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EMPLOYMENT, PRODUCTIVITY AND INTERNATIONAL TRADE

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-NINTH CONGRESS

SECOND SESSION

JULY 16, 1986

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EMPLOYMENT, PRODUCTIVITY, AND INTERNATIONAL TRADE

WEDNESDAY, JULY 16, 1986

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

The committee met, pursuant to notice, at 9:30 a.m. in room SD-215, Dirksen Senate Office Building, Hon. Bob Packwood (chairman) presiding.

Present: Senators Packwood, Danforth, Chafee, Heinz, Durenberger, Grassley, Long, Bentsen, Moynihan, and Baucus.

[The press release announcing the hearing and the written statement of Senator Heinz follow:]

FINANCE COMMITTEE ANNOUNCES HEARING ON EMPLOYMENT, PRODUCTIVITY, AND INTERNATIONAL TRADE

Senator Bob Packwood (R. Oregon), Chairman of the Senate Committee on Finance, announced today that the Committee will hold a hearing on labor productivity and employment trends and their relationship to international trade. Dr. Janet L. Norwood, Commissioner of the Bureau of Labor Statistics, will appear. The hearing will be held on Wednesday, July 16, 1986, beginning at 9:30 a.m. in Room SD-215.

In annoucing the hearing, Senator Packwood said that, "as the Committee proceeds with consideration of trade legislation, we need to bear in mind two overarching goals: job creation and promotion of U.S. international competitiveness. We are therefore especially pleased that Dr. Norwood could appear at this point in our hearings to discuss BLS's latest data and studies on employment and productivity trends. This hearing should provide a comprehensive opportunity to evaluate the kind and quality of jobs our economy is producing; to examine the opportunities for displaced workers; and to compare U.S. productivity performance with that of our major trading partners."

SENATOR JOHN HEINZ
HEARING ON TRADE AND COMPETITIVENESS
JULY 16, 1986

OPENING STATEMENT

TODAY, THE COMMITTEE WILL REVIEW CURRENT LABOR PRODUCTIVITY AND EMPLOYMENT TRENDS AND THEIR RELATIONSHIP TO INTERNATIONAL TRADE. I EXPECT THE DATA PRESENTED WILL SUPPLY FURTHER EVIDENCE THAT WE NEED A MORE AGGRESSIVE TRADE POLICY TO GUARANTEE A HIGH LEVEL OF EMPLOYMENT AS WELL AS A HIGH DEGREE OF U.S. COMPETITIVENESS IN THE WORLD MARKET.

I BELIEVE THERE IS A GROWING MOVEMENT IN OUR ECONOMY FROM PRODUCTION AND MANUFACTURING TO SERVICES. THIS TREND, RELATED TO THE INCREASING COMPETITIVE STRENGTH OF FOREIGN GOODS, ATTAINED BY BOTH FAIR AND UNFAIR MEANS, IS PRESENTLY RESULTING IN DECLINES IN AMERICAN MANUFACTURING EMPLOYMENT, THE RATE OF U.S. TECHNOLOGICAL DEVELOPMENT, AND THE OVERALL STRENGTH OF OUR MANUFACTURING SECTOR. AMONG OTHER THINGS, A NEW TRADE BILL IS NEEDED TO ADDRESS THESE PROBLEMS.

AN ECONOMY WITH BOTH A HEALTHY MANUFACTURING SECTOR AND A HIGH DEGREE OF INTERNATIONAL COMPETITIVENESS IS NECESSARY TO PRESERVE OUR NATIONAL SECURITY, OUR ECONOMIC STRENGTH, AND OUR STANDARD OF LIVING. MOST IMPORTANT FOR THE LONG TERM, I FEAR WE ARE ALSO LOSING OUR ABILITY TO INNOVATE. FOR THAT REASON, SENATOR PACKWOOD, SENATOR GARN, AND I HAVE ASKED THE OFFICE OF TECHNOLOGY ASSESSMENT TO UNDERTAKE A STUDY EVALUATING HOW GROWING INTERNATIONAL COMPETITION AFFECTS THE HEALTH OF AMERICAN MANUFACTURING, ITS ABILITY TO DEVELOP NEW PRODUCT TECHNOLOGIES AND NEW COMPETITIVE SECTORS, AND THE IMPLICATIONS FOR AMERICAN JOB CREATION. WE HOPE TO GAIN A BETTER UNDERSTANDING OF HOW WE CAN STIMULATE THE KINDS OF TECHNOLOGICAL DEVELOPMENT NEEDED TO MAINTAIN OR IMPROVE THE ABILITY OF

