, I could not agree more. It is one of

the reasons that when we look at these investment flows and the amount of investment that corporate America has made and the number of jobs that we have lost which reduce our investment in public education, that I am very concerned with the so-called free trade policies that have been followed and that are impacting our working men and women who in point of fact provide the tax base for public education and for investment.

It is critical that we look to those domestic issues as we assess international trade policies. In terms of retraining, wage insurance, that is almost—forgive me, Ambassador—a great society menu of social programs to deal with a trade policy that itself in my judgment at least if it were corrected and properly focused and pragmatic and committee to the interests of the citizens of this country, would eliminate the necessity for social engineering and expansive social programs, and I would prefer that we deal with the wrong headed trade policies that we have pursued over three decades rather than start doing greater social engineering.

So that would be my response, Mr. Chairman. I am absolutely in agreement with the Ambassador on opening the markets. I just cannot understand why our Trade Representatives have not done so and why corporate America has such a fascination with free trade when we can look without question at the vast and immense burden that it places on this country's economic system and society.

Mr. SHERMAN. Well if we need revenues to deal with the ravages of free trade we can always look at tariff revenues but, Ambassador Hills.

Ambassador HILLS. If the average American family today is $40,000—that is the median income—it would be $30,000 if we had not continued to open markets, and although we have had a steady progression on averages, we do have a bite that is being taken out of the displaced workers. We have 4½ percent unemployment which is quite low by historic standards. What we worry about are those who are displaced and need additional training. The world is changing more rapidly because of technology. Faster communications. Faster and cheaper transportation.

And if we are going to have our work force be as competitive as possible, be top of the line, we need to spend some of these monies to make them so but our exports are making a disproportionate addition to our economy.

Mr. SHERMAN. Ambassador Hills, we have limited time, and I am just reclaiming a few seconds. What you are saying is that in a period of time when we have gone from one earner to two earners, in a period of time when we have had explosive growth in productivity, that we would have had a dramatic decline in the income of American families if our trade policies had not come to the rescue. You are saying that we would have seen a dramatic decline over the last generation in spite of all this productivity, in spite of all this additional work.

It just does not make any sense to say that our families are $9,000 richer because of trade when they are only $4,000 richer because of everything. The response has got to be we have had productivity, we have had hard work, we have had science, and unfortunately with that some very bad trade policies. Let me yield to the gentleman from Arkansas.

Mr. BOOZMAN. Thank you very much, Mr. Chairman.

Mr. SHERMAN. If you can yield for an announcement. Votes have been postponed until this afternoon. I guess the House floor has recognized the importance of our two witnesses here.

Mr. BOOZMAN. Again, thank you all for being here. I watch your stuff, Mr. Dobbs, and enjoy your show, and again, you know I agree with some and disagree with others but you know we are talking about wages, and that is such a complicated deal. One of the things that you stress on your show is illegal immigration, and I know in the area of the country that I am from carpenters, jobs that you used to be able to make a living and support your family, those jobs do not exist anymore, butchers in our packing plants that made lots of dollars several years ago, those jobs.

Now you have situations where not only is the illegal immigrant coming and working and doing the work but they are taking over the jobs as the painting contractors and things like that. So you know that is tied up in this also. The other thing is regulation, litigation and health care, making it such that our companies cannot compete overseas. I agree with you totally in the sense that many times we could have done a better job of doing our trade deals, and hopefully we are doing a better job of that now, and we need to work very hard at opening markets.

But the suggestion of high tariffs and things like that I do not think you can throw the baby out with the bath water. So again, can you comment on that? Last night we passed a bill that took away the exemption of the railroads as they run through the United States. So you have a situation if that were to go forward—I do not think that there is any way it will—but in the House bill that we passed last night, the exemption was taken away from the railroads to run through States so that each State, each community can determine the speed limit, if they want hazardous whatever coming through.

When you have situations like that it makes it very, very difficult for industry. That is going to raise the cost through litigation if things like that were to stick. Can you comment about some of these other things?

Mr. DOBBS. Thank you very much. First on the issue of illegal immigration, as Congressman Royce suggested, there is in the relationship with NAFTA among Canada, Mexico and the United States there is a creation of a sense of entitlement on the part of Mexico. Half of its population of more than 100 million people lives in poverty. It is no surprise or should be no surprise to anyone that those people would want to enter the United States for their own economic benefit.

It also should be no surprise that the result of illegal immigration, massive illegal immigration and not as the President has taken to referring to it recently as does President Felipe Calderon of Mexico and the Mexican Government as migration, migration itself cuts out a certain sense of entitlement, do you not think? And the idea that we need desperately more unskilled labor because more than 60 percent of all illegal aliens are unskilled labor and uneducated.

It is one of the great myths that is being proffered by the open borders, amnesty advocates and mostly their corporate supporters.

The four principal areas, as you suggest, Congressman, in which illegal aliens work in this country, construction, leisure, hospitality and landscaping, if indeed there were a shortage of labor in those industries, I do not think there is an economist in the world who would suggest that we would see anything other than rising wages as a result. What we have seen over the past 6 years is a decline in wages in each of those areas.

This is a real world in which we live. The pain and the frustration of the American middle class worker and their families are real. It is palpable. Ambassador Hills talked about a $40,000 annual income for American families. Half of the workers in this country are making under $35,000 a year, contending with higher education costs, contending with higher health care costs, and the idea that there is a panacea for business that somehow that is multinational in scope and that is by some code that I have not read nor do I understand entitled to all of the cheap labor that it can possibly consume that the President's response to border security is to say we need a guest worker program.

As each of you knows, this country has a number of guest worker programs, 400,000 guest workers enter the country every year. We have 2 million people who come to this country every year as permanent residents, a million of them, 700,000 as legal citizens. We have the most open legal lawful immigration system in the world by far, and to me, it is absolute anathema to the interests of this country and certainly its working men and women to permit the concept of migration and give a sense of entitlement.

We have invested tens upon tens of billions of dollars in China. I will tell you I supported NAFTA in 1993 on a very complex economic concept. If we were to enrich anyone in this world with our trade, should we not enrich our neighbors? But what we have done is to ignore our neighbors. We have not invested in Mexico nor have we carried out responsible, mature relationships with Mexico that would be to their benefit.

I believe that illegal immigration is certainly a component of our trade policies and our foreign policy that suggests that successive administrations have no concept of the well-being of working men and women in this country, and it has to change, and I am delighted this committee is looking at I hope doing just that.

Mr. SHERMAN. Our vice chairman, Mr. Scott.

Mr. SCOTT. Thank you very much, Mr. Chairman. My mind is going so fast you have covered so much there. I started thinking about one question to ask you, then I am flipping to another one. But in my 5 minutes, I would like to touch upon the impact of the immigration that you mentioned in terms of finding a solution, and I also would like to have a moment to talk about the doubling of the trade deficit so quickly and also the amount of money we borrow from foreign governments, what that portends because I think it is all tied together.

What we have got here is in the last 5 or 6 years just an amazing phenomena of a cauldron of these trade policies, immigration and foreign debt that are really hitting this country very, very swiftly and could have some very, very treacherous and dangerous results. But first of all, Mr. Dobbs, on the immigration, because that is clos-

est at home and you have outlined it very well today and in your various specials.

It is a complex problem for us in Congress to deal with it from a standpoint of the variety of constituencies which we have to try to cobble together. In my own district in Atlanta, Georgia, for example, I represent the suburbs of Atlanta, the Cobb County and the Douglas County and the Henry Counties were at every town hall meeting, Congressman, you have got to do something about this immigration, immigration.

There is a fear that I sense from people of the unknown of such a massive amount of Latinos and Hispanics. Let us be truthful here where the real energy is coming from. But yet I also represent some very critical industries, the poultry industry. We lead the nation in the poultry industry in Georgia and around the Atlanta area, in Gainesville. You know that story.

They will come and tell us, Congressman, we cannot find people in America. We cannot find American citizens to do this kind of work. I grew up on a farm, and I know what dealing with chickens is and dealing in the chicken coop, and it is a pretty rough assignment. The restaurant people, it will drive us out of business they say.

So what is your recommendation that we take the steps as we have to deal with this immigration and our leadership has said, in the Democratic leadership we are going to put an immigration bill together, what would you like to see in that immigration bill to address the variety of concerns we just mentioned?

Mr. DOBBS. Well, thank you for the opportunity to offer a few views on that. When you talk, Congressman, about the businesses that are in your district and which you represent along with the people of your district, as does every representative here, I do not see anywhere in the constitution or any part of our national history in which it says that what is good for business is good for America, and that the business should have primacy.

This is an idea, a perspective that has been implicated over the past 30 years in which very sophisticated people, whether economists, CEOs, lobbyists, have come to you to say that the country's future depends upon the primacy of business, and the suggestion that somehow this political system of ours does not have much to do with our economic system, there is no greater believer in free enterprise democracy in the country than I am but I will tell you I also believe fervently that our primary responsibility as citizens is to focus on the fundamental core issue of the founding document of this country. That is equality.

Equality of individual rights. Equality of opportunity. That is economic opportunity and educational opportunity. And I would say to you as you evaluate comprehensive immigration reform as it is now styled—which I consider to be nothing more than outright amnesty for 12–20 million illegal aliens in this country—to think desperately hard and long about the impact on the citizens of your district and the citizens of this country because that is not the greatest urgency by any stretch of the imagination.

The urgency is why do we permit employers to hire illegally? Why would the poultry industry be able to say to the vice chairman of this committee, I have got to have people who will work for $7

an hour? A number of studies have been done including one 3 years ago in agriculture in which primarily migrant workers provide the produce, and a study was done in which if you doubled their pay up to $15 an hour, it would add 10 cents to the cost of a head of lettuce. What kind of country are we?

I hear liberals say that we have got to have a great and warm heart, and you mentioned there are Hispanics and Latinos in your district. Guess what? There are 40 million fellow Americans who are Hispanic. We are the most diverse open society on this planet. My God, we have got some Hispanics in your district. God bless them. God bless every one of us, citizens all. But we have a responsibility, and if I may be presumptuous, I believe that this Congress has a responsibility to represent its citizens and our national values.

The fact that we are not enforcing our borders, the fact that we have to look at the idea of free trade, the chairman referred to Albert Einstein's comment that the definition of insanity is to continue doing the same thing expecting a different result. It is staring at us. Let us be empirical. Let us be realistic. Let us be pragmatic. Let us look at the facts. We are permitting the destruction of the world's richest democracy, and God I hope that is your first priority.

Mr. SHERMAN. Mr. Dobbs, nothing thrills me more than having you allude to my statements.

Mr. DOBBS. Thank you so much.

Mr. SHERMAN. But our time has concluded. At this point continuing our hearings on U.S. trade policy, the gentleman from southern California, Mr. Royce.

Mr. ROYCE. Thank you very much, Mr. Chairman. Continuing on that line of questioning, the net lifetime cost—and those are the costs of the benefits minus the taxes paid—per household headed by persons without a high school diploma in the United States is estimated by The Heritage Foundation to be $1.1 billion for that household. The reality is that the taxpayers will have to make up part of that difference. If supply and demand is not allowed to function, and if the cost of labor does not go up but instead is driven down every year in real terms because of illegal immigration, then the cost falls on the Federal Government.

We talked a little bit about the $9 trillion debt that we face. The Heritage Foundation views the legislation now being proposed as being the most massive welfare shift in U.S. history, and what is unique here is that we are talking about the consequences in the future once people realize that they broke the law. They came to the United States. People got amnesty, and now as the polling tells us there is 1 billion people in the world that feel, Well I might be entitled.

You talked about the sense of entitlement. If other people did it and if other people received amnesty this year, then why should I not? Now we look at the costs in terms of the impact on the Federal treasury if we adopt a policy of open borders, and I think most of us agree that spending in Washington is out of control. It is hurting our economy. It is unfair certainly to future generations, and I just ask about the implications of the deficit spending here in Washington for our international competitiveness and the em-

ployment consequences long term of it and coupled with this new initiative that Mr. Flake and Mr. Gutierez are proposing and the consequences that I see compounding that problem.

And, Mr. Dobbs, I would like to ask you about that, and then, Carla Hills, I wanted to ask her she suggested that we should encourage flexible exchange rates, and I was going to ask her what advantages that would bring, and most importantly how do we push for those flexible exchange rates? Mr. Dobbs.

Mr. DOBBS. I believe the Flake-Gutierez legislation which this is the third round with it in this Congress is as fundamentally flawed as McCane-Kennedy, both in concept and its organization. The cost, as you suggest, Congressman, is enormous, and it is hidden. I have said now for a number of years that there is a fundamental syllogism of logic that applies here which has eluded this President and previous Presidents, frankly, this Congress and previous Congresses.

It is this straightforward in my judgment. You cannot effectively and meaningfully reform immigration law in this country if you cannot control immigration, and you cannot control immigration if you do not control our borders and our ports. Ninety-five percent of the cargo entering this country is uninspected. We have borders that are absolute sieves, and yet this Department of Homeland Security is responsible for protecting us in the war against terror.

Mexico is the principle source of methamphetamines, cocaine, heroin and marijuana. Millions of young lives are destroyed every year. That is not the fault of Mexico. That is our fault.

The demands to secure our borders are absolutely imperative, obvious and critical, and yet this Congress and this President and like the Presidents and Congresses before it, have resisted, and for what reason? Not to serve the common good or preserve national interest, and I think that is a fundamental question if I may return to the vice chairman's point as to what should be a priority in the thinking of this body. To me it is a question of priorities. For some I think it is a question of serving interests beyond those of the American people and the national interest itself.

Mr. SHERMAN. I believe the Ambassador should also address Mr. Royce's question.

Ambassador HILLS. Mr. Royce, we like exchange rates to be governed by the market forces, and in East Asia the exchange rates are undervalued. I think Secretary Paulson is working very hard to try to get that changed. For the East Asian it is not restricted to China but Japan and South Korea, were their currencies too appreciate relative to the dollar, that would encourage our exports.

Exports are important. With 5 percent of the world's population we create almost a quarter of the output, and so we need to find markets. We cannot hedge on that. We need to find markets into which to sell our wheat, our corn, our computers, all those things we produce, and currency has a dramatic effect on our ability to export as much as we ought to be able to in a market-governed economy.

Mr. SHERMAN. Thank you. The gentleman from Florida, Mr. Klein.

Mr. KLEIN. Thank you, Mr. Chairman. Thank you both or joining us today. A couple of observations and a question. Ambassador, you

mentioned that the high job anxiety that is out there is because of efficiencies in productivity, among other things, and that we have low unemployment of 4½ percent. When I combined that with Mr. Dobbs' comment about agriculture, construction, leisure as being many of the jobs that we have—and I am from Florida. That is exactly the kinds of jobs, and unfortunately those are low wage jobs in Florida.

And so what has happened in parts of the economy when we have lost some of the higher paying, more productive jobs—I should not say more productive, they are all productive—but higher paying quality jobs is people have had to take two jobs or they are taking low wage jobs. So sometimes the 4½ percent is certainly not reflective of the anxiety and the reality of feeding someone, putting a roof over their home, and the normal consequences of daily lives, and the anxiety that is created with that.

So that is just an observation on that, and in a second I am going to ask you to comment, and secondly, I want to take a slightly different approach here also. In the Foreign Affairs Committee, we have had a chance to talk about Latin America and Central America in our western hemisphere, and there has been a lot of concern—Democrats and Republicans—that we have not had a particularly effective policy, active policy toward dealing with these countries.

You have got many of these economies and the life that is going on in these countries very wealthy, very poor, which lends itself to populous leaders like Mr. Chavez coming in and grabbing control and exporting his thinking and his billions of dollars in those other countries. The only way we have really approached this over the years in any way is through trade, and in many people's views an ineffective trade policy, and beyond that, we have not done much of anything which is why the United States is not viewed particularly favorably in many of these countries at this moment.

What can be done in using trade policy that can be effective and not only being effective for our economy and not diminishing and lower wages which is certainly not a goal that we want to do, but at the same time I do not want to use the term winning hearts and minds, but making countries realize it is in their best interest to work with us, to have a good relationship with the United States. So combine both the foreign affairs side of things and the trade policy, and, Mr. Dobbs, you are welcome to comment as well, but if you would start, Ambassador, please.

Ambassador HILLS. I think we have to give more attention to affairs in this hemisphere. It deals with trade to open markets so that we can have a relationship but it also deals with being more attentive to their concerns. We cannot convert Latin American countries into our image but we can meet with them as equals and talk about our combined issues. Mr. Dobbs mentioned our borders and terrorism. We cannot control our borders as effectively unless we have cooperation with our neighbors, and we know from past experience that when we have cooperated, where we have worked through the Organization of American States, we have had positive outcomes. Brazil is sending more peacekeepers to Haiti than we are, and we can sit with Brazil, but there are trade concerns that we must address.

Do you feel that it is right that we have a 50 percent tariff on ethanol coming from Brazil? Should we be giving a 50-cent-per-gallon subsidy so that we produce it only here at home? Energy policy is an issue that we could talk with our neighbors about but again I happen to believe that reaching out to countries around the world on common issues, whether it be border control, whether it be trade, whether it be serious energy concerns we will do better by instead of dictating by collaborating.

Mr. KLEIN. I agree with that but I just again am pointing out the fact that we have tried with some trade policies some of which you know are questionable but the reality is foreign policy and trade policy have to be interrelated, and I think that there are many that recognize right now, and maybe you can supplement your comments afterwards with some additional thoughts on what you are thinking on this.

Ambassador HILLS. Well let me just say this. Trade policy does not cure disease. Trade policy does not educate children. What trade policy does is to enhance economic growth, both for a poor country and our country. We have seen since World War II that open trade policy generates economic growth. What governments do with their growth, their wealth, is another issue. But if you close the market, you will shrink our economy. We will have no place to sell our goods, and we cannot consume all that we produce.

So we want to keep markets open. We want to keep exports thriving. We also need to deal with other issues. The question is: How do we use the gains that we obtain from trade to address these other issues?

Mr. KLEIN. Mr. Dobbs, can you just comment as well?

Mr. DOBBS. Yes. I think that it is very important for all of us to understand there is no issue here in my judgment for reasonable public discourse in looking at two choices. That is, the absolutely—Ambassador Hills, I am delighted to agree on this—that our policies and the results of those policies in terms of trade deficits and the mounting trade debt are simply unsustainable. That is a choice that we simply do not have, whether you call it free trade or utter madness, nor do we have a choice of closing markets and being in any way isolationists. Those are not choices before us.

And your question I think is entirely both appropriate and timely. I said I supported NAFTA in 1993 in order to enrich a trading partner nearest us and Canada. The result has been a decline in manufacturing wages for Mexico, the loss of just about a million jobs in this country, an economic integration policy that was enthusiastically being embraced by this President in 2001, meeting with President Vicente Fox twice but how many times—and the events of September 11 obviously reversing course for the administration, for this government.

But what is our policy, our foreign policy with Eva Morales, Hugo Chavez? What is our policy with Brazil, Ecuador, Bolivia, Venezuela, Colombia and the Government of Mexico? It is indiscernible. Our trade policy is absolutely confused. We sustained $140 billion trade deficit with our NAFTA partners Canada and Mexico last year, and we are talking about a country in the case of Mexico as I said with 50 percent poverty.

We have no mature relationship. There is a paternal and condescending perspective in our relationship with Mexico that does not require a mutual respect and an insistence on mutual responsibility in that relationship, and I think we have to look at that perspective as perhaps being practiced with the entire hemisphere. I hope it is not true but that seems to be the policies that are apparent and the obvious result of those policies in our relationship.

Mr. SCOTT [presiding]. Thank you, Mr. Dobbs. Mr. Tancredo from Colorado.

Mr. TANCREDO. Thank you, Mr. Chairman. Mr. Chairman, you mentioned specifically the chicken processing plants in your district that come to you and talk to you about their needs in labor, and it just brought to mind an article that appeared in the *Wall Street Journal* not too long ago about a plant in Stillmore, Georgia, Crider Incorporated. It lost about 75 percent of its employees due to a series of raids by ICE because they were illegal aliens. They were forced to look at alternatives, and the alternative that they went to were the unemployed that were there in the community.

They now have found that because they had to raise wages, which they did from $7 to $9 an hour, they have been able to fill the jobs. With whom? Mostly African Americans who had been unemployed in the area. They also provide some sort of housing arrangements. They provide free transportation from town. They have had to do things but they could do things that actually filled the jobs with people who had been unemployed.

And so the same thing happened by the way in Colorado and a number of other States when raids were conducted at Swift and Company. Thirteen hundred employees were gone because they were illegal aliens, and what happened the next day, according to company officials, is they received thousands of applications from all over the country for those jobs. Now in fact probably wages would have to go up and did, and I am happy about that, and we were able to find workers.

And my only point here is that I challenge the statement that you hear over and over and over again that the only way these corporations and companies will stay in business is if we import cheap labor. There are laborers here who are willing to do the job but simply not for the wage rates that are being paid to people who are being exploited by those corporations.

Mr. SCOTT. Would the gentleman yield just one moment? I would just like to make sure the record is clear.

Mr. TANCREDO. I will yield.

Mr. SCOTT. My Pilgrims Pride was one of the largest, if not the largest in the poultry business, and with all due respect for what you said and theirs, I want to just add that their salary level was $10.50 an hour, and that have raised considerable concern that they could not meet that. So in all fairness, I think that this is one of the reasons why we need to get the industry, we need to get all of the actors in front of us so that we can really address the inconsistencies and be fair to every bit of these constituencies, and I think this is what we have said.

Mr. TANCREDO. Reclaiming my time. I certainly am in favor of getting all parties in front of us and discussing the issue but all I am pointing out is that there is empirical evidence to prove the

case that we do not need imported labor, especially illegal labor, in order to fill the jobs I think that are here waiting for Americans.

But let me go to Ambassador Hills for a second because, Madam Ambassador, I had first voted for fast tracking for the President but I must tell you that I have grave concerns about that, and here is why. When I watched what happened especially in the debate over and actually the bill that was passed that we refer to as CAFTA, the Central America Free Trade Agreement, we recognized that if we really and truly are looking for just simply free trade, if that is it, it is a relatively simple task to accomplish that through legislation with any number of countries. It does not really take an awful lot of writing in order to say there will be no trade barriers between these countries.

The fact is that the bill itself was over 1,000 pages long, and when we looked at it very carefully what we saw was that there were a lot of things in that bill that had absolutely nothing to do with trade. They had to do with service agreements, with immigration related issues, and we tried to point this out. I certainly did, and to no avail.

I am leery about giving the President that same authority because of what he has done with it in the past. Do you not agree that trade bills should be just trade bills? Because for one thing if after we discuss them we have by the way no ability to change it when it comes to the floor, all we can do is pass it or not and the trade agreement, cannot amend it, since that is the case, should we not be incredibly more concerned than we apparently are about what does get into these bills that do not have anything to do with trade because we cannot change it afterwards and we get taken to the CAFTA tribunal or then to the WTO after that?

It seems to me that he has squandered what we have given him, the President that is, by including these things that are extraneous to trade and do deal with—and specifically I am referring to service agreements that were inside that CAFTA bill.

Ambassador HILLS. Well I agree that you draft the legislation, not the administration. The administration negotiates the trade agreement. You cannot have 535 negotiators. Talk to anyone who negotiates any type of agreement. Talk to your friends in the unions. When they negotiate an agreement with business, they do not bring the agreement back to the union floor and say to someone in the back of the room, Oh you want a little more maternal benefits? Perhaps more dentist compensation? They say, Vote it up or down.

If you do not like the trade agreement, you should vote it down but we will have no trade agreements unless the trade negotiator can go out and do the best job possible to negotiate with the opposite side of the coin, and when you have 150 nations as we do in the Doha Round, it is absolutely a house of cards if you begin to pull one card out. So you definitely need fast track authority.

I do not think it is fair to say that the administration puts things into the legislation. They present a bill. Your colleagues put things in the legislation. When I got the Omnibus Trade Act, I have to say there were a lot of provisions in there that were unwelcome.

Mr. SHERMAN [presiding]. The gentleman's time has expired but he does make an excellent point that fast track does not just mean

fast track for a trade deal. It means fast track for whatever the administration puts in the agreement. A woman is here with us who has extraordinary knowledge of these trade agreements. Her district in Ohio has been perhaps ground zero for the effect of these trade agreements. She has been a leader on trade issues. The gentlewoman from Ohio, Ms. Kaptur.

Ms. KAPTUR. Thank you, Mr. Chairman, and I want to commend you for organizing these hearings this morning, and allowing us to discuss extraordinarily important issues to our country and the world, and I would like to ask unanimous consent on behalf of Congresswoman Sutton to place in the record her remarks. She had to go to the floor to handle a rule on the budget bill.

Mr. SHERMAN. Without objection.

Ms. KAPTUR. I thank you very much. I want to also welcome our very distinguished guests this morning, Mr. Dobbs and Ambassador Hills. We thank you very much for taking time to talk to the American people today through us. I would like to begin before I question with this statement, and that is I believe that America's tragic roots in slavery and the economic and political institutions that aided and abetted it are a deep scar on our history, and indeed we are still trying to bind the wounds that President Lincoln so eloquently described when he called the nation to heal itself. We are still trying to do that.

But I also believe there are modern-day institutional equivalents of exploitation and the diminishment of personhood and the upending of our democratic political ideals, and among them is the NAFTA free trade model, and fast track procedures that are institutional downdrafts on human freedom. Trade definitely has a logic but it has no ethic, and we are here this morning to talk about a new model for America, for the continent and the world.

I have served in this Congress 25 years, and Ambassador Hills, I have had an opportunity to receive you as a witness prior to NAFTA's passage before other subcommittees of this Congress, and before I begin asking my questions I just wanted to say I have been here long enough to have gone to Japan in 1985 and offered Prime Minister Nakesone free Champion spark plugs from my district, the best plug made in the world back in those days, and said, Mr. Prime Minister, your market is closed.

How can we have free trade when Japan, where we have the largest trade deficit now—China is growing fast—but it is our number one trade deficit with the world, when your market is closed? Today less than 3 percent of the cars on the streets of Japan are from any place else in the world. They would not even take Yugos.

So how can you have free trade in a world where other markets are closed? I agree with you, Ambassador Hills, we need open markets. The reality is they are not. I know your husband used to be a chief representative for Honda, and I do not know whether he still is or not. That was printed in the *Wall Street Journal*, or was it Nissan?

Ambassador HILLS. You must have the wrong person because my husband has never worked for Honda. He is an attorney. He was chairman of the SEC, and he continues to be an attorney.

Ms. KAPTUR. Yes. But did he not represent Honda as part of his firm? I read that in the *Wall Street Journal*. I will go back and get that article for the record.

Ambassador HILLS. Well I do not know. I have not seen the article, but I do know my husband of 48 years.

Ms. KAPTUR. Yes, I am sure you do very well but that was printed in the *Wall Street Journal*. I was quite surprised. Your husband has never had any relationships with any of the Japanese automotive makers? No business relationships?

Ambassador HILLS. I believe he has not.

Ms. KAPTUR. All right. We will check that out. But I can remember when Sam Gibbons said to me when he was chairing our trade subcommittee, he said, Congresswoman, you do not need to worry about the trade deficit with Japan because you see when the yen-dollar relationship changes it will self-correct. I was young in those days. I watched the numbers, and by golly 15 years later it did not matter what the yen-dollar relationship was 95 to the dollar or 275, it never balanced, and I thought oh, they have a managed market but our trade policy does not do anything about that, and so we continued to go into deeper and deeper and deeper deficit with Japan.

Now I want to focus on NAFTA in my questioning but I just wanted to mention that because I have been here long enough, Madam Ambassador, to have been around when you helped to negotiate NAFTA, and in 1992 you said to the Senate Finance Committee the following: "That if we passed NAFTA it would mean more jobs for auto workers in Ohio, Michigan and Pennsylvania." You also said that "the agreement would help Mexico, and that Mexico would be strong."

I can assure you that Ohio is now among the top three job losers due to NAFTA. The trade surplus you and Gary Hufbauer promised never happened with NAFTA. In fact, we have gone into huge deficit, as Mr. Dobbs has attested this morning, and in fact, there are some who believe that the diminishment of human personhood as apart of the NAFTA agreement was actually insidious and planned in that when it came before Congress and we were fast tracked here, the provisions to cushion Mexico's hito system, the small holder system in Mexico, was not allowed to be offered as an amendment, and it was purposefully negotiated in a way to force all those workers off their land, and they have become an endless stream into our country, over 2 million farm families.

So I just wanted to assure you that your statement that it would create jobs for Ohio auto workers has not happened. We have created Mexico as an export platform into the United States, and workers from my district who have lost their jobs have had to train Mexico's workers to do what they used to produce. And, Mr. Speaker, in ending I just want to say in my district Phillips Lighting has lost 2,000 jobs to Mexico, Ford Motor 1,500, Dixon Ticonderoga 300, Georgia-Pacific Dixie Cups are gone, Spangler candy, Con-Agra. The list is endless going to places like Sanora, Mexico and so forth. So we need a trade model that has an ethic.

Mr. SHERMAN. The time for the gentlewoman from Ohio has expired. I will invite the witness to respond for the record. I will point out that I am sure there are no Champion spark plugs in

Japanese cars on the roads in Japan, and the trade relationship or deficit with our NAFTA partners as identified in the chart at the far left at the far end of the room, that is the one with the big line going south to over a $130 billion trade deficit.

It is typical that we recognize different parties in rotating order, but it has been pointed out to me that our two Republican members here are both members of the subcommittee, and so I am going to ask the gentleman from Maine to be patient, and recognize two Republicans in order, starting with a senior member of this Congress, the gentleman from Illinois, Mr. Manzullo.

Mr. MANZULLO. Thank you very much. I appreciate the both of you being here. I was asked the question: What do you think of Lou Dobbs? And I said, I agree with a lot of his answers but I agree with 100 percent of his questions, and you have to ask the right questions in order to open up a debate, in order to move toward a solution of something, and Lou, I really appreciate that.

Ambassador Hills, my seat was formerly occupied by your good friend, Len Martin, and you are familiar with our Congressional district. We have lost about 14,000 manufacturing jobs in our district, and through all types of reasons, et cetera. The biggest reason was in 1980 when we led the nation with 25 percent unemployment because of the currency, and our machine tool industry took a gigantic hit.

But what I want to ask the question, I have voted for every single free trade agreement this Congress has come up with, not that they are perfect. They are far from perfect but they are better than the alternative, and I have gotten in trouble from a lot of people who say, well Manzullo, because you asked tough questions like a friend of mine, you sound like a protectionist, and I am not, and I do not think Mr. Dobbs is either because he is looking for parity, he is looking for fairness, and he is looking for countries that do not cook the currency, and he is looking for a country that has the wherewithal to stand up and say, if we think manufacturing is important in this country, we are not going to tolerate any longer what China is doing on purposely manipulating the currency and with a country that does not have the backbone to do something about it.

Now I signed on to a bill last year brought by two protectionists, Congressman Ryan from Ohio and Congressman Hunter from California. It is now called the Ryan-Hunter bill, and it does two things. It says manipulation of currency or misalignment of currency is a basis for countervailing duty against the offending country, and the second part of the bill is what I had authored last year, and that says that it changes the definition.

Now to show manipulation or misalignment of currency, you have to show both a bilateral and a global surplus by the offending country. Our bill changes that to show either/or in order to put into effect any penalties that would come against a country that manipulates or misaligns its currency, and my question to you, Ambassador Hills, is why would not free traders be in favor of strong measures to stop the cooking the currency that continues and to put in effect trade rules under WTO and enforceable WTO similar to the Ryan-Hunter bill which I just described?

Ambassador HILLS. I do not think free traders are opposed to rules governing currency. It is sometimes difficult at a hearing to talk about one segment of policy as being responsible for things that go far beyond. We really have to balance all the issues that we are dealing with and then come out and deal with the issues that are important. I would like to see East Asia have their currency respond to market forces, and I think that Secretary Paulson is working hard on that, and I applaud him for it.

I think manipulation of currency does destroy the benefits that we derive from trade so that we want to work on that but trade is just one element, currency is another element, and we talk about foreign policy which is the province of this.

Mr. MANZULLO. Yes, but it is a huge part of it because the guys that make the semiconductors, for example, they have been wiped out. Just wiped out. The guys that make the motherboards in this country. I have got a constituent back home, strong Republican, great free trader, and he says, "Congressman, let me tell you what the Chinese are doing with regard to the very item that I am manufacturing."

And he said, "If you got rid of that currency manipulation, I could be 30 percent cheaper or at least 30 percent more economically interested in the ability to compete against the Chinese, and yet no one seems to do anything about that currency." I think it is huge. It goes to the issue of fairness.

Ambassador HILLS. The question is: Could the Chinese permit a 30 percent appreciation of their currency overnight?

Mr. MANZULLO. It does not have to be overnight. We need to go in the right direction.

Ambassador HILLS. And that is the issue of timing. It has appreciated 6 percent last year. It will probably appreciate another 6 percent this year. One of the things you have to worry about is if China were to implode all the things we are talking about today would seem insignificant.

Mr. MANZULLO. When you have lost thousands of workers because of cooking the currency in China, their world has already imploded.

Ambassador HILLS. I agree with you that the currency is out of line.

Mr. MANZULLO. But I agree with you also.

Ambassador HILLS. And I agree that we want to work to get market forces shaping currency not only in China but it must be followed by the East Asian currencies, and the question is: How fast can we move in the right direction?

Mr. MANZULLO. Thank you. Appreciate that.

Mr. SHERMAN. Thank you. I am sure that we will allow the Chinese to cheat for only another decade, and only lose a few tens of thousands of jobs wrongfully before we finally do something about it.

Ms. KAPTUR. Mr. Chairman, down at the right.

Mr. SHERMAN. Yes.

Ms. KAPTUR. Would the gentleman yield for 5 seconds?

Mr. SHERMAN. I yield for 5 seconds.

Ms. KAPTUR. That is exactly the path we followed with Japan and look where it has gotten us. The yen-dollar never corrected.

Mr. SHERMAN. The voice of experience. At this point, I am going to indicate that we do not really have time for a second round of questions. Just 10 seconds and I will be with you. I will recognize you. But what we will do is we will allow each of the witnesses a 2-minute closing statement, if you have a few points you would like to make at the end, but we do have two questioners to go, and the first is the very patient gentleman from Texas, Mr. Poe.

Mr. POE. Thank you, Mr. Chairman. Thank you both for being here. Mr. Dobbs, I did not know you could get to Washington from that remote area of Mississippi that you were in last night. So congratulations however you came. And I also want to thank you for what you do because I really think you have the pulse on America, especially the people of America on the issue of the border. So you are to be congratulated for that.

With the open borders of course we bring in the cheap plantation labor of people who work on the illegal cash economy, and it affects us, as you have said so often, to the detriment of Americans and even legal immigrants. A lot of anecdotal stories, but I have a constituent that runs a little carpet place. He lays carpet in houses, and all of his workers are legal immigrants. The guy down the street hires illegals. Deals on the cash economy, and my friend is going out of business because he cannot compete with other immigrants, but they are illegally in the country all because of the cash economy and the things you have talked about.

We talk about trade deficit. Well we have to add the trade deficit to Mexico of the $20 billion in remittances that immigrants in this country send to Mexico every year. Second highest source of income from Mexico or to Mexico behind cruel oil sales that they make on the world market. NAFTA has not been the savior we all thought it would be.

The comment is always made, well we need the illegals because they will do jobs Americans will not do. That is a myth. They will do jobs that Americans will not do for that wage, and if Americans have the opportunity to work for a fair wage they will take those jobs, and I think that this is a myth of folks who say we have to import the illegals. And one other comment before I get to my question.