MANUFACTURERS TO COMPETE INTERNATIONALLY, TO WHAT EXTENT INNOVATION DEPENDS ON DOMESTIC KNOWHOW, AND WHAT TYPES OF JOBS OUR ECONOMY COULD CREATE IF DOMESTIC MANUFACTURING CAPACITIES ERODE FURTHER.

CONTRARY TO WHAT SOME ECONOMISTS ARE SAYING, THE DECLINE OF OUR MANUFACTURING SECTOR AS WELL AS OUR INTERNATIONAL MARKET STRENGTH ARE NOT PART OF A RECURRING CYCLE. THESE ARE LONG TERM SECULAR CHANGES THAT MUST BE DEALT WITH NOW, BEFORE FURTHER IRREVERSIBLE DAMAGE IS DONE.

ONE OF THE MOST SERIOUS POSSIBLE RESULTS OF THESE CHANGES IS HIGH SECTORAL UNEMPLOYMENT. JOB LEVELS ARE DECLINING RAPIDLY IN SUCH SECTORS AS OIL AND GAS, STEEL, MACHINERY AND TEXTILES. GIVEN LABOR IMMOBIILTY AND OTHER STRUCTURAL RIGIDITIES IN OUR ECONOMY, THE SERVICE SECTOR MAY NOT BE ABLE TO ABSORB THE WORKERS PREVIOUSLY EMPLOYED BY THE MANUFACTURING SECTOR.

EVEN IF THIS ABSORBTION IS POSSIBLE, IT IS LIKELY THAT THE STANDARD OF LIVING FOR THOSE WORKERS THAT HAVE BEEN ABLE TO REMAIN EMPLOYED WILL DECLINE. MANY ECONOMISTS BELIEVE THAT SWITCHING FROM A MARKET-ORIENTED TO A SERVICE-ORIENTED ECONOMY RESULTS IN TRADING HIGH-WAGE JOBS FOR LOW-WAGE JOBS. ACCORDING TO 1982 DATA, EARNINGS OF MANUFACTURING WORKERS AVERAGED OVER $100 MORE PER WEEK THAN SERVICE WORKERS.

I HOPE THAT AS A RESULT OF THIS HEARING AND THE ONES THAT FOLLOW IT, THE COMMITTEE WILL DECIDE TO ACT TO ENSURE THE CONTINUED VIABILITY OF OUR MANUFACTURING SECTOR AND ITS EMPLOYEES. SINCE 1972, 35,000, JOBS HAVE BEEN CREATED IN THE CHICKEN PREPARATION INDUSTRY. I AM NOT COMPLAINING ABOUT THESE NEW JOBS, BUT DO WE REALLY WANT TO BECOME A POPULATION OF POULTRY PREPARERS? SHOULD OUR ECONOMY BE BASED UPON MAKING A MULTITUDE OF MCNUGGETS? THE ANSWER IS CLEARLY NO. WE MUST PASS NEW TRADE LEGISLATION TO HELP PRESERVE OUR ECONOMIC INFRASTRUCTURE AND OUR ABILITY TO INNOVATE.

The CHAIRMAN. The committee will come to order, please.

This is the first in a series of eight hearings this month on international trade issues. We welcome back Dr. Janet Norwood, the Commissioner of the Bureau of Labor Statistics, to this hearing on labor productivity and employment trends and their relationship to international trade.

I am delighted we could start with Dr. Norwood because of the perspective she can provide on two overarching considerations we need to bear in mind as we approach specific trade legislation—job creation and international competitiveness.