We hear the raids on Swift and some of these other businesses and deporting the illegals. It would seem to me that if we went to those CEOs that knowingly hire illegals and we carted them off in handcuffs before TV cameras they would know who they hire and make sure that they hire legal immigrants and American citizens. It is all about money. We are talking about trade but what we are talking about is money. Follow the money trail. Who is making the buck, and I would hope that we could keep American economy going with fair trade practices and helping our neighbors first.

I went to China in 1991. I do not think China is a neighbor, and I sure do not think they are a friend, and they told me in 1991 that we will defeat America economically, and they may be fulfilling that prophecy. Question: How would you deal with China and the way they cheat? Mr. Dobbs and then Ambassador Hills.

Mr. DOBBS. I am a little less patient perhaps than this administration and others. Frankly, I do not see any reason for gradualism on matters of what Congresswoman Kaptur called an ethic in our

trade policy. We have compromised our national values, our national interests, our fundamental values in the way in which we conducted our foreign policy in this country, the way in which we have conducted our trade policy.

It is to me laughable to watch the Treasury Secretary, Mr. Paulson, fly off to Beijing after having I suppose in Washington terms excoriated the Chinese from manipulating their currency and being just awfully unfair and then show up in Beijing with big smiles and less than idle threats. The fact is that this is not a Chinese problem. This is an American problem.

We have responsibility for the way we conduct our policies, and we should hold accountable and responsible those officials both in Congress and in this administration, any administration, who fail to understand the diminishment of the national interest and when they are pursuing trade policies.

China is not manipulating the RMB or the Yuan as some sort of clever, covert tactic. It is documented. It is obvious. It is transparent. One of the few things that is transparent in their policies, and what is also transparent is the United States Government seems to think that an orderly loss of American capital and mounting debt in excess of $230 billion a year makes us some sort of highly sophisticated and responsible nation state.

Meanwhile we are devastating our workers. We are continuing to add to our debt, and I frankly think the idea that there is some great credit in the international trading system for being patient with people who are—as you put it, it is all about money—reaching into your pocket. It is far more important for us to understand what that deficit represents, and that deficit represents a nation that cannot even clothe itself.

Ninety-six percent of our clothing in this country is produced abroad, 80 percent of our computers and free traders at any cost will tell you, this is a technology economy. We have got to go with this direction. It will all be better.

As the Congresswoman from Ohio said, this story is no different today in Japan than it was 20, 25 years ago. The only difference is that people are focusing on China to the exclusion of Japan. The imbalances are marked. They are destructive, and we do not have time for this nonsense.

Now the other question we have got to ask, it seems to me in the question of the exchange rate with China, is: What is the elasticity of those goods and serves we are bringing in? I frankly am one of those folks who say, better be careful of what you ask for because the fact is we are absolutely dependent on those goods, both psychically and in real terms, in terms of computers and so forth. I do not know that if we would see a 40 percent appreciation of the price of those goods that we would see a diminishment in the demand of them by American consumers, and that is very concerning.

We have so mismanaged our trade policies for 30 years that we are in—and if I may use the expression—one hell of a mess, and there has to be an awakening because the effects are real. The responses have to be well-considered, and I think they are urgent, and incrementalism is not an appropriate path to follow.

Mr. SHERMAN. Thank you. The gentleman's time has expired, and now I would like to recognize the most patient gentleman in the room, the gentleman from Maine.

Mr. MICHAUD. Thank you very much, Mr. Chairman, for allowing me to sit here first of all, but I really appreciate all your support in helping us fight for fair trade deals. I believe in open markets but I also believe strongly we have got to change the way the rules of trade have been operating, and I know, Ambassador, you mentioned earlier that trade policy does not cure diseases. It is for economic prosperity.

My concern is economic prosperity for whom? But also when you look at does it cure diseases, not it probably does not but what it has done it has caused for those who are affected by layoffs because of our poor trade deals, it has caused divorces, it has caused drug and alcohol abuse, it has caused individuals who I have known personally who worked in the mill for 20 years who got laid off because of unfair trade policy 50 years old end up in a hospital with a heart attack. Not only have they lost their jobs, they are unable to get unemployment because they cannot work because they are in the hospital.

I want to thank you, Mr. Dobbs, for speaking out on this issue, and helping educate the American public of how devastating these trade policies can be for our economy, and I have a couple of quick questions. The first is: Fast track delegation, what are your thoughts on that? Should Congress reauthorize fast track? My question for Ambassador Hills—and I read your statement actually twice—and I am just amazed at your statement when you said the results have been spectacular, and I come to realize after reading it twice that we do not hang around in the same circles.

I worked in the mill for over 28 years at Great Northern Paper Company. Ambassador Hills has been a principle negotiator for NAFTA. NAFTA has devastated Maine's economy that has lost over 23 percent of our manufacturing base alone in the last 4 or 5 years. In your testimony you proclaim that trade has greatly helped our economy but you also say that workers' frustration is at an all time high, and I know this personally having worked at the mill.

In one of our labor market areas we had over 33 percent unemployment rate. These workers do believe that trade policies have crippled our economy. So my question for you, Ambassador Hills, is since you negotiated NAFTA and it might have seemed right at the time, seeing what NAFTA has done, would you renegotiate NAFTA again, and how would you change NAFTA if at all? Ambassador Hills.

Ambassador HILLS. I think the North American Free Trade Agreement has permitted the integration of our economies. It did not create the jobs that were projected in Mexico I think largely because of the peso crisis that was exactly the same year following the ratification of the NAFTA. There are some things that the Government of Mexico should do. For example, they could take two pages from our book that would stimulate growth. One is the highway system. The south of Mexico is literally cut off from the north; the north grows 10 times faster than the south. And the second is the GI bill of rights. Mexico has a deficit of education. Were they

to address these issues, I think Mexico would be much better off. Clearly the NAFTA has been an enormous success with Canada, and our trade has exploded. Are there problems in the hemisphere? Absolutely. Can we address them? I think we can. I think we have to be very careful to lay all blame at the door of the NAFTA or look to any single policy as being a cure for the problems. These are complicated issues.

Mr. MICHAUD. Mr. Dobbs, should we renew fast track, and if so, should it be changed?

Mr. DOBBS. Absolutely not. I hate to equivocate but I think the idea of this Congress continuing to cede its constitutional authority, prerogative and responsibility to the executive is absolute nonsense. Again, the idea of 31 consecutive years of deficit, record deficits, and whether we are talking about Maine, Ohio or any number of States, a majority of States in this country, that have seen the ill effects of what many corporate elites believe has been a beneficial relationship as a result of NAFTA or other bilateral regional and multilateral trade agreements.

It is incredible to me that this Congress would even consider relegating that authority to this President or any other in point of fact. The idea that Ambassador Hills would speak as so many do of the integration of our economies in reference to the North American Free Trade Agreement should send chills down the spines of everyone in this room and in this Congress and every American in my opinion.

NAFTA was not about the integration of economies and societies or the creation of a customs union. That is precisely the intent of this administration. It is the intent of a number of our corporate and bureaucratic and academic elites in this country. I would urge this Congress to maintain great vigilance of what is being done in the name of the security and prosperity partnership and NAFTA. The potential for greater, greater calamity exists.

But I would also again just say I cannot imagine a circumstance in which approval of fast track authority or trade promotion authority is either constitutional or responsible or reasonable or in the interest of anyone in this country given 31 years of history.

Mr. MICHAUD. Thank you very much. Thank you, Mr. Chairman.

Mr. SHERMAN. Thank you. Nothing would please me more than to do a second round but we have an outstanding second panel that we also want to hear from. So as I promised, I would like to give the two witnesses a couple of minutes to sum up should they wish to. Excuse me. The gentleman has snuck in. We have got one more questioner. We are about to learn more during the next 5 minutes. The gentleman from New York is recognized.

Mr. MEEKS. Thank you, Mr. Chairman, and I have been listening on and off, running in and out of meetings, and listening to the hearing that is taking place here, and it has been a very informative hearing listening to Ambassador Hills and Mr. Dobbs, and there is one thing that I think that we can all concur on and that is that there is a lot of reason for American workers to be concerned.

When we look at health care and we need to find a way that we can deal with health care costs, because when we look at competition, for example, with a number of foreign companies where they

have national health care policies so their employees do not have to worry about that burden, and our companies do, and we have got to make sure that every American has that health care.

When you look at our savings rate, which is much less than many people all over the world that is growing and we look at our pensions and the problem with pensions, we have to say that there is indeed a lot of room for the American workers to be concerned. But to my point of view, we cannot blame all of that on trade, and I think that we have got to look at it because, when I hear that we are becoming—sometimes it is like history repeating itself and we could be back in the 1921 or the 1920s when there was that same kind of fear.

I know I was young—too young—and most I think everybody in this room was too young to remember when President Warren G. Hardin's inaugural speech delivered on Friday, March 4, 1921, but his argument sounded much like what we hear today. He feared for America's industrial eminence, and warned that American factories could not meet the low wage European and Asian competition.

We have come a long way since that time but that fear of competition I think still remains, and from what I am hearing today this committee is talking about, and I think talk and conversation and dialogue is good. But based on the testimony that I have been able to review, one of the biggest points from some of the witnesses, the witnesses that we have heard and I am sure that we are going to hear later on in the second panel, seems to be that trade deficit amount to severe loss of jobs, and there are certainly financial issues involved with a very large deficit but I cannot see how it is purely a jobs and trade matter. Purely.

What about the important issue of—as I indicated—how low the U.S. savings issue, and I also heard the discussion clearly about the issue of currencies which I think is tremendously important, and it is something that we have address. When we began running deficits in the 1970s as our savings rate went down, and at that time we had 70 million private sector jobs or so, and now there are 115 million. So it seems to me that there is more to this than just trade.

Despite the impression that some give to say that the trade try to give Americans factory health is measured by the amount of goods produced, and when you talk about recording record highs now show now above $1.5 trillion in 2005 and probably $1.6 trillion in 2006. Not by people needed to produce these goods but the U.S. share of world manufacturing is quite stable.

See to me what is happening in some of this is the more efficient that we become with technology—and we do not talk about the number of jobs that we are losing because of that efficiency—and technology but yet we do not want to stop technology. When I think of my State, I come from New York, there once was jobs where individuals operated elevators. Those jobs do not exist.

There once were individuals. We needed all bank tellers. Now we have ATMs. There once were individuals that would do bridges, go into the tolls. Now we have got EZ Pass. And you can go on and on and on about the jobs and even in building automobiles there were many more people needed to build an automobile but now

with automation there is many less people needed to build automobiles.

So there is a multiple reasons why I think that we are losing some jobs, and we need to take all of that into account I think and not just simply say that the reason why we are losing jobs is based upon trade because then it becomes a danger, a danger, and I think that, Mr. Dobbs, you are absolutely correct in this. What is our foreign policy with reference to Latin America? It is not articulable.

We do not know what it is really, really what it is, but if we had a focus policy along with trade, because trade is not going to be the one instrument that is going to lead to greater success for everyone. It is just one of the tools that could be utilized because I note this: It is easy—I see I am out of time.

So I just will end on this. The debates that I have seen here are involving trade since I have been a member of the House. When it dealt with basically industrialized nations of the world, they passed very easily. There has not been a problem. But when we begin to talk about trade agreements with underdeveloped countries of the world, those who want to get into the markets, those have been much more difficult to engage in and to get passed here, and they are the ones who probably need trade agreements more than anyone else.

Mr. SHERMAN. Thank you. The gentleman's time has expired. At this point, what I would like each witness to do is to sum up for 2 minutes. That will give you a chance either to address the comments of the gentleman from New York or more generally the issues of this hearing. Start with Ambassador Hills.

Ambassador HILLS. Thank you, Mr. Chairman. I thought the gentleman from New York's points are very well taken, and I hope his colleagues on this committee will listen closely. There is no question that—as I mentioned in my testimony—in manufacturing technology has transformed it. With 22 percent fewer workers, we are producing 30 percent more output, and that output we are all enjoying but we have got to deal with the concerns of the workers.

You asked the question head-on, should you endorse trade promotional authority, and I hope so strongly that you do. I disagree with my colleague at this table. We need to keep open markets. Let me say again with 5 percent of the people we are producing 25 percent of our work. If you want to deal with the deficit, cut the budget deficit and increase spending, open up markets and encourage flexible exchange rates.

Eighty percent of our deficit is with countries that we do not have trade agreements with. Only 20 percent of our deficit is with countries where we do have free trade agreements. So let us keep the markets open, gain the wealth that we get from the open markets, and use some of that wealth to deal with the concerns that have obviously been front and center on this hearing, and I thank you for including me on your witness list.

Mr. SHERMAN. Mr. Dobbs.

Mr. DOBBS. Mr. Chairman and members of the committee, thank you for the opportunity to be here. The Congressman from New York suggesting that there are a lot of issues that are interrelated is exact. Whether we talk about health care, you all are confronted with a Hobson's choice.

If you look at what has happened to corporate America and its provision as a primary provider of health care insurance, you either start talking about universal coverage or socialized medicine from one spectrum of the political environment or you are looking at simply abandoning any responsibility for it. Those are the choices that you face. That we all face. With 48 million people in this country without health care insurance and the number rising, it is going to be obviously very urgent on your agenda.

But in terms of trade and with that perspective, the reason that we have health care insurance in this country is because of the efforts of organized labor and history should not be in any way revised. The principal countervailing influence to the awesome lobbying, legislative and electoral power of corporate America has been organized labor.

The fact that as Ambassador Hills says that we have seen a 22 percent reduction in the number of people required to produce in this country is correct. Produced 30 percent more goods. But there is another factor at work, and that is again the awesome productivity of the American worker. No one, in my judgment, in this country needs to fear about the ability of the American worker to compete. What we should all fear is destroying the American worker's quality of life and standard of living because before us is the trade policies that Congress and successive administrations have followed.

Middle class workers with all that has been won, hard won by initially and throughout organized labor, by the productivity of the American worker, who by the way over the course of the past 30 years when we talk about the wealth that is being created we should take note that the American worker has added a month to his and her work year above and beyond that of their European counterparts.

The only thing we should fear is that we do not serve the national values, the fundamental values of this country, and that is equality, opportunity, a quality of economic opportunity and educational opportunity, and a quality of individual rights, all of which have not been served by the trade policies we have followed over the course of the past 30 years, and I fervently hope that, Mr. Chairman, this Congress will mark the turning point in the history of this great country. I appreciate the opportunity to be with you.

Mr. SHERMAN. Thank you, and thank you for what you do every day to try to put this country on the right course for taking care of middle class families and standing up for our national interests. Thank you both for coming before us, and we will now move on to the second panel.

Mr. DOBBS. Thank you.

Ambassador HILLS. Good to see you.

Mr. DOBBS. Ambassador, good to see you.

Mr. SHERMAN. I see two members in the room who did not give an opening statement at the beginning of the first panel. You gentlemen can give an opening statement at the beginning of the second panel if you desire. If you will give me some indication as to whether you want to do that.

[Pause.]

Mr. SHERMAN. Let us now introduce our second panel. They are a little less famous than our first panel but no less knowledgeable and no less committed to our national interest. First I will introduce Thea Lee, Assistant Director for International Economics in the Public Policy Department of the AFL–CIO. Ms. Lee serves on the State Department Advisory Committee on International Economic Policy. I am not sure State always listens to your advice, Ms. Lee, and the Export/Import Bank Advisory Committee.

Here perhaps to tell us that we should not just continue to follow the same policies we have over the last 10 years with the results illustrated behind me, Ms. Lee.

STATEMENT OF MS. THEA LEE, POLICY DIRECTOR, AFL–CIO

Ms. LEE. Thank you so much, Mr. Chairman, members of the subcommittee. I appreciate this opportunity to be here today on behalf of the 10 million working men and women of the AFL–CIO on this very important and interesting topic: Is current U.S. trade policy successfully promoting American policy objectives at home and around the world? I think the conversation in the earlier panel was very instructive on this issue.

One of the questions that we should be looking at is: Has trade policy with its own narrow set of objectives and concerns actually replaced foreign policy for the United States? Have we gotten confused and thought that if we put in place free trade agreements that we have done our duty in terms of our relationships with other countries?

We in the AFL–CIO would argue that U.S. trade policy has failed in almost every important dimension. It has failed to create good jobs and healthy communities at home. It has failed to foster equitable, democratic and sustainable development abroad. It has failed to safeguard our long-term national security interests, and it has utterly failed to ensure that American producers and workers are able to compete successfully in the global economy.

We welcome the focus today on the connections between trade and foreign policy. Foreign policy objectives are often invoked to garner support for free trade agreements, and these arguments sound very compelling on the face of it. Do we want more friends and less poverty around the world? Of course we do. The question is whether current trade policies have achieved that important goal.

People argue that free trade will automatically bring prosperity to our trading partners. That was certainly the argument in the NAFTA debate in the early 1990s: Once we have prosperity, that will solve all the problems that have been raised. It will enhance democracy, reduce poverty, strengthen the rule of law, end workers' rights and human rights abuses, and provide resources to clean up the environment. With all these problems solved, it is argued, U.S. friendships and alliances will be strengthened, pressure for illegal immigration will be lessened and terrorist tendencies will be eradicated.

If all those things in fact happened, then you could make an argument that U.S. trade policy was serving our foreign policy objectives. Unfortunately, trade policy has not uniformly delivered on these promises, and in too many cases it has had the opposite ef-

fect. We now have 13 years of data and experience with NAFTA, 11 years with the World Trade Organization and 5 years with China joining the World Trade Organization after a fairly bitter debate in the U.S. Congress around permanent normal trade relations.

In each of these cases I think we have seen—as was talked about in the earlier panel—that many of the glowing promises made on behalf of these policies failed particularly with respect to U.S. job creation at home, with U.S. competitiveness, that we were supposed to use NAFTA to improve U.S. competitiveness with the rest of the world. That did not work out, as Chairman Sherman said. In fact, our trade deficit with the whole world has increased tenfold since 1991.

And I think one of the key issues for us is that we have sent confusing and mixed messages with our trade policies. We have overlooked important American values and objectives in the search of corporate-driven trade deals, and with these deals we are making friends.

It may be true that we are making friends in developing countries with the corporate elite and with dictatorships, but we have alienated ordinary workers and farmers, and we see that time and time again as we propose these trade agreements often sold here as almost a gift to these poor developing countries, something that should help workers in those countries, and tens of thousands of workers and farmers and teachers and students come out in the streets to protest against these free trade agreements. I believe that is contrary to our national interests.

We have not used our trade relationship with China to press for democratic reforms and respect for human and worker rights. Our trade policy with China has been focused on the concerns of multinational corporations, helping them to move production to China and ensuring that they do not face regulations, taxes or other conditions that they do not want to see. Those multinational corporations have in fact avoided confronting the Chinese Government over any kind of unwelcome concerns, like human rights, democracy and worker rights.

In fact, we have seen in a recent report put out by Global Labor Strategies that American multinational corporations represented in some cases by the American Chamber of Commerce have in fact gone to China and lobbied the Chinese Government against labor law reforms that would protect Chinese workers, even minimal labor law reforms that go in the right direction. So I think again that belies the idea that our trade policy is serving our national objectives.

In the Middle East we have seen geopolitical concerns have driven a series of free trade agreements with countries that lack basic democratic rights and do not allow workers the basic human rights in the work place, particularly the right to organize and bargain collectively, and what we see here is a conflict and mixed signals between rewarding these countries that have abysmal human rights records with market access, while our rhetoric promotes democratic values.

And the same kind of concern we have with Colombia where the USTR recently finished negotiations, and this is a country with the

worst record in the world with respect to worker rights. It is the most dangerous place to be a trade union activist. More than 2,000 union officers and rank and file members have been brutally and systematically murdered since 1991 for exercising their right to organize, and fewer than 30 people have been convicted of murder in any of these cases.

You ask yourself: How is it that the U.S. Government chose to reward this particular country with a free trade agreement, with permanent market access to the United States? What kind of human rights record would a government need for the Bush administration to find that a country was not a good candidate for a free trade agreement?

Let me say in terms of the trade deficit that our national interests are not well served by the enormous and growing imbalance between our imports and exports. This creates global economic instability and vulnerability for the United States on many, many fronts. We have an over dependence on imports, even of crucial military imports, and we have a financial dependence on governments which are often hostile to our interests.

For globalization to live up to its promise to improve the lives of workers and the poor, not just the wealthy and the powerful here and around the world, we need an entirely new set of rules and institutions. We have argued for a long time on the need for enforceable ILO core labor standards in the core of every trade agreement, enforceable environmental standards and a reform of the investment, government procurement, services, and intellectual property rights provisions. Of course, we have argued how important it is that we need to protect U.S. trade laws.

I know we are going to face a fast track debate. It has been discussed a couple of times this morning already. We will vigorously oppose any attempt to extend the current flawed fast track authority. We simply cannot continue the status quo approach, which resulted in bad trade agreements, lost jobs, stagnating wages and a spiraling trade deficit. I thank you for your attention. I look forward to your questions.

[The prepared statement of Ms. Lee follows:]

PREPARED STATEMENT OF MS. THEA LEE, POLICY DIRECTOR, AFL–CIO

Thank you, Mr. Chairman, and members of the Subcommittee, for the opportunity to testify today on behalf of the more than ten million working men and women of the AFL–CIO on the important question you have posed: Is current U.S. trade policy successfully promoting American policy objectives at home and around the world?

We would argue that U.S. trade policy has failed in almost every important dimension. It has failed to create good jobs and healthy communities at home. It has failed to foster equitable, democratic, and sustainable development abroad. It has failed to safeguard our long-term national security interests. And it has utterly failed to ensure that American producers and workers are able to compete successfully in the global economy.

Foreign policy objectives are often invoked to garner support for free trade agreements and other proposed trade policies. On the simplest level, it is often argued that "free trade" will automatically bring prosperity to our trading partners, especially those in the developing world, and that prosperity in turn will solve a host of related problems: enhance democracy, reduce poverty, strengthen the rule of law, end workers' rights and human rights abuses, and provide resources to clean up the environment.

With all these problems solved, it is argued, U.S. friendships and alliances will be strengthened, pressure for illegal immigration will be lessened, and terrorist tendencies will be eradicated. Unfortunately, trade policy has not uniformly delivered

on these promises; in many cases, it has had the opposite effect. Until we dramatically overhaul the content of our trade policies, we will not see the results we seek, either at home or abroad.

In the Middle East, geopolitical concerns have driven a series of free trade agreement negotiations with countries that lack basic democratic rights and that do not allow their workers to exercise fundamental human rights in the workplace, especially the right to organize and bargain collectively. These trade negotiations send mixed signals: on the one hand, we are rewarding countries with abysmal human rights records with market access, while our rhetoric abroad promotes "democratic values."

USTR recently concluded a free trade agreement with Colombia—a country with an atrocious record of violence against trade unionists and impunity for the perpetrators of that violence. Colombia is the most dangerous country in the world in which to be a trade unionist. More than 2000 union officers and rank-and-file members have been brutally and systematically murdered since 1991. Fewer than thirty people have been convicted of murder in any of these cases, and only one since 2004.

In those cases where the perpetrator is known, government-supported paramilitary organizations or the armed forces or police are most often responsible. Numerous legislators, judges and senior government officials, many with close ties to President Alvaro Uribe, have been arrested or are being investigated for collaboration with these right-wing paramilitary organizations.[1] Designated as a "foreign terrorist organization" by the U.S. State Department, Colombian paramilitaries have committed numerous atrocities and crimes, including massacres, murder, torture and trafficking illicit drugs into the United States. Again, our foreign policy and trade policy seem to be in conflict, rather than in harmony.

What are the key foreign policy interests of the United States? Certainly, it is in our interest for our trading partners to grow and prosper—but to do so in an equitable and democratic way. Economic growth that enriches a tiny corporate or oligarchic elite, while the vast majority of the population lives in poverty, does not promote our interests, nor does it enhance global political stability.

Supporting strong and vibrant democracies is certainly in the U.S. interest. Today, global solidarity on behalf of democracy, freedom of association and basic human rights is more important than ever. Across the world, totalitarian rulers combine the power of the state with the power of the market in powerful, new and non-democratic forms. New and old forms of dictatorship cynically use the backlash against the injustices of the global economy to consolidate their hold on power. There is an effort to disconnect corporations from the accountability of democratic governance through a "constitution" for global trade that only guarantees the rights of investors. And, too often, nationalist, fundamentalist and xenophobic reactions to this new economic regime generate disorder, violence and the grisly tactics of modern terror.

Democracy is not easy. It cannot be exported at the end of a bayonet or a missile. Formal guarantees and institutions are vital, but are only a beginning. The words of democracy, expressed in charters and constitutions, must reflect the values and aspirations of the people. Understanding and respect for democratic values are built, person by person, organization by organization, in the fabric of civil society. Trade unions are an essential building block in that process. This is why we in the U.S. labor movement, together with our brothers and sisters in unions around the world, have worked so hard to insist that protection of core international workers' rights must be a crucial component of international trade rules.

U.S. national interests are not well served by the enormous—and growing—imbalance between our imports and exports. Our trade deficit hit a staggering $764 billion in 2006. Real median wages and family income continue to stagnate, while productivity growth soars. We have lost more than 3 million manufacturing jobs since 2000—many of them to trade—and good white-collar jobs that pay well are increasingly vulnerable. Estimates range from 14 million to 42 million service-sector jobs that could be subject to offshoring over the next decade—offsetting many of the promised benefits of trade liberalization.

Our declining manufacturing capacity poses a serious and growing threat to both our economic and national security. The loss of millions of skilled jobs, the closure of nearly 40,000 manufacturing facilities and the exporting of design, engineering and research and development capacity mean the next innovation, the next genera-

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[1] *See, e.g,* Forero, Juan, , *Paramilitary Scandal Takes Colombian Elite by Surprise*, Wash. Post, Feb. 22, 2007. "In all, eight congressman are now jailed, and investigators have questioned dozens of other nation and local lawmakers about suspected ties to death squads." Amnesty International USA reports that the Attorney General is investigating over 100 cases of collaboration.

tion of products and the next investment will be made in other countries. At the same time, we are losing the capability to supply our military troops with ammunition, uniforms and other essential equipment in a timely and flexible manner. The offshoring of our manufacturing capacity is underwritten by a toxic brew of workers' rights violations, lax environmental standards, currency manipulation and illegal subsidies that global corporations take advantage of.

Decades of trade deficits—all record-breakers in recent years—have contributed to a mounting cumulative international debt, which now exceeds $3 trillion. This unsustainable debt has greatly increased our vulnerability to financial crises and speculative currency movements. And the U.S. image abroad has suffered as our government is increasingly perceived as imposing an anti-development, anti-worker trade agenda on behalf of our multinational corporations. Indeed, workers' rights have not improved, and in some cases have worsened, in Central America, since CAFTA was put in place. Nor have the promised jobs materialized in most CAFTA signatories. It is no wonder that tens of thousands of workers and farmers have taken to the streets in Korea, Costa Rica and Thailand—among many other countries—to protest proposed trade deals put forward by the U.S. government.

It doesn't have to be this way. The movement of goods, services, money and people across national borders can and often does bring many benefits: increased economic growth and dynamism, as well as the beneficial spread of technology, culture and ideas across borders. The key missing part is how those benefits are distributed—and how to resolve the uneasy compromise between enforceable international rules and democratic decision-making.

The Promise of Globalization: New Rules for the Road

For globalization to live up to its promise to improve the lives of workers and the poor, not just the wealthy and the powerful—here and around the world—we need an entirely new set of rules and institutions.

We need global trade rules that link market access to strengthening protection for workers' fundamental human rights, as laid out in the International Labor Organization's (ILO) 1998 Declaration on Fundamental Principles and Rights at Work: the freedom of association and the right to organize and bargain collectively, and prohibitions on child labor, forced labor and discrimination in employment. These must be enforceable requirements, subject to the same binding dispute settlement and enforcement mechanisms as commercial provisions. No government should gain a comparative advantage in global markets by offering to violate its own workers' human rights—just to keep labor costs down. And no company should profit by taking advantage of vulnerable workers in one country to produce goods to sell to wealthy consumers in another.

Similarly, international environmental commitments under multilateral environmental agreements should be reaffirmed and protected in trade rules. Private investors must not have the right to challenge domestic environmental and public interest laws and regulations before closed international tribunals—leaving taxpayers liable for huge payouts.

We need to strike a better balance between domestic rule-making and international obligations—ensuring that trade rules do not threaten governments' ability to provide affordable and high-quality public services or to regulate labor markets, the environment, public health and consumer safety. Trade agreements must not require privatization or deregulation as a condition of market access, nor should they obstruct developing countries' right to address HIV/AIDS and other health crises through public access to essential medicines. Procurement provisions must not undermine the ability of federal and state governments to use tax dollars to create and maintain good jobs, to promote economic opportunity and development and to achieve other legitimate social goals. Changes in our immigration laws should be made by Congress, not through irreversible commitments offered up in trade negotiations.

We need more transparency and much broader public participation in the negotiation of trade rules, at both the national and international levels. Business is not the only constituency affected by trade and capital market liberalization, and it should not be the only non-government group at the table when these deals are cut.

The Wrong Track: A Record of Failure

On each of these fronts, our own government has let us down over and over again. Since 2001, the Bush administration has failed to seek meaningful protections for workers' rights and environmental standards in free trade agreement negotiations with more than a dozen countries and at the World Trade Organization in multilateral talks.

In fact, the administration recently proposed abandoning the internationally recognized ILO workers' rights as a standard and replacing them with U.S. labor laws in the Peru, Colombia and Panama free trade agreements. This proposal would replace decades of expertise and jurisprudence and hard-won international tripartite consensus at the ILO with a vague standard that our trading partners should have labor laws that are generally equivalent to U.S. labor laws. This is an arbitrary, unworkable and ill-conceived idea that would be an international embarrassment.

At the same time, the administration has aggressively sought excessive trade rules on investment, intellectual property rights, government procurement and service sector access on behalf of multinational corporations—heedless of the impact on workers, the poor or governments' capacity to regulate. In fact, our trade regime pursues corporate rights while leaving other concerns off to the side of the road.

The Bush administration has given America's workers, farmers and producers few reasons to have confidence that it will fight for our interests in the international arena. The administration has failed to enforce our own trade laws, rejecting strong 421 safeguard cases in defiance of the findings of the U.S. International Trade Commission. It refused to even consider four separate Section 301 cases challenging China's violation of workers' rights and currency manipulation. It has failed to effectively enforce workers' rights provisions in existing U.S. trade laws, including the generalized system of preferences and bilateral agreements. It has done far too little to protect our trade laws from international challenge, leading to erosion of those laws as we lose challenge after challenge at the WTO.

President Bush has asked Congress to renew Fast Track (also called Trade Promotion Authority) when it expires in June of this year. We will vigorously oppose any attempt to extend the current flawed Fast Track authority. We cannot simply continue the status quo approach, which has resulted in bad trade agreements, lost jobs, stagnating wages and a spiraling trade deficit.

We welcome a national debate over how best to reform our trade policies—and how to strengthen the role of Congress in this important and contentious area.

The Right Track

The first step in any new trade policy must be a serious strategic review of existing trade agreements *before* the initiation of any new trade negotiations. We need to re-examine the content and performance of current agreements to measure their strengths and weaknesses and determine how we can do better in the future. Tracing the actual trade and investment patterns that result from trade deals by sector and by state, as well as their impacts on employment, living standards, social regulation and communities, would allow a much more nuanced debate about the actual outcomes of trade deals rather than their promised benefits. Such a review must also include recommendations on how to address problems in existing agreements, up to and including renegotiation.

Second, Congress should have a role in choosing trade partners, which it does not have under our current set of rules. Congress should lay out "readiness criteria" to assess any potential trade agreement partner, including: the economic opportunities available for U.S. workers, firms and farmers; a country's legal framework and enforcement regimes; a country's compliance with ILO standards, multilateral environmental agreements and fundamental human rights; and the existence of a democratic governance system. Only countries that meet these readiness criteria should be eligible for negotiations. With these rules, we would not have negotiated a trade agreement with Colombia, whose government is responsible, by act or omission, for the deaths of thousands of trade unionists.

The third key element is to make the negotiating objectives laid out by Congress mandatory, rather than optional. Current Fast Track authority simply lists negotiating objectives without any requirement that each objective be met. For labor in particular, this has yielded terrible results: the corporate sector's objectives jump to the top of the list and ours limp along in last place. *In fact, workers' rights have been among our negotiating objectives for more than 30 years, with very little progress being made.* The U.S. Trade Representative has consistently ignored Congress's instructions with respect to protecting our trade laws and insisting on reciprocal market access, among many other things. These mandatory negotiating objectives should, at a minimum, address the issues listed above: labor, environment, investment, procurement, protecting our trade laws, intellectual property rights, services and immigration.

Fourth, Congress must certify that an agreement has met all the mandatory objectives before the agreement can be signed. Without such certification, an agreement will not receive expedited and preferential consideration and will be subject to amendment.

These represent only the most crucial changes that are needed to get our trade policy back on the right track.

Getting all the Tracks Right: Trade Enforcement, FTA's and Doha.

Last month, the Treasury Department once again, in its biannual currency report to Congress, announced that it was unable to find any "technical violations" of the law by the Chinese government with respect to currency manipulation. Once again, the Secretary assured the members of the Senate Banking Committee that another high level strategic dialogue will change the situation. Frankly, the time for talk is over, and it is time to act.

We have fully supported the introduction of H.R. 782, the Fair Currency Act, in the House. The AFL–CIO is grateful to Senators Stabenow, Bunning, Bayh, Snowe, Casey, and Levin for their leadership in introducing the companion bill in the Senate. We look forward to working with our business, farm and community allies on this important legislation. .

The revived Doha Round of negotiations can only be greeted with pessimism. Unfortunately, the framework of the talks laid out in Doha in 2001 fails to address the concerns of working families, both in the United States and in developing countries.

The key WTO issue for the labor movement is moving forward a constructive discussion about how the global trading system can strengthen international protections for workers' rights. If WTO rules can be applied to protect copyrights and patents across national borders, judge whether national environmental or public health laws are legitimate, and pressure governments to eliminate or reform subsidy programs, then surely the WTO can clarify that no country should gain a competitive advantage by violating the human rights of its own workers.

A second crucial issue not on the WTO agenda is currency manipulation. Even though WTO rules in principle forbid frustrating WTO commitments "through exchange action," this provision has never been applied. The WTO's failure to address this issue effectively strains the entire global trading system. Nor will the negotiations address needed institutional reforms at the WTO, especially in the areas of transparency and accountability.

While issues that labor would most like to see addressed by Doha are not even on the table, many issues of great concern are under discussion. U.S. trade and immigration laws are vulnerable, as many countries have expressed interest in weakening our trade laws, and in obtaining new commitments to raise current limits on temporary entry visas. NAMA negotiations put enormous pressure on the few remaining industrial sectors with high tariffs—while offering little hope of progress on workers' rights or significant reciprocal market access concessions. Services negotiations threaten the viability and quality of some public services.

Our nation no longer can continue with status quo trade policies. Those policies have failed—and failed miserably. They have failed our workers, our communities and our environment, and they pose a serious threat to our national security.

We look forward to working with you over the coming years to meet these challenges.

Congress must act now to reassert its voice and control over trade policy, which increasingly affects many areas of domestic policy. Without deep reform, we cannot come together to meet the many challenges we face as a nation.

Mr. SHERMAN. Thank you. I would hope that your AFL–CIO would go further than simply oppose fast track period but perhaps you will be able to get them there, at least fast track for this President rather than talking about putting conditions on it. Next I welcome Scott Paul, Executive Director of the Alliance for American Manufacturing. Mr. Paul directs research, public education and advocacy on issues impacting U.S. manufacturing including trade, currency valuation and energy. Mr. Paul.