When you were here last fall, Dr. Norwood, the trade statistics looked quite grim, and we were headed for a record $148 billion trade deficit. Today, 8 months later, the statistics still seem grim. Although most had expected that the trade deficit would eventually drop in response to the dollar's decline, that has not happened. We are headed for another recordbreaking trade deficit this year, most of it in manufactured goods.

This flood of imports we are taking in, particularly in manufactured goods, has led many people to conclude that U.S. industry can no longer compete internationally and that we are forfeiting our industrial base. Many people are also concerned that with employment in manufacturing stagnating and job growth coming primarily in the services industries, we are trading good jobs for bad.

Your testimony last fall began to indicate that these concerns are possibly exaggerated. I want to explore your conclusions in much greater detail and depth today.

I don't want to minimize the concerns about deindustrialization and bad jobs, but my fear is that their exaggeration will be used to push us toward legislation ultimately designed to protect U.S. industry from fairly traded foreign goods and to insulate the U.S. market from fair international competition. That kind of protectionism which is reflected in some of the provisions of the omnibus trade bill the House sent over last month can only be counterproductive. Closing our markets will ultimately lead to reduced competitiveness, fewer and poorer jobs and a lower standard of living for all.

Our real focus should not be on erecting barriers, but on improving productivity and competitiveness. That is where I think the tax bill goes, and I hope that is where a trade bill will head also.

Senator Moynihan.

Senator MOYNIHAN. Mr. Chairman, I would certainly want to echo your remarks. I think the general point—I think Senator Heinz would agree also—that one of the questions that troubles this committee is the degree to which Americans find themselves in a situation where, with regard to a particular sector or products, there are more efficient producers abroad, and they sell here in perfectly fair competition because they are prosperous and we tend to say, well, there must be something irregular about that arrangement when in fact it is perfectly normal.

I am going to take the opportunity of an old and good friend, Dean Forrest, and tell a story of when I was Assistant Secretary of Labor. There was a wonderful old gentleman who had been Commissioner of Bureau of Labor Statistics for, oh, 40 years, and he was retiring. A number of the deputies came to see me and asked if they could be considered to succeed him, which was perfectly legitimate. One came, and I thought this was the most—1963. I thought this was the most active possible person, but he really had an uninteresting job. His job was to measure productivity. Every year it went up 3.7 percent. It just—the Commissioner of Labor Statistics said the same about the Consumer Price Index. He said, "Wait until it goes up 40 points in one year; you will be interested in it."

But productivity was something that took care of itself. At about that time a group of Americans, sociologists, visited the Soviet Union. The sociologists were invited over to meet with the Soviets. They were full of ideas about Marxism and pluton and structural transitionism and all those things. The only things the Soviets wanted to talk about was productivity. How do you make a field produce more each year than they did the year before?

It seemed a very simple thing to us then. It doesn't any longer. Thank heavens we have you, Dr. Norwood, to help us through it.

Thank you.

The CHAIRMAN. Senator Heinz.

Senator HEINZ. Mr. Chairman, I commend you for holding these hearings. I know you held a similar hearing with Janet Norwood about 8 months ago.

The CHAIRMAN. I did. She had Paula Stern on the panel with her, and at that time most of the questions were directed to Paula Stern. I thought that what Commissioner Norwood touched upon didn't get a full enough evaluation that day, so I asked her to come back by herself so we could talk with her more.

Senator HEINZ. I commend you, and I agree with you. You mentioned the trade deficit and how intransigent it seems to be. I, frankly, worry that that trade deficit has still more ominous implications for our manufacturing States.

One of the central issues that I hope Dr. Norwood and the committee will discuss in some detail—and I intend to participate as much as I can in the discussion—is the extent to which the trend in the decline of our manufacturing base is secular and long term rather than cyclical.

Second, we should discuss the extent to which the failure to have a healthy manufacturing base actually impacts high technology and our ability to innovate. I worry that if there is no domestic market for the products of high technology to be sold to there will be less ability to innovate because there will be less market. As a result, we will lose not only the more valuable high-tech jobs, but also higher paid manufacturing jobs, and the standard of living in this country could very well also follow a long-term decline as we re- place higher paid, one might say, higher value-added jobs, with lower paid service jobs.