STATEMENT OF MR. SCOTT N. PAUL, EXECUTIVE DIRECTOR, ALLIANCE FOR AMERICAN MANUFACTURING

Mr. PAUL. Mr. Chairman, members of the subcommittee, thank you very much for the opportunity to testify today. First, I would like to introduce you to the Alliance for American Manufacturing. We are a brand new partnership formed by some of America's lead-

ing manufacturers and their workers to explore challenging public policy topics such as trade. AAM works in a cooperative, nonpartisan way, bringing together labor and management, Democrats, Republicans and Independents, to work for one goal: Strengthening American manufacturing, and therefore our nation's economic and national security.

My entire statement has been submitted for the record. I will briefly summarize it for you now. In the past, international trade has been a below-the-radar issue for most Americans but as the problems grow worse, that appears to be changing. Our nation's flawed trade policy surreptitiously contributes to the anxiety and uncertainty many Americans feel about their jobs, their future and perhaps most importantly for them, their children's future.

Effective and meaningful trade policy can make a difference to the American people in the following ways: Whether tomorrow brings a layoff notice or a bonus; whether their community has a topnotch public school or one that is struggling to keep its doors open because the town's factory, its largest source of tax revenue, shut down and shifted production to the People's Republic of China; whether the jobs of the future for their children will be flipping hamburgers or careers in nanotechnology and advanced manufacturing; and whether their nation will have an industrial base that can best supply the critical materials that allow us to defend ourselves or if we will be forced to depend on the goodwill of other countries to do that for us.

For policymakers, the choices on trade are often presented as absolutes, and you heard that from your previous panel. You are an enlightened "free trader" or a jingoistic "protectionist." These labels are not helpful. In fact, they are misleading and divert our attention from the real truth. Open markets can benefit everyone—investors, consumers, companies and workers—but only if the rules are fair and only if those rules are aggressively enforced and appropriately enhanced.

Free trade is a theory that exists only within the confines of 19th and 20th century economic textbooks, not in the real world of the 21st century. You may hear from some theoreticians who will tell you that the trade deficit is somehow good for our economy, that this churning of the work force is the product of efficient capitalism, and that all of the layoffs and shifts of production abroad are inevitable in a 21st century where the world is really "flat."

The reality, Mr. Chairman, is vastly different. One-way trade relationship with countries that disregard the rule of law as well as their international commitments have simple yet devastating consequences: Lost American jobs and a declining manufacturing and innovation base. Conscious public policy choices and crimes of omission, the unwillingness of our trade bureaucracy and the World Trade Organization to enforce the rules, or even to apply new ones that were never negotiated, are damaging U.S. workers and businesses in every State.

Our nation has lost more than 3 million manufacturing jobs over the past 6 years. More than 40,000 manufacturing facilities have shut down, not as the result of productivity gains, but as the result of unfair competition, and our annual trade deficit stands—as the chart shows here—at more than $764 billion.

The largest single source of our trade woes is China, with whom we have a record $233 billion annual trade deficit. The shear size and structural nature of this deficit raises serious questions about its causes, including to what extent the deficit is driven by government interventions in the Chinese economy. Company after company has been adversely affected by a Chinese Government policy that simply needs to be described for what it is—and in the way that Representative Poe describe it—cheating.

China needs to be held accountable. It agreed to certain conditions when it joined the World Trade Organization but time after time it has refused to grant the same kind of trade access to its markets that we provide to it, and it has engaged in unfair and predatory practices to increase its exports. Subsidies, dumping, currency manipulation, violation of labor rights, lax or nonexistent environmental enforcement are just some of the egregious practices that must be addressed.

Quite literally, U.S. trade laws—including anti-dumping and countervailing duty laws—when enforced level the playing field, and allow us to remain competitive. The consequences of illegal trading practices to American manufacturers and workers are severe. For example, a study that AAM will be releasing shortly found that American furniture manufacturers lost $330 million in revenue as a result of furniture illegally dumped into the United States market from China. That same study examined the United States steel industry, which as a result of illegal dumping of hot-rolled steel from Japan, Brazil and Russia, lost more than $2.6 billion in revenue from 1996 to 1998.

When other countries do not have to play by the same rules as U.S. manufacturers, the results are not only lost revenues but also lost jobs and a loss of economic security for American workers, their families and their communities. Imposing clear and direct penalties on those who cheat or break the law is vital to ensuring that there is a level playing field around the globe. The rules of international trade are just that, rules, not suggestions.

Mr. Chairman, we depend on domestic manufacturing to supply our advanced materials for equipment like the joint strike fighter, the Bradley fighting vehicle, the Abrams tank and our Naval fleet. If we continue to lose our manufacturing base, our nation's military could lose its primary source of strategic resources, and we as a nation would become dangerously dependent upon foreign sources of supply.

Just as our nation is seeking to achieve energy independence from the Middle East, we should also avoid becoming more dependent on others to supply our national and homeland defense. AAM believes that America's leadership in the information age does not mean that we have to accept defeat when it comes to manufacturing. On the contrary, the nation that has the ideas and innovation as well as cutting edge technology and manufacturing is the nation that will win the global economic battles of the future.

We look forward to working with you to ensure that we put into place trade policies that will allow manufacturing to thrive well into the 21st century. Mr. Chairman and members of the subcommittee, thank you again for the opportunity to testify today. I am happy to answer any questions that you may have.

[The prepared statement of Mr. Paul follows:]

PREPARED STATEMENT OF MR. SCOTT N. PAUL, EXECUTIVE DIRECTOR, ALLIANCE FOR AMERICAN MANUFACTURING

Mr. Chairman and distinguished members of the subcommittee, I want to thank you for taking the time to study trade, foreign policy, and the American worker, and for inviting me to testify on behalf of the Alliance for American Manufacturing. I am honored to be before this subcommittee to discuss an issue of such importance to our economy and our national security.

First, I would like to introduce the Alliance for American Manufacturing and our perspective on this topic. We are a brand new partnership formed by some of America's leading manufacturers and their workers to explore challenging public policy topics such as trade, as well as health care, retirement, energy, currency valuation, and other issues of mutual concern. AAM works in a cooperative, non-partisan way, bringing together labor and management, Democrats, Republicans and independents, to work for one goal: strengthening American manufacturing and therefore our nation's economic and national security. Our mission is to provide policymakers like you with useful analysis of the issues, as well as innovative policy ideas to move us toward effective solutions.

In the past, international trade has been a "below the radar" issue for most Americans, but as the problems grow worse, that appears to be changing. Our nation's flawed trade policy surreptitiously contributes to the anxiety and uncertainty many Americans feel about their jobs, their future, and perhaps most importantly for them, their children's future. Effective and meaningful trade policy can make a difference to the American people in the following ways:

- Whether tomorrow brings the layoff notice or the holiday bonus;
- Whether their community has a top-notch public school, or one that is struggling to keep it doors open because the town's factory—its largest source of tax revenue—shut down and shifted production to the People's Republic of China;
- Whether the jobs of the future for their children will be flipping burgers or careers in nanotechnology and advanced manufacturing; and
- Whether their nation will have an industrial base that can supply the critical materials that allow us to defend our nation, or if we will be forced to depend on the goodwill of other nations to do that for us.

For policymakers, the choices on trade are often presented as absolutes: you are an enlightened "free trader" or a jingoistic "protectionist." Trade produces many "winners" and a few unproductive, unskilled and unfortunate "losers" who must be retrained for the jobs of the future. You'll hear arguments asserting that free trade is a "no brainer" and a "win-win." These labels are not helpful. In fact, they are misleading and divert our attention from the real truth: open markets can benefit everyone—investors, consumers, companies, and workers—but only if the rules are fair and only if those rules are aggressively enforced and appropriately enhanced.

Free trade is a theory that exists only within the confines of 19th and 20th Century economic textbooks, not in the real world of the 21st Century, where labor arbitrage and the mobility of capital and investment encourage a race to the bottom, rather than strategies that will support sustained economic growth and broadly shared benefits, in industrialized as well as developing nations. You may hear from some theoreticians who will tell you that the trade deficit is somehow good for our economy, that this "churning" of the workforce is the product of efficient capitalism, and that all of the layoffs and shifts of production abroad are inevitable in a 21st Century where the world is really "flat."

The reality is vastly different. One-way trade relationships with countries that disregard the rule of law as well as their international commitments have simple yet devastating consequences: lost American jobs and a declining manufacturing and innovation base. Conscious policy choices and crimes of omission—the unwillingness of our trade bureaucracy and the World Trade Organization to enforce the rules or to apply new ones that were never negotiated—are damaging U.S. workers and businesses in every state in the nation. Our nation has lost more than 3 million manufacturing jobs over the past six years. More than 40,000 manufacturing facilities have shut down. And our annual trade deficit stands at more than $764 billion.

The Role of China

The largest single source of our trade woes is China. The U.S. trade deficit with China skyrocketed for the sixth consecutive year in 2006, reaching a record high of

$233 billion, nearly one-third of the overall U.S. trade deficit. The sheer size and structural nature of this deficit raises serious questions about its causes, including to what extent the deficit is driven by government interventions in the Chinese economy.

In particular, China maintains numerous policies including state-sponsored subsidies aimed at promoting investment, exports and employment. Those policies have a direct role in increasing the U.S.-China trade imbalance and negatively affect the health of our domestically based manufacturers, service providers and farmers.

When China became a member of the World Trade Organization, proponents argued that it would herald in a new age of opportunity and expand market opportunities for U.S. companies. Unfortunately, China continues to follow a policy of export-led growth to build up its own manufacturing base at the expense of other countries. Almost 60 percent of China's exports come not from Chinese firms, but from foreign-invested enterprises. Many of these companies set up operations hoping to serve the Chinese market, only to find a web of policies and practices to limit their opportunities there but incentives to export their products back to their home countries.

Just a few months ago, the director of the Chinese Government's State-owned Assets Supervision and Administration Commission (SASAC), announced a new policy that raises serious questions of governmental control, involvement and intervention in a number of major industries. In industries ranging from telecommunications to steel to machinery and many others, China's leaders made it clear that the state will continue to exert its control, making it virtually impossible for American firms to compete.

China also has provided massive subsidies to its companies to give them an advantage over U.S. farmers, workers and businesses trying to sell their products to China, as well as flooding our market with their products. Company after company has been adversely affected by a Chinese government policy that simply needs to be described for what it is: cheating.

China needs to be held accountable. It agreed to certain conditions when it joined the World Trade Organization but, time after time, it has refused to grant the kind of trade access to its markets that we provide to it and has engaged in unfair and predatory practices to increase its exports. The result is one way free trade and, as noted above, skyrocketing trade deficits. Subsidies, dumping, currency manipulation, violation of labor rights, lax or nonexistent environmental enforcement are just some of the egregious practices that must be addressed.

The Importance of Enforcing Our Nation's Trade Laws

The inability, and in many cases the unwillingness, of policymakers in Washington to enforce current trade laws has allowed the deck to be stacked against U.S. manufacturers and workers. As a result, they have been forced to play by a different set of rules than their competitors. This has contributed to a loss of nearly three million manufacturing jobs since 2000 and the closing of more than 40,000 manufacturing facilities.

Quite literally, U.S. trade laws—including anti-dumping and countervailing duty laws—when enforced, level the playing field and allow individual companies, farms and even whole industries in America to remain competitive. Some critics argue, however, that these trade laws are shortsighted in this era of globalization and that the end results of these laws are limits on consumer choice and thus higher prices.

Now Congress is considering reauthorizing the President's authority to negotiate free trade agreements. Further intensifying the discussion is the World Trade Organization's Doha Development Round, the organization's agenda associated with lowering trade barriers around the world.

As debate continues, we should not lose sight of the stark reality that U.S. manufacturers and workers face when trade laws are not enforced. The consequences of illegal trading practices to American manufacturers and workers are severe. For example:

- A study that AAM will be releasing shortly found that from 2001 to 2003 American furniture manufacturers lost $333 million in revenue as a result of wooden bedroom furniture dumped into the U.S. market from China.
- That same study examined the U.S. steel industry, which as a result of the dumping of hot-rolled steel from Japan, Brazil and Russia, lost more than $2.6 billion in revenue from 1996 to 1998.

When other countries don't have to play by the same rules as U.S. manufacturers, the results are not only lost revenues, but also lost jobs and a loss of economic security for American workers, their families and their communities. The words of Bill Kortz, a longtime employee of U.S. Steel in Pennsylvania, say it best:

"We've had half of our mill shut down because of that dumping. The impact has been traumatic. For every steelworker here, we provide enough opportunity and employment for seven other surrounding people outside our industry just to provide products and services to help sustain us. If they do away with the trade laws, we're in trouble."

Michael Ursini, the president of a furniture company in Illinois, who has been forced to contend with illegally dumped imports from China, articulates the devastating consequences:

"We've seen at least a 50 percent decrease in the sales of our case pieces, and I would say most of that would have to do with furniture being made in China."

In industries as diverse as garlic, honey, computer chips, cement, ball bearings, steel and many, many others, American businesses and workers—who are highly productive and efficient—are facing a torrent of subsidized products made by workers overseas who are paid artificially low wages in deplorable conditions. There is nothing free about that sort of trade. American workers and businesses need rules that are fair to everyone, and they need those rules enforced.

The reality is that enforcing the law works. Imposing clear and direct penalties on those who cheat or break the law is vital to ensuring that there is a level playing field around the globe. The rules of international trade are just that—rules, not suggestions. The time is long overdue for the U.S. to enforce our trade laws and hold our trading partners accountable for their unfair trading practices. It is time to stand up for American workers and American manufacturers. Americans should expect—and deserve—nothing less.

Our National and Economic Security Depend on a Strong Manufacturing Base

Manufacturing has been the engine that drives the American economy for more than a hundred years, and it will continue to be well into the 21st century. America's future growth, security and leadership in the global economy will depend on the strength and viability of our manufacturing base.

Manufacturing in the United States generates about $1.4 trillion, or 12 percent of our gross domestic product. Manufacturing is responsible for nearly two-thirds of private sector research and development in the United States. Over the past two decades, manufacturing productivity has increased at twice the rate of the rest of the private sector.

Manufacturing directly employs 14 million America and supports eight million more. Each manufacturing job supports as many as four other jobs, providing a boost to local economies. For example, every 100 steel or every 100 auto jobs create as many as 700 new jobs in the rest of the economy. This contrasts with the retail sector, where every 100 jobs generate 94 new jobs elsewhere, and the personal and service sectors, where 100 jobs create 147 new jobs. This multiplier effect reflects how manufacturing's linkages run deep into the economy, providing the means that translate improvements in manufacturing productivity to the economy as a whole.

Manufacturing is a vital part of the economies of most states. As a share of gross state product (GSP), in 2001 manufacturing was among the three largest private-industry sectors in all but 10 states and the District of Columbia. Manufacturing is the largest sector in ten states and in the Midwest region as a whole. It is the second largest in nine states and the third largest in 21 others.

But the extraordinary pressures of unfair trade practices, rising health care and energy costs, and illegal foreign currency manipulation have conspired to plunge manufacturing into deep crisis. Unless Congress and the Administration respond to these issues now, we may not be able to count on having a strong manufacturing base in the future.

We depend on domestic manufacturing to supply our advanced materials for equipment like the Joint Strike Fighter, the Bradley Fighting Vehicle, the Abrams Tank, and our naval fleet. If we continue to lose our manufacturing base, our nation's military could lose its primary source of strategic resources, and we as a nation would become dangerously dependent upon foreign sources of supply.

The Congress and the American people have become all too aware of the limitations that dependency on foreign sources of energy creates for foreign policy and national security purposes; it makes no sense to exacerbate that problem by depending on China and other nations to supply our critical defense needs. Just as our nation is seeking to achieve energy independence from the Middle East, we should also avoid becoming more dependent on others to supply our national and homeland defense.

AAM believes that America's leadership in the information age does not mean that we have to accept defeat when it comes to manufacturing. On the contrary, the nation that has the ideas and innovation, as well as cutting-edge technology and manufacturing, is the nation that will win the global economic battles of the future.

That is why we look forward to working with you to ensure that we put into place policies that will allow manufacturing to thrive well into the 21st Century.

As Federal Reserve Chairman Ben Bernanke stated on Feb. 28, 2007, "I would say that our economy needs machines and new factories and new buildings and so forth in order for us to have a strong and growing economy."

Contrary to popular misconceptions, the industrial age is not over. In fact, just the opposite is true. From nanotechnology, and robotics, to lasers and biotechnology, we are on the cusp of incredible advances in manufacturing. America must be the nation that leads the world into the next stages of development. Manufacturing is, and will continue to be, an integral part of the "new economy." With manufacturing, the new economy will thrive. Without manufacturing, much of this new economy would not even exist.

Mr. Chairman and members of the subcommittee, thank you again for the opportunity to testify today. I am happy to answer any questions you may have.

Mr. SCOTT [presiding]. Thank you very much, Mr. Paul. It was very, very illuminating, and we thank you, and thank you Ms. Lee. Next we have Ms. Yvette Pena Lopes from the International Brotherhood of Teamsters, our good friends. Ms. Pena Lopes represents the Teamsters' 1.4 million members on issues related to trade, immigration and Social Security, in addition to serving on the Board of Directors for the Citizens Trade Campaign. Welcome, Ms. Lopes.

STATEMENT OF MS. YVETTE PENA LOPES, LEGISLATIVE REPRESENTATIVE, INTERNATIONAL BROTHERHOOD OF TEAMSTERS

Ms. LOPES. Thank you. Thank you, Mr. Chairman and members of the subcommittee. Thank you for inviting me to testify today on behalf of the 1.4 million union members of the International Brotherhood of Teamsters. The issue of trade and how it impacts workers and our national security has always been a top priority for the Teamsters union under the leadership of General President Hoffa. We commend the subcommittee for holding this important hearing.

Ideally trade and globalization policies should be used as a tool to advance the priorities of the American people, the worker, American foreign policy and our national security interests. In reality, U.S. trade policies have not achieved this. In fact, our trade policies have achieved the opposite effect in all areas, and instead of stopping, rethinking and trying a different direction, this administration has continued to just push forward more of the same, pushing U.S. workers closer and closer off a cliff.

The U.S. trade deficit hit $764 billion in 2006. We have lost more than 3 million manufacturing jobs since 2000. If this trend continues, we will be completely dependent on other countries to provide everything to us. Our manufacturing loss is a matter of national security.

Since 1980, labor productivity has increased over 80 percent, and yet the average American worker is making only a nickel more per hour in inflation adjusted terms than in 1973, the year before Nixon first used fast track authority. Actually that was the year Nixon invented fast track.

Better trade policies can do better for America's workers than a nickel more per hour. Were it not for trade agreements that pit U.S. workers in a race to the bottom with poverty wage workers worldwide, U.S. workers' wages would better reflect productivity increases, and workers in developing countries would be better equipped to fight for higher wages.

I would like to briefly discuss the direct impact NAFTA has had on the United States-Mexican workers. We face a growing trade deficit with Mexico and Canada, and more than 1 million United States jobs have been lost as a direct result of NAFTA. Mexico saw a rise of its low-wage microdelo industries which are actually now moving to China in search of even lower wages. The agricultural sector in Mexico was devastated under NAFTA. Millions of Mexican workers and their families feel forced to risk their lives across the border to find work here in the United States because they cannot make a living at home despite the promises of NAFTA.

Every single immigration letter proposal that the Teamsters have put forward on immigration has always laid out the importance of addressing our globalization policies because the issue of immigration will not really fully be addressed until we do so. For the Teamsters, NAFTA has also meant fighting to ensure that unsafe trucks are not able to enter the country from Mexico. This issue has demonstrated firsthand for the Teamsters that these FTAs not only impact our workers through the off-shoring of jobs but also by threatening U.S. domestic regulation and giving our trading partners rights to our infrastructure and to jobs that would not have existed otherwise.

Teamsters are not against trade. We are often called protectionists, isolationists, all the names that have been used today. We are for trade but not the trade that has been done thus far. The fact is that we need an entirely new set of rules. With respect to the labor chapter, we need rules that link market access to strengthening protection for workers as laid out in the core ILO standards. Core ILO standards must be met and must be enforceable.

The labor chapter must also be subject to the same binding dispute settlement enforcement mechanisms as commercial provisions. No government should gain a comparative advantage in global markets by keeping labor costs down by violating its own workers human rights. This is not how the U.S., the greatest country in the world, should promote trade, on the backs of exploited workers.

Also our union brothers and sisters are being killed and nothing is being done about it, except for negotiating and signing FTAs with the countries that allow this to happen. One of our own, Gilberto Soto, was killed in El Salvador, on November 5, 2005, while on assignment for the Teamsters to build a network of Central American port workers. The El Salvadoran Government never conducted an objective investigation of the murder and continues to obstruct the work of the country's human rights omnibudsman, Dr. Beatrice de Carrillo, who has been investigating the assassination and cover up of Soto's death.

Gilberto Soto's death was before CAFTA, and so there are some who argue that CAFTA will make the labor right situation in the CAFTA countries better. So far this has not been the case. Just this year Pedro Samora, who was the head of the port workers union in Guatemala, was killed when gunmen shot him 20 times, and now USTR wants to consider an FTA with Colombia. Colombia leads the world in the assassination of trade unionists, as Ms. Lee has spoken about already.

While most of the discussions on the FTAs have been centered on the labor chapter, it is critical that other sections of the FTAs

be negotiated and addressed as well. We must ensure that international environment commitments are reaffirmed and protected in trade rules. Our trade policies must also stop requiring privatization or deregulation as a condition of market access.

It is also interesting to note that under the Peru FTA Peru is actually being forced to open its Social Security system to private for-profit corporations, something that we are not even willing to do here. Our trade policies should not prevent developing countries from addressing public access to essential medicines, and they do. Our trade policies should not have procurement provisions that undermine the ability of Federal and State governments to use tax dollars to create and maintain good jobs, and they do.

The investment chapter is also of great concern to us and needs to be fixed. Our ports are even being threatened under these FTAs, and making matters even more interesting and of concern to us is the fact that Dubai Ports World already operates in Peru, therefore giving them immediate standing if they wanted to sue us under the investment chapter.

Now looking beyond the FTAs, I cannot ignore China, which is the global economic powerhouse that is setting the global norm for working standards around the world is a focal point for many of the economic insecurities that people feel about globalization. So Congress must address the issue of unfair trade with China, and a good starting point would be to pass Hunter-Ryan.

During the last several years, WTO negotiations have been occurring. These negotiations have been called the Doha Development Round. While the notion of development sounds good, the reality is that the direction in which these negotiations have so far gone will not achieve development but instead further undermine workers' rights, regulations and democracy. Unless these negotiations take a completely different approach, they have failed and must not be supported.

There has been discussion by some that fast track should be extended if there is a deal in Doha and to give Doha and opportunity for there to be a deal. I would argue just the opposite. Fast track should not be extended at all, especially not for the anti-worker and anti-development Doha negotiations. With respect to fast track, as all of you know, it will expire June 30 of this year. The Teamsters strongly oppose the renewal of fast track. We also oppose the idea of making a few changes to fix fast track in order to fix a fundamentally flawed idea.

As I have stated throughout my testimony a new model is needed, not a model that has been tweaked or edited, and so fast track must be retired, and when the time is right an alternative and fair model should be put in place, changed to win together with the AFL–CIO and others have been working on an agreement of that kind of a replacement model that we believe would benefit all workers.

And so with the discussions that took place just yesterday regarding an overall new outlook on the trade agenda, we are encouraged that real reform will happen. While a step has been made in the right direction, it remains to be seen if it is a real reform and change that U.S. workers need in light of the fact that some aspects of these flawed FTAs appear not to be addressed.

It is critical to do this right. We will be taking a closer look at the proposals that have been put forward, and look forward to working with you to ensure that all workers are uplifted. Thank you.

[The prepared statement of Ms. Lopes follows:]

PREPARED STATEMENT OF MS. YVETTE PENA LOPES, LEGISLATIVE REPRESENTATIVE, INTERNATIONAL BROTHERHOOD OF TEAMSTERS

Chairman Sherman, Ranking Member Royce, and Members of the Subcommittee, thank you for inviting me to testify today on behalf of the 1.4 million union members of the International Brotherhood of Teamsters on this important topic. The issue of trade and how it impacts workers and our national security has always been a top priority for the Teamsters Union under the leadership of General President Hoffa. I hope that the Administration and all of your colleagues take seriously what has been highlighted today, because U.S. workers, in fact, all workers, are being negatively impacted by our trade policies. So much is being threatened and very little is being done.

Ideally, trade and globalization policies should be used as a tool to advance the priorities of the American people, the worker, and American foreign policy and national security interests. In reality, U.S. trade policies have not achieved this; in fact, our trade policies have achieved the opposite effect in all areas. And instead of stopping, rethinking, and trying a different direction, this Administration continues to just push forward more of the same—pushing U.S. workers closer and closer off a cliff. The Teamsters are hopeful that with your leadership, and the Leadership of this new Congress, the status quo will change.

EFFECTS OF AN UNEVEN TRADING RELATIONSHIP ON THE AMERICAN WORKFORCE

The United States trade deficit hit $764 billion in 2006. We have lost more than 3 million manufacturing jobs since 2000. One in six manufacturing jobs has disappeared. This poses a serious threat, not just to the many families and communities who have been crushed as a result of this loss, but also our research and development capacity as a country. We are losing our capability to supply our military troops with uniforms, ammunition, and other essential items. If this trend continues, we will be completely dependent on other countries to provide everything to us. Our manufacturing loss is, in fact, a matter of national security.

It is not just manufacturing jobs that are being lost, but service jobs as well. The Progressive Policy Institute found that 12 million information-based U.S. jobs are highly susceptible to off-shoring. Independent academic studies have projected a much higher number.

Foreign ownership of U.S. debt has reached more than $3 trillion, a dangerous level that is another potential threat to our national security. Great Britain, China, Korea, Japan hold the largest share of our debt; China alone holds $353.6 billion of U.S. Treasury securities. Conceivably, they could cash out anytime and leave us in a financial crisis.

American workers are the most productive in the world. Since 1980, labor productivity has increased over 80 percent, but the real median wage has increased only 2 percent over a quarter century. The average American worker is making only a nickel more per hour in inflation-adjusted terms than in 1973, the year before Nixon first used Fast Track to grab Congress' constitutional trade authority. Better trade policies can do better for America's workers than a nickel more per hour. Were it not for trade agreements that pit U.S. workers in a race to the bottom with poverty-wage workers worldwide, U.S. workers' wages would better reflect productivity increases. And workers in developing countries would be better equipped to fight for higher wages.

Today, America has the most unequal distribution of income and wealth of any developed country in the world. Income and wealth are more unequally distributed in America today than at any time since the 1920s. CEO's on the other hand are doing quite well. The average CEO of a major American corporation earned twenty times that of an average worker in 1980, today the average CEO earns 431 times what the average worker earns.

There are some who like to argue that U.S. workers win when imports increase because when goods are produced by low-paid exploited workers overseas, they are cheaper for all of us. Yet, the Center for Economic and Policy Research applied the actual data to the trade theory.

The center discovered that when you compare the lower prices of cheaper goods to the income lost from low-wage competition, U.S. workers without college de-

grees—the vast majority of US workers—lost an amount equal to 12.2 percent of their current wages. That is to say, under our current policy, the losses in wages from trade outweigh the gains in cheaper prices from trade. For a worker earning $25,000 a year, this loss would be slightly more than $3,000 per year.

NAFTA HAS FAILED WORKERS

I would also like to discuss the direct impact the North American Free Trade Agreement (NAFTA) has had on U.S. and Mexican workers. In 1994, when NAFTA was passed, we were promised that it would generate large numbers of net new jobs. We were told that not only would this happen, but Mexico would also benefit greatly and see a rise in their middle-class. Just like during the CAFTA debate and the Oman FTA debate, Labor was called isolationists, protectionists and nativists because of our strong opposition to NAFTA and these other agreements.

I wish we could say that our worst fears were wrong, but in fact, everything we feared came to fruition. Instead of the promised nirvana, we face a growing trade deficit with Mexico and Canada that has displaced production that supported roughly 660,000 manufacturing jobs and one million total U.S. jobs. The one million jobs displaced by NAFTA would have paid $800 per week or more in 2004.

NAFTA has not fared well for Mexico either. Mexico saw a rise of its low-wage maquiladora industries, which are actually now moving to China in search of even lower wages. The agricultural sector in Mexico was devastated under NAFTA, leaving Mexican small farmers unable to provide a living for their families. How can we expect these farmers to compete with U.S. subsidies and call that fair or even free trade?

Millions of Mexican workers and their families feel forced to risk their lives to cross the border to find work here in the U.S. because they cannot make a living at home, despite the promises of NAFTA. Like the U.S., wages in Mexico have not increased as promised either. In fact, according to the Economic Policy Institute's Revisiting NAFTA, average household labor income in 2004 was 15 percent lower than incomes in 1994.

And yet, as FTAs continue to be considered by Congress, the argument continues to be made that life will get better, that labor laws and their enforcement will be improved, wages will increase and the desperation of workers from these countries trying to immigrate here will cease. We are still waiting and I think we will forever be waiting unless we change the model and maybe even redoing what has been done. We hear Teamster members often ask, "Can't Congress just make NAFTA go away?"

For the Teamsters, NAFTA has also meant fighting to ensure that unsafe trucks are not able to enter the country from Mexico. General President Hoffa has led the Teamsters in this fight, and so far, we have been successful in ensuring that unsafe trucks do not enter the U.S. This issue has demonstrated first hand for the Teamsters that these FTAs not only impact our workers thru the off-shoring of jobs, but also by threatening U.S. domestic regulation and giving our trading partners rights to our infrastructure and to jobs that would not have existed otherwise.

NAFTA included a requirement that all three countries' highways be fully accessible to trucking companies based in any NAFTA nation, an item championed by large U.S. trucking firms seeking lower-waged Mexican drivers. Just recently the Administration announced a pilot program to allow Mexico-domiciled trucks broad access to the U.S. highway system. This action is reminiscent of the Dubai Port debacle, where the Bush Administration is willing to risk our national security by giving unfettered access to America's transportation infrastructure to foreign companies and their government sponsors while ignoring the safety and security of the American people.

This recent announcement is the latest in a 12-year-long NAFTA fight. A NAFTA tribunal ordered the United States to allow Mexican-domiciled trucks to enter the United States, and Mexico is threatening trade sanctions if the United States fails to comply. It is because of NAFTA that this issue continues to resurrect itself even though the House voted in 2001 to effectively ban Mexican trucks from traveling beyond the currently permitted commercial zones. The Senate then followed that action by passing comprehensive safety guidelines, commonly referred to as the Murray-Shelby provisions that prevented the DOT from expending money to review applications of Mexican carriers until certain conditions were met. At this time these conditions have still not been met.

NAFTA has also meant more threats to workers trying to organize in the U.S. It has been appalling to see workers who want to organize, but are afraid to because of the looming threat that the company will move to Mexico or China where workers are paid less and labor laws are more lax. That is what NAFTA has done to our

workers. That is what China PNTR has done to our workers—increased their employer's control and threat over them—increased their job insecurities. And these are not just Teamster stories, or U.S. union stories, but stories that happen everyday around the globe.

TIME FOR A NEW MODEL BECAUSE THE CURRENT TRADE MODEL HAS HURT WORKERS

Beginning with the Labor Chapter

Because we have spent years opposing these disastrous trade deals, from NAFTA to China PNTR, to Free Trade Area of the Americas (FTAA), to Fast Track, to CAFTA and Oman FTA, there is an impression out there that we are against all trade. It is not that we are against "trade," we are against the current trade model and the current Fast Track process that is used to formulate our trade policies.

These policies are killing U.S. jobs, and not doing much good for foreign workers. They have fueled a race-to-the-bottom that must now end. Instead of scrapping the old model and trying a new one, we continue to see a "one-size-fits-all" model that fails to uplift workers and bring about trade and social justice. The U.S.-Peru FTA, which is currently being renegotiated, is just like CAFTA, the Oman FTA, and the Colombia FTA. If you take CAFTA, and just add "Peru," you virtually have the same agreement.

The fact is that we need an entirely new set of rules that link market access to strengthening protection for workers as laid out in the International Labor Organization's (ILO) 1998 Declaration on Fundamental Principles and Rights at Work: the freedom of association and the right to organize and bargain collectively, and prohibitions on child labor, forced labor, and discrimination in employment. Each of these must be made enforceable requirements. Currently, even though meeting the Core ILO standards is not enforceable in the FTAs, USTR has actually left out "discrimination in employment" when listing the ILO standards. This was done in the Trade Promotion Authority process, which is outrageous in and of itself.

The labor chapter must also be subject to the same binding dispute settlement and enforcement mechanisms as commercial provisions. No government should gain a comparative advantage in global markets by keeping labor costs down by violating its own workers' human rights. It is time to end this current climate of allowing companies to profit by taking advantage of vulnerable workers in one country to produce goods to sell to a more wealthy consumer in another country. This is not how the U.S., the greatest country in the world should promote trade-on the backs of exploited workers.

It is appalling to the Teamsters Union that the USTR continues to not only use this same failed NAFTA/Fast Track model in country after country, but it is also disconcerting to us who we are entering FTAs with. Our union brothers and sisters are being killed and nothing is being done about it except for negotiating and signing FTAs with the countries that allow this to happen.

As members of the Committee most likely know, one of our own-Gilberto Soto, was killed in El Salvador on November 5, 2004 while on assignment for the Teamsters to build a network of Central American Port workers. The Salvadoran government never conducted an objective investigation of the murder and continues to obstruct the work of the country's Human Rights Ombudsman, Dr. Beatrice de Carrillo, who has been investigating the assassination and cover up of Soto's death.

Dr. Carrillo has received death threats for examining Soto's killing and other human rights violations in El Salvador. The Teamsters are presenting her with a Human Rights award in the end of April for all of the work she has done—not only on the Soto case, but for human rights and workers rights in El Salvador.

Gilberto Soto's death was before CAFTA, and so there were some who argued that CAFTA will make the labor rights situation in CAFTA countries better. So far, this has not been the case.

The Central American countries vowed to strengthen worker rights as they attempted to get votes for passage of CAFTA. According to diplomats, labor inspectors, workers and managers there has been little, if any, progress. Just this year, Pedro Zamora, who was the head of the port workers union in Guatemala, was killed when gunmen shot him twenty times. Zamora was in the midst of contentious negotiations with management.

For the record, I have submitted a Washington Post article dated March 16, 2007 titled *Labor Rights in Guatemala Aided Little by Trade Deal*. The article spoke of Zamora's murder, and also the current labor, human rights, and trade climate in Guatemala. There are many examples and quotes throughout the article that make clear that for many corporations and for Guatemala, good labor laws and the enforcement of them hinder their competitiveness with China and other countries. It is only by killing trade unionist and locking workers into factories and not paying

them overtime, that companies can compete. This race must end, and our government and multinational companies' contribution to it must also end.

As members of the Committee are well aware, we have been especially concerned with USTR's willingness to enter into an FTA with Colombia. Colombia leads the world in the assassination of trade unionists. According to the Esceula Nacional Sindical (ENS), highly regarded labor institutes based in Medellin, Colombia, 2,262 union officers and rank-and-file members have been murdered since 1991. In 2006, 72 trade unionists were gunned down. This is an average more than one killing a week. It is an outrage that USTR would even think that the Congress would support an FTA with a country that allows the killing of trade unionists. No FTA with Colombia should be considered until the union killings stop and until Colombia brings its laws into conformity with ILO recommendations.

The U.S. is also in process of negotiating an FTA with South Korea, the seventh largest economy in the world. Many key issues remain unresolved, such as automotive trade, intellectual property, and agriculture. The labor chapter currently is the same rubber stamp labor chapter used in the other FTAs. There has not been much public discourse on the labor situation in Korea. The Change to Win and the AFLCIO Labor Federations have been working in solidarity with our union brothers and sisters in Korea throughout the FTA negotiations in an effort to highlight these serious problems, and our concerns with the direction of the negotiations.

The labor situation in Korea has been worsening during the last couple of years, rather than improving. Last year the government unjustly shut down the offices of the Korean Government Employees Union. Dozens of trade unionists are now serving time behind bars for the legitimate exercise of trade union rights, including the organization of strikes and demonstrations. Some of the sentences are quite severe lasting for years. Irregular workers, which are similar to independent contractors and temporary workers, are now becoming the norm in Korea. They are not able to exercise their fundamental labor rights, including the right to organize, and earn, on average, 50 percent less than regular workers. This situation has left our union brothers and sisters in Korea concerned with the future of Korea's workforce, especially if a race-to-the-bottom type FTA is implemented with the U.S.

Moving Beyond the Labor Chapter

While most of the problems with the FTAs have centered on the labor chapter, it is critical that other sections of the FTAs be renegotiated and addressed as well. A better balance must occur between domestic rule-making and international obligations. We need to ensure that trade rules do not threaten a government's ability to provide affordable and high-quality public service or important labor, environmental, consumer safety, and public health regulations.

We must ensure that international environmental commitments under multilateral environmental agreements are reaffirmed and protected in trade rules.

Our trade policies must also stop requiring privatization or deregulation as a condition of market access. The privatization and deregulation of essential services such as water, healthcare, and education must end. This makes it virtually impossible for many workers, especially women and the poor in developing countries, to ensure their families are provided with adequate health care, education, and basic services.

It is also interesting to recognize that under the Peru FTA, Peru is forced to open its Social Security system to private for-profit competition. This is something that the President has wanted to do here in the U.S., but Congress won't let him, yet it is being done under the Peru FTA to Peru, and nothing is being done to address this.

Our trade policies should not prevent developing countries from addressing the horrors of the HIV/AIDS epidemic through public access to essential medicines. The FTAs intellectual property provisions, restrict access to life-saving medicines, through unnecessarily long patents and data-protection provisions. According to Doctors without Borders, after the first five years of the trade deal, between 700,000 to 900,000 Peruvians are expected to be excluded from receiving medicines. How can USTR and Congress allow this to happen?

Our trade policies should not have procurement provisions that undermine the ability of federal and state governments to use tax dollars to create and maintain good jobs, and to promote economic opportunity and balance. If the procurement chapter is not adequately or correctly fixed, our Buy-America laws, anti-offshoring directives, anti-sweatshop procurement rules can potentially be threatened.

The Investment chapter is also of great concern and needs to be fixed. Unfortunately, special investor privileges are given to firms that relocate production to low-wage nations. Goods are then guaranteed tax-free access back into the United States for sale. These rules provide special treatment—better than our laws give

U.S. firms and citizens to foreign companies operating here and provide the same special treatment if a U.S. firm goes someplace else. This means U.S. companies leave and the foreign firms gain the right to directly attack U.S. labor, worker safety, zoning and other laws in foreign trade tribunals and demand payment of our tax dollars if their special privileges have been limited.

Our ports are also being threatened under the investment chapter. There is absolutely no reason why our FTAs should provide the right for foreign port service providers to demand compensation if they are denied the right to acquire U.S. port operations. This language was of issue in the Oman FTA, and is also an issue within the Peru FTA. Making matters worse, and even more ironic is the fact that Dubai Ports World already operates in Peru. This gives the company immediate "right of establishment" to operate U.S. ports or take us before an international tribunal. It is critical that an exception be made in the investment chapter to ensure that the question of port ownership and control is not an investor right under these FTAs.

LOOKING BEYOND THE FTAS

China Trade—The Big Elephant in the Room

China is a global economic powerhouse that is setting the global norm for working standards around the world. It is the focal point for many of the economic insecurities that people feel about globalization.

Over the past twenty years the U.S. trade deficit with China has increased from $5 billion to more than $230 billion. What this means is that 5 out of 6 ships that come to our docks from China filled with items manufactured there instead of here, return to China empty.

If Congress wants to take real action on China, then it should pass comprehensive legislation that does the following: end China's currency manipulation; allow U.S. companies to challenge subsidized imports from China; fix China safeguard statute and other import relief remedies to protect U.S. manufacturers against surges and unfair imports from China; and, reinstate Super 301 of U.S. trade law. Such actions will truly combat China's unfair trade practices by providing us with the tools necessary to take action against China and in support of U.S. jobs.

It is also important that we support the labor law reforms that Chinese workers are demanding. When China moved forward in attempting to pass a few labor reforms, some U.S. companies waged an intense lobbying campaign to defeat the law through the American Chamber of Commerce in Shanghai. Some have even threatened to leave China and go to Vietnam if such labor reforms are implemented.

This opposition by U.S. multinationals to oppose and stop labor law reform in China reinforces what the Teamsters have always said—China PNTR has nothing to do with access for our U.S. businesses to sell goods to China, and everything to do with the exploitation of workers in a country with weak labor laws.

The World Trade Organization Doha "Development" Round Will Only Exacerbate the Current Globalization Crisis

During the last several years, there has been World Trade Organization (WTO) negotiations occurring. These negotiations have been cynically called the Doha "Development" Round. While the notion of "development" sounds good, the reality is that the direction in which these negotiations have so far gone will not achieve "development," but instead further undermine worker's rights, regulations, and democracy.

While the WTO has been in place, the percentage of people living on less than $1 a day, which is the World Bank definition of extreme poverty, has increased. More recent World Bank studies found that Doha would yield $16 billion for developing countries and $96 billion to the world by 2015. This means that the developing country share of Doha gains would be only about 16 percent. This means that less than one cent per person per day would go to the developing world, or about 4 cents per person per day to the world as a whole. The research also revealed that 50 percent of the limited gains for developing countries would only go to eight countries: Argentina, Brazil, China, India, Mexico, Thailand, Turkey, and Vietnam, while the Middle East, Bangladesh, and much of Africa would face net losses.

The discussions have even failed to put worker's rights on the table. The WTO refused to include the concerns of working families in the discussions; that alone means that these rounds have failed. While worker's rights are not being considered, what is are our immigration laws, our trade remedy laws, our public services, and our manufacturing sector is under attack. We also have not been very successful in winning cases brought under the non-transparent WTO; in fact we have faced loss after loss when safeguarding U.S. interests under the WTO. (The U.S. loses 9-in-10 challenges under the WTO.)

Very little attention has been paid to these negotiations. However, unless these negotiations take a completely different approach, they have failed and must not be supported. There has been discussion by some that Fast Track should be extended if there is a deal on Doha. I would argue just the opposite. Fast Track should not be extended at all, especially not for the anti-worker and anti-development Doha negotiations.

Fast Track is the Wrong Track

"Fast Track" is the process that gives the Executive Branch the authority to negotiate and write trade agreements and strips away Congress' constitutional power to set the terms of U.S. trade policy. The idea was created under President Nixon in 1974.

Under Fast Track, the president is authorized to negotiate trade agreements with foreign countries with very little consultation with Congress or state legislators. Fast Track creates special rules for considering trade agreements by allowing the Executive Branch to sign an agreement before Congress votes on it, while only giving Congress 90 days to consider the agreement. In fact, Fast Track ensures that Congress' role is performed too late to do any good since your vote happens after the agreement has been signed.

There is a misconception that Fast Track must be extended or all trade will end. Trade happened before 1974 when Fast Track was first created, and has continued during times when Fast Track expired. The Jordan FTA, while not perfect, was still the best FTA negotiated thus far with respect to the labor chapter. Jordan was negotiated and passed without Fast Track authority.

Fast Track will expire on June 30th of this year. It is because of the expiration of Fast Track that there is such urgency to renegotiate the Peru FTA and hastily finish the Korea FTA negotiations by March 31st. The Fast Track clock is ticking and USTR and Congress are being rushed. Congress should not be rushed! These discussions will impact millions of workers and livelihoods, and should not be done in a hurry just because of the ticking "Fast Track clock."

The Teamsters strongly oppose the renewal of Fast Track. We also oppose the idea of making a few changes to Fast Track in order to "fix" a fundamentally flawed idea. As I have stated throughout my testimony, a new model is needed, not a model that has been tweaked or edited, and so Fast Track must be retired and an alternative and fair model should be put in place.

We have been working with Change to Win, the AFLCIO, environmental organizations, Public Citizen, and the Citizens Trade Campaign on this new alternative for several months now.

Earlier this month, Change to Win passed a resolution on Fast Track. The Resolution opposed Fast Track and laid out a fair trade process that:

- Restores balance between Congress and the Executive Branch with respect to trade negotiations, consistent with the intent of the U.S. Constitution, to ensure that trade agreements meet the interests of U.S. workers, firms and farmers while promoting global growth, economic stability and environmental protection;
- Restores Congress' right to decide with which countries it is in our national interest to negotiate new trade agreements by establishing readiness criteria that prospective negotiation partners must meet;
- Requires mandatory, binding negotiating objectives in trade agreements: Requiring that countries maintain and enforce core International Labor Organization (ILO) standards and core Multilateral Environmental Agreement (MEA) requirements, and that these standards are enforced equally with commercial provisions; and
- Specifying what cannot be in any trade agreements, such as procurement rules that undermine anti-offshoring and prevailing wage policies, special rights for foreign investors, including operation of critical U.S. infrastructure, patent extensions that undermine access to affordable medicine, or mandatory privatization or deregulation requirements;
- Requires Congress to vote on a trade agreement before it can be signed to ensure that congressional objectives have been met;
- Enhances congressional participation, review and oversight throughout trade negotiations by establishing a new congressional committee review process that empowers Congress to determine whether objectives have been met and a trade agreement is ready for Congress' consideration under expedited rules; and

- Requires oversight on the effects of and the operation of past agreements with a mechanism to ensure that Congress can hold negotiators accountable to fix problems by reopening trade agreements.

THIS NEW DAY HAS ARRIVED

It is clear that there is a real crisis for all American workers, under the current trade model. It is critical that Congress act now and take control over our trade policies and ensure that globalization can in fact live up to its promise. Our workers deserve and demand this.

With the discussions that have taken place this week regarding the renegotiation of the Peru FTA, of future trade agreements, of China policy, and an overall new outlook on the trade agenda, we are encouraged that real reform will happen. While a step has been made in the right direction, it remains to be seen if it is the real reform and change that U.S. workers need. It is critical to do this right. We will be taking a close look at the proposals that are put forward, and we look forward to working with you on them.

Labor Rights in Guatemala Aided Little by Trade Deal

By Peter S. Goodman
Washington Post Staff Writer
Friday, March 16, 2007; A01

GUATEMALA CITY -- Day and night, workers at the port of Quetzal on Guatemala's Pacific coast load fruit from surrounding plantations and clothing stitched in local factories onto freighters bound for Long Beach, Calif., a flow of goods that has swelled since a Central American trade agreement with the United States took force last year.

Under a provision that was crucial to getting the deal through Congress, working conditions for the longshoremen, along with laborers throughout Central America, were supposed to improve. Governments promised to strengthen labor laws, and the Bush administration pledged money to help.

But on the evening of Jan. 15, the head of the port workers union became a symbol of the risks that still confront workers who press their rights in Guatemala.

Pedro Zamora, then in the midst of contentious negotiations with management, was driving on the dusty road through his village, his two sons at his side, when gunmen shot him at least 20 times, killing him, said prosecutors in Guatemala City. One boy was grazed in the knee by a bullet; the other was unharmed.

Nearly two years have passed since the countries of Central America vowed to strengthen worker rights as they sought votes in Congress for the Central American Free Trade Agreement, or CAFTA. Yet there has been little if any progress, according to diplomats, labor inspectors, workers and managers.

"The situation is the same now as it was," said Homero Fuentes, director of the Commission for the Verification of Codes of Conduct, a Guatemalan group hired by multinational companies to inspect local factories and plantations. "The law hasn't been reformed, and people just don't obey the law. There's a culture of impunity."

The Bush administration is facing intense resistance in the Democratic Congress as it seeks approval for new trade deals with Peru, Colombia and Panama. The tense labor situation in Guatemala and other countries covered by such deals helps to explain why.

Democratic leaders negotiating terms of the new trade pacts with the administration are demanding stringent labor protections. They argue that previous deals such as CAFTA have been too weak on labor rights, expediting the shift of manufacturing to countries where goods are cheap because workers are exploited.

The Bush administration counters that trade deals have improved the lot of laborers by creating jobs and establishing basic standards, even as it signals willingness to insert stricter rules in the new agreements to gain the assent of the Democratic leadership.

U.S. Trade Representative Susan C. Schwab said last month on Capitol Hill that when countries negotiate free-trade deals with the United States, "the situation on the ground for workers in those countries is vastly improved."

As the administration portrays it, problems in Central America reflect a dearth of resources, not weak law. Over the past two years, Congress has allocated $60 million for programs aimed at boosting the ability of governments in the region to enforce labor and environmental laws, delivering computers and automobiles and helping to train judges and inspectors.

Schwab urged The Washington Post to seek details from the U.S. Embassy in Guatemala City. There, four American officials, plus two who joined by videoconference from El Salvador, would speak only on condition that they not be named. They said they had no data showing increased compliance with labor laws in Central America, though they emphasized that the programs were new.

"We haven't seen a significant improvement," one official said. "It's a process."

Guatemalan authorities said the American-funded programs did not tackle the root cause of abuse -- the power of employers to manipulate labor inspectors and judges.

"It's very widespread that if workers file complaints or try to organize a union, they can be fired," said Gustavo A. Campos, who leads a program funded by the United States that trains Guatemalan labor inspectors and educates workers. "The part that's still missing here is the ability to coerce compliance."

At the labor ministry, one inspector said attempting to enforce the law puts inspectors' careers at risk. "There's a lot of pressure to rule in the employer's favor," said the inspector, Marco Tulio Castillo. "We're not allowed to do our jobs."

Schwab said labor provisions in the trade deals negotiated by the Bush administration are better than nothing. Without the promise of U.S. trade, "what incentive would these governments have to improve their labor standards?" she said in an interview. She said trade boosts workers' rights in poor countries by increasing the presence of global brands: Loath to be linked to sweatshops, these companies force factory managers to obey rules.

Managers in Guatemala said foreign firms demand adherence to labor standards but also demand lower prices, with constant threats to shift work to China if the Guatemalan firms don't go along.

"Your country is pressuring us to respect our own laws, laws that hinder the competitiveness of Guatemala compared to China, which does not have the same respect for labor rights," said Carlos Arias, a lobbyist for the Guatemalan Chamber of Industry. "When you have to pay the minimum wage and all the fringe benefits, your costs increase."

At a factory run by a company called Avandia on the eastern fringes of Guatemala City, nearly 700 workers make dress pants for the American retailer Jones Apparel Group, which owns the Nine West and Gloria Vanderbilt brands. Five current and former workers said in interviews that factory bosses often forced them to work unpaid overtime. Cristina Perez, a mother of four, said security guards sometimes locked her in the factory late into the night, even as she protested that she was a nursing mother.

The drinking water was dirty, the workers said, and the bathrooms lacked soap and water -- except on days when someone from Jones came to visit.

"All of a sudden, they were giving the appearance that they treat us well," said Karen Chacon. "Actually, they treat us like animals."

Last November, nine workers, including Chacon and Perez, signed a petition to set up a labor committee, a precursor to a union. They filed the petition at the Labor Ministry and got a court injunction protecting their jobs. The next day, all nine were fired. Avandia's personnel manager, Jorge Meng, said the workers were let go because of declining production, not because of the petition.

In an interview, Ira M. Dansky, Jones's general counsel, said it was "unclear" what transpired at Avandia, but he confirmed that if the workers were fired for organizing, that would violate the company's code of conduct. Jones is continuing to do business with Avandia, he said.

"We use many hundreds of factories throughout the world," Dansky said. "At any given time, there are always violations. We try to continue to work with the factories to improve things."

At the port of Quetzal, workers are still reeling from Zamora's killing, and they wonder who might be next. A few weeks after Zamora was shot dead, two men active in a Guatemalan street vendors union were killed.

"All of us as union leaders are under the same risk," said L?zaro Reyes, now leading the port union. "We don't go out. We try not to be seen."

As officials at the U.S. Embassy cited efforts to improve Guatemala's labor rights, one sought to discredit the appearance that a union leader had been assassinated for his work. The official, who spoke on condition of anonymity, said the case was "murky," adding that the U.S. government had learned from Guatemala's president or vice president that Zamora had been "a violent man" whose actions triggered complaints by women and police. Pressed for details, the official said she had none.

Mario Casta?eda, a Guatemalan prosecutor, said Zamora's murder was probably connected to his job. "Because of his union work, the management of the port may have been involved," he said. No charges have been filed in the killing, and management denies any role.

Recently, Casta?eda said, he and a colleague were investigating the Zamora case in the city of Escuintla when a stranger approached them.

"He said we should be careful," Casta?eda said, "because people could shoot us."

Special correspondent Robert Perillo contributed to this report.

Mr. SHERMAN [presiding]. Thank you, Ms. Lopes, particularly for pointing out that basically these free trade agreements have swallowed up and taken away all of the wage gains that otherwise would have occurred since leisure suits were cool. That contrary to the prior witness, we have not seen middle class families increase their net income by $9,000 a year as a result of these wonderful free trade agreements but rather that since the days of leisure suits, working families have gotten nothing while science and productivity has made major strides.

Ms. Lee, you probably usually do not get questions asking why you are so enamored of these free trade agreements, but you do represent an organization that has said maybe we should give this President fast track if only we put some conditions on it. Does this President have a history of following conditions that Congress attaches—and following them in good faith—that when Congress gives him power but then also attaches some conditions, he obviously takes the power, does he have a record of following the restrictions in good faith? Perhaps you could give me a one-word answer.

Ms. LEE. No.

Mr. SHERMAN. And let us say the President did bring us a fast track agreement with this or that country, and it cut our tariffs. That is going to happen period if we adopt the agreement. But the agreement also has various rules about how the country is going to have labor standards and how the other country is going to have environmental standards. Do we have a good record of enforcing those provisions or do we tend to just ignore them?

Ms. LEE. President George Bush does not have a good record of enforcing any of the provisions in our trade agreements, particularly not the worker rights provisions. We have an example right now with Jordan, which is the one agreement that has stronger labor standards negotiated. We actually have a delegation of union presidents who are in Jordan right now, and have been visiting the qualified industrial zones, and even though there have been promises made over a year and a half ago or about a year ago for the Jordanian Government to reform its labor laws and improve inspection, nothing has happened, and USTR has failed to enforce. Can I clarify, Mr. Chairman?

Mr. SHERMAN. Yes.

Ms. LEE. We do not think that George W. Bush has earned renewal of fast track authority. When we have discussed the ways in which the grant of negotiating authority from the Congress to the President could be reformed in the future, I think our vision is that we would have a President in place who would take these issues more seriously and whom we could trust to negotiate them. We have put forward a positive, strategic vision of how trade policy needs to be done. It may be in the future a couple of years from now as opposed to during this President's tenure.

Mr. SHERMAN. So we could pass the bill that has all the conditions and requirements but just says no trade agreement can be presented to Congress until March 2009, and then we might have at least some hope that whatever provisions we put in the statute would be adhered to. I look forward hopefully to convincing your

organization to oppose any kind of fast track that allows agreements to be presented to us before March 2009.

Ms. LEE. I think we are probably on the same page on that.

Mr. SHERMAN. I hope. I did not fear that you would. We are told that only an idiot would fail to see the magnificent theoretical benefits of trade agreements and only fools would be distracted by the actual results that are up there. We are told that NAFTA must have reduced our trade deficit with our immediate neighbors because at the time it was presented to us the cognizant eye assured us that it would. And we are told that only fools and Luddites would be distracted by the tenfold increase in our trade deficit that has occurred since NAFTA was signed.

So it leaves me wondering, why are some of the most articulate people in the United States so wrong? One reason perhaps is that it is the educated classes, the MBA classes, the chattering classes that have actually benefitted from these trade agreements but I think it goes beyond class self-interest, and it is that the cognizant eyes spend their lives learning American law and American business.

They therefore learn that the key to getting access to the only market they understand, which is the United States market, is you change the laws and regulations and tariffs of the potential importing country, and so they believe that the key to getting access to the market say in China is to get China to change its published tariffs and its published laws. But in China, written laws are just there to distract Americans.

If you are running a business in China—and I will ask each of you to address this—you may be able to give a one-word answer to this—let us say you are running a Chinese business, and the written tariffs, the written laws of China say that you are allowed to buy the American goods, no tariff, but you get a call from some midlevel commissar that says, Look, do not buy the American goods, buy European goods. And you would ask why, and they would say well the Europeans watch their trade balance with China very carefully, and if European markets are going to be open to us, we have to buy European equipment from time-to-time, and in fact we have a basically balanced trading agreement, balanced trade situation with Europe, especially Germany because they are smart enough to demand this.

And then you might ask well what about the Americans? Would it not help our trade relationship with Americans? I have this great American equipment I want to buy, and you would be informed, Americans are offended if anyone looks at results. They only look at theory, and they have read all our regulations, and they think they are wonderfully written in full compliance with all WTO provisions.

So let us say you really wanted to buy the American equipment, but you got this call, and you further were told by the commissar that you are sure you would take his advice because you were a well-educated businessman or woman, and he was sure that because you were so well-educated you would not need any re-education. If you got that call, would you buy the European goods or the American goods? Mr. Paul?

Mr. PAUL. Well being patriotic, I would like to say the American goods but the reality is that you described the Chinese system perfectly. There are built-in incentives not to follow the rules, and the expectation that the rules are being followed is a flawed one, and it is one that is pervasive in common thought today. We can show in industry after industry that the rules have not been enforced and it is hurting jobs in this country. China is not living up to its obligations.

Mr. SHERMAN. In this example, you would not be able to show anything unless the Attorney General had been able to bug the phones in China which so far has eluded him. Ms. Lee?

Ms. LEE. The paradox that you put forward is exactly right. Why does it seem like free trade is understood theoretically as such a fabulous thing and yet it does not work out in practice? The example that you gave and that Scott Paul answered is a good practical, concrete example of what goes wrong, but I would argue that what is wrong with out trade policies is that they are not really about trade. They are not about opening markets.

Ambassador Hills talked a lot about how important it is to open markets, and I would say she and her subsequent Trade Representatives have been uniquely unsuccessful in opening markets for American products. What they have been good at is greasing the skids for more jobs to move offshore faster. If you look at American trade policy that way, that the goal is not actually to sell more stuff to people in other countries, but rather to help our companies move jobs around the world and face fewer regulations and restrictions they do not like and sell the goods back into the United States without any tariff barriers or restrictions, then it is a totally successful trade policy. That explains why we do not crack down on currency manipulation or illegal subsidies.

It explains why we do not enforce worker rights and environmental provisions. It explains why we do not get rid of the tax breaks in U.S. law that encourage and reward companies for moving offshore. Everything falls into place if you put it in that light.

Mr. SHERMAN. My time is about to go here but I will point out that I have talked to people. What do other countries give us when we give them access to market? What do they really give us? They say from the U.S. perspective, this is an investor protection treaty, and so what the other country gives us the right to invest in their country in factories that will make stuff for the U.S. market which will then be shipped here because the MBAs have figured out that the way to make money is to make it in a country that pays 50 cents an hour, and sell it to a country that can still afford to pay $50 for a pair of tennis shoes, at least some of its people can.

With that let me yield to the vice chair of the committee, and I know, Ms. Lopes, I am not asking. The next question will be for you.

Mr. SCOTT. Good. First of all, thank you again for coming, and all three of your statements have been very, very beneficial. First, Ms. Lee, let me get an accurate understanding of the AFL–CIO's position on the fast track because it is clear that there be no mixed signals as we move forward. Would an accurate assessment of what you are saying that you would be supportive of the President hav-

ing the authority of fast tracking but you do not support this President of having it? Is that——

Ms. LEE. What we have said is that we would absolutely oppose a renewal of the current fast track authority for this or any President, and so it is the rules in the fast track bill that are problematic. You have a second question about what the President has or will do with that authority. We have said that the fast track process is completely flawed and needs to be replaced no matter who is President.

We do not believe that this has served the Congress well or the American people or certainly our members. So we are opposed to fast track authority. What we have said and what we are trying to do is to lay out our vision of how trade policy could be done better and differently in the future. We believe we are in a global economy, and we are going to continue to be in a global economy. We have to figure out how to write rules for that global economy that are good for our members.

We are not going to stop trading with the rest of the world. We think it is perfectly appropriate for us to take a deep breath and slow down the forward motion of new trade agreements. That there is no particular rush, in our view. These little bilateral trade agreements, as Yvette Pena Lopes said, and the Doha Round, very little in those for American workers. So we do not see any compelling reason to hurry the fast track debate.

What we have put forward is our vision of how trade policy could be done differently in the future, and we are leaving open where that future is. We thought it was useful for the Congress and for our members to be as clear as possible about what is wrong with current trade policy and how we want to see it done in the future.

Mr. SCOTT. Okay. Let us talk about the wage stagnation problem because that is really central to this discussion this morning. It is a pathetic conclusion to come to the fact that in the last almost quarter century the average worker has gained a nickel.

We are in another committee, in Financial Services, and I am cosponsoring with the chairman over there, a bill to bring some sanity back to CEO pay packages but when you look at that in relationship to this, with CEOs making 3 and $400 million packages, and even with the companies going down, they are not obligated to their pension funds. I mean, you know the whole story of that and it just enhances it, but I would like to get some clarity on just how much each of you feel that our trade policies have had an impact. To what degree has our trade policies have an impact on the stagnant wage structure we have.

Ms. LOPES. Thank you, Congressman, for that question. What I find most interesting about the wage stagnation is sort of when it's begun. The fact that it was in 1973, 1974 when we started seeing sort of this downhill motion happening, and that was exactly the time that Nixon came up with fast track authority, and it was sort of the beginning of this while trade liberalization that we are seeing now.

So we do believe that there is a correlation in connection with this. I mean U.S. workers everywhere they have seen what has happened under NAFTA. We have seen NAFTA now for more than

12 years, and the great promises of job growth and increase in wages in the middle class has not resonated.

I mean in fact it is sad and of great concern to me and to my union to see our middle class sort of kind of dwindle away, and America is becoming very similar to some of the other countries in the world where we are seeing the richer get richer, the poorer get poorer, and we are seeing a lot of our jobs leave, and there is little hope I think for workers everywhere and middle class America everywhere with respect to what possibilities there are in the future for them.

Mr. SCOTT. Okay. Ms. Lee.

Ms. LEE. Thank you very much. It is an excellent question, and I would say a couple of things. One is that there has been a significant amount of economic research on the impact of trade liberalization and capital mobility on wages. I would say there is actually consensus, believe it or not, in the economics profession that somewhere between about 20 and 40 percent of the growth of wage inequality can be attributed to trade liberalization and capital mobility. That is something even the free trade economists, very respectable, academic economists have found.

What they also agree on is that trade is not the only source of downward pressure on wages, and we would agree with that. Productivity growth and technology have also had a skill bias in the wage distribution. So there is no mystery about that, and the question is whether trade is the only or the biggest downward impact on wages, and it may or may not be the biggest.

It is certainly not the only, but it is a significant impact on wages, and one of the things that is important about that is that this is totally consistent with economic theory. That international trade theory predicts that a country like the United States, which is relatively well endowed with skilled labor, by opening its markets essentially makes it skilled labor or its unskilled labor, which is its scarce factor and so-called unskilled labor, workers who do not have a college degree, that is about two-thirds of our work force.

But the predictions of economic theory is that those so-called less skilled workers in the United States would see downward pressure on their wages when we open up to more trade with countries that have a much bigger supply of unskilled labor. So that is a sensible, theoretical outcome, and we do see that if trade liberalization in fact is putting downward pressure on the bottom two-thirds of the American labor force, it is no wonder that it is a politically difficult and unpopular policy. Thank you.

Mr. SCOTT. Thank you. Mr. Paul?

Mr. PAUL. I will briefly add to what the other witnesses said. I think the interesting question is that productivity gains in America have been rising consistently throughout the last decade or two. At the same time, there has been this wage stagnation. So the question comes to the forefront, the link between rising wages and rising productivity has been broken. Why is that happening?

I think there are two reasons for that. One is that manufacturers in the U.S. are also facing pressures on their other input costs. Health care as a percentage of their cost is rising, as is energy, and it puts great pressure at the bargaining table. More broadly, what

has been identified is the exposure to these labor markets where workers are either paid less artificially, or because of the development of the country, has an impact, and it is a phenomena called labor arbitrage that contributes to this downward pressure on U.S. wages.

And a question that comes into play for foreign policy, these trade policies that both put downward pressure on U.S. wages and also tend to widen inequality in developing countries: Are they beneficial to U.S. foreign policy goals? And I think that is a real question for the committee.

Mr. SCOTT. Right.

Mr. PAUL. Thank you.

Mr. SCOTT. Mr. Chairman, may I just ask one follow-up? China really scares me in terms of the future of our own country on many levels, but I think the intersection of two real serious economic trains here are going to cause a tremendous collision that is going to be disastrous for us, one. They have on a yearly basis been running a $114 billion trade surplus with us. Then you combine the fact that they own $362 billion of our debt, and then you combine that with the fact that I think that is having a tremendous impact, a negative impact on our foreign policy, especially in this evolving war on terror.

When you consider the fact that with all of our efforts of diplomacy negotiation particularly in dealing with the Middle East and Iran, they are failing to desist from the China, India gas pipeline into Iran, and my concern is that is a primary example of how our economic and trade policies with China are having a very, very devastating impact on our foreign policy. I wonder if you, because you had talked about China, if you would comment on that please.

Mr. SHERMAN. The gentleman's time has gone onto about double so please respond very, very quickly.

Mr. PAUL. Very quickly, Congressman Scott, it is clear China has a policy that is looking 20 years ahead to protect their economy and their national security interest. The question is: Do we?

Mr. SCOTT. No.

Mr. PAUL. And I think the answer is pretty clear that we do not, and in a number of ways China is an economic competitor, and we are sticking our heads in the sand.

Mr. SCOTT. Yes. We have got trouble down the road. Thank you. Thank you, Mr. Chairman.

Mr. SHERMAN. Thank you. We may be interrupted by votes but I would like to do a second round here. Staff is overly concerned about votes. There are two approaches. Thank you. We stand adjourned.

[Whereupon, at 12:54 p.m., the subcommittee was adjourned.]

APPENDIX

Material Submitted for the Hearing Record

PREPARED STATEMENT AND MATERIAL SUBMITTED BY THE HONORABLE MARCY KAPTUR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. Chairman: First, I'd like to thank you for inviting me here today.

As our nation faces looming trade deficits, a falling dollar juxtaposed with skyrocketing gold prices, a flood of illegal immigrants, historic and growing purchases of U.S. bonds and equities by foreign interests and central governments, and fewer and fewer good jobs for middle class Americans, I am heartened that the Committee on Foreign Affairs and this renowned Subcommittee have taken note of the state of our failed trade policies and have scheduled this enlightening hearing.

President Bush, like so many presidents before him, seems to value financial gain for the wealthy few over the vast majority of American workers and their respect for human rights, and desire to maintain U.S. economic independence. Our workers are not sacrifices to be offered to the gods of free trade. Here and around the world, workers are entitled to respect and the attention of those who represent them.

I am happy to have this opportunity to listen to the testimony of these qualified witnesses on reforming U.S. trade policy that is so critical to U.S. economic and national security. Mr. Dobbs has long been an admired leader on this matter, and I think highly of his dedication to fixing our broken immigration system and to protecting U.S. economic independence.

I also welcome this chance to engage in conversation with Ambassador Carla Hills who was so central to the negotiation, passage, and implementation of the North American Free Trade Agreement (NAFTA). I hope that her testimony will take note of the devastation that this agreement brought to the Americas, and to NAFTA's failure to live up to the promises made by her and her colleagues when Congress first considered the agreement. She is certainly capable to discuss trade matters, since she has not only served as U.S. Trade Representative during the NAFTA era, but has also served on the boards of directors of American International Group (AIG), ChevronTexaco, Lucent Technologies, American Airlines, Trust Company of the West, IBM and Time Warner. She is currently on the boards of AIG, Rolls Royce, JP Morgan Chase, and Coca-Cola.

As I so often say, Congress should promote free trade among free people. We need to oppose exploitation, staggering debt, and enormous job losses. Contrary to erroneous claims and false promises made by the Executive Branch, our current trade policy has outsourced millions of good U.S. jobs, brought instability to the Western Hemisphere, illegal immigrants flooding across our borders, and foreign debt collectors knocking on our door. I look forward to hearing how our distinguished witnesses might approach these daunting challenges.

Trade Representative, Carla Hills, Faces Potential Conflict Due to Husband, Firm
By Jill Abramson
Staff Reporter of The Wall Street Journal
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English
(Copyright (c) 1988, Dow Jones & Co., Inc.)

WASHINGTON -- Carla Hills, the newly designated U.S. trade representative, faces potentially difficult conflict-of-interest issues posed by the business activities of her husband, Roderick Hills, and her law firm.

Her husband is chairman of Manchester Group Ltd., an international trade consulting firm based here that specializes in merchant banking. Until September, Mr. Hills was a registered foreign agent for C. Itoh & Co., the giant Japanese trading company. Last year he successfully lobbied against a bill that would have punished the company for shipping to the Soviet Union machine tools manufactured by a Toshiba Corp. subsidiary.

Mr. Hills has terminated his lobbying work for C. Itoh, but he continues to serve on the company's strategic planning group.

David Martin, the former head of the Office of Government Ethics, said Mr. Hills's involvement in any international trade issues involving the trade representative's office could pose problems for Mrs. Hills, requiring her to recuse herself from cases. "She'll have to be very, very careful," Mr. Martin said.

When asked about her husband's business dealings yesterday, Mrs. Hills said, "If there is any conflict of interest, Rod has said that he will remove himself from the position of conflict."

In a separate interview, Mr. Hills, a former chairman of the Securities and Exchange Commission, said he was considering severing his relationships with clients who have dealings before the trade representative, including C. Itoh. "There's nothing that I do that's so critical to our lives that I can't change it," Mr. Hills said. He emphasized that most of his work isn't in the trade area, but in the realm of international finance. "I don't do much trade work," he said.

Yet, in addition to his role as chairman of Manchester Group, Mr. Hills has also been a consultant to Manchester Associates, one of four international trade consulting and investment firms operated by Manchester Group. According to its most recent foreign agent filings, Manchester Associates has extensive dealings before the trade representative, on behalf of such clients as Nissan Motor Co., the Korean Traders Association and Sidermex, the Mexican steel company.

"I'll have to stay 10,000 miles away from them," said Mr. Hills. He added that while Manchester Group and Manchester Associates work jointly on some projects, he doesn't have an ownership stake in the lobbying firm as he does in Manchester Group.

One of Mr. Hills's partners, William Eberle, the U.S. trade representative from 1971-75, is president of Manchester Associates and is also vice chairman of Manchester Group. In 1986, Mr. Hills lobbied for Korean Airlines, a Manchester Associates client.

According to Mr. Martin, the former ethics chief, Mrs. Hills will have to recuse herself from any decisions affecting her husband's consulting firm. Government officials are barred from taking any

actions in which they have a personal, financial stake. "That includes a spouse," said Mr. Martin. He said that even though Mr. Hills doesn't own the lobbying affiliate, taking action on matters affecting the lobbying firm's clients might create the appearance of a conflict for Mrs. Hills.

Additionally, Mr. Martin said that Mrs. Hills would probably have to consider recusing herself from any matters affecting the clients of her law firm, New York's Weil, Gotshal & Manges. That firm is a registered agent for the central bank of Argentina, Matsushita Electric Industrial Co. of Japan and Cogema, a French uranium mining company. Mrs. Hills herself never registered as a foreign agent and didn't represent these clients.