What puts this into concrete terms is somebody I have known for many years in western Pennsylvania, Sam Michaels, who sells products to the steel industry. The steel industry is probably as hard hit an industry as there has been by trade and by a long-term trend in that industry toward worldwide oversupply. I asked him, well, how do you view the situation in the steel industry.

He said, well, from my vantage point, I view it as extraordinarily serious because I sell high technology products to the steel industry, and I can't find anybody left in the industry who understands what I am talking about. All the bright people have left, at least in the basic field. You still find a few of them in the specialty steel area.

So what you have, Mr. Chairman, I fear, is what you had in these manufacturing industries in Great Britain in the 1950's. You have a brain-drain. Then after that, you never have the ability to turn those industries around. I fear we don't fully understand the various implications of that and how they affect us. That is why you, Mr. Chairman, Senator Garn and I have asked the Office of Technology Assessment to undertake a study evaluating how growing international competition affects the health of American manufacturing, its ability to develop new product technologies and new competitive sectors, and the implications for American job creation. I have no doubt that Janet Norwood will get us off to a good start on all of that.

Another way of looking at what I am saying is to note that since 1972 some 35,000 jobs have been created in the chicken preparation industry. Now I am not against the chicken preparation industry. I am not complaining about those new jobs, but I am not totally sure that Americans look forward to a future of becoming a population of poultry preparers. The question I would ask is: Should we become an economy based on making a multitude of McNuggets? To my mind the answer is clearly "no."

One of the reasons that I think we need to move ahead on trade legislation and also become a good deal wiser about the whole issue is that there are these implications for our economy and for American expectations. If the expectations really are bad, we ought to know now, if it is possible to know those kinds of things.

So, Mr. Chairman, I thank you, and I ask unanimous consent that my full statement be part of the record.

The CHAIRMAN. Without objection.

Senator Durenberger.

Senator DURENBERGER. Mr. Chairman, I am here for a while to encourage you and to compliment you for the direction that this hearing is taking. I need to chair a hearing of the Intelligence Committee, so I am going to have to leave, and I wouldn't want my departure to in any way discourage this effort that you are engaging in in examining the broader consequences of productivity and the changes in the employment sector and as all of that relates to international trade.

I think all of us had a tremendous experience going through that tax bill in learning more about our constituencies in a larger sense. I have one of those typical constituencies that is half natural resource, manufacturing based, and one-half chicken McNugget or high tech or med-tech or something out there.

But the experience we had in that relatively brief period of time of examining the consequences of the Tax Code on the job market in this country taught me that we are in the midst of change. The point of this hearing, as I understand it, is we are not sure where we are headed exactly.

I had breakfast yesterday with John Keene, the head of the Census Bureau. And he has some statistical sense, I guess, of where we are heading as a nation. And we know from our own experience with her that Ms. Norwood also has some tremendous instinct in this area. And all of us share the same kind of sense of responsibility, whether it is what Pat Moynihan said yesterday about interest on the debt being a transfer of some portion of earned income in this country from labor to capital or whether it is the realities that we are impoverishing our young. And I think the nature of the change of the job market in this country accentuates the inequities between our generation and those of our children, or the consequences to rural Americans from the changes that are taking place in the so-called industrial sector in this country. All of the problems that are illustrated by the change in the nature of employment are also problems being visited upon the Carolinas, Texas, northern Minnesota, the breadbasket of the midwest, Cleveland, Pittsburgh, places like that. And the consequences of that are so broad that it seems to me, Mr. Chairman, listening to people who have an instinctive feel for Where we are going because they know where we have been is most appropriate. And I am deeply grateful to you for broadening the scope of this hearing on trade.

The CHAIRMAN. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Chairman, I think this is a particularly important hearing for one very, very basic reason. In fact, I think it is a reason we lose sight of. We often talk about trade barriers. That is, the high trade barriers that Japan and other countries have erected which make it difficult for the United States to market its products in those countries.

However, I think that we often tend to lose sight of a much more important part of the problem. That is, the general lack of American competitiveness and the decline of American competitiveness in the last 10, 15, 20 years.

It is not something that we like to talk about very much for various reasons. One is because we have a hard time defining it. We really don't quite know what it really means. I think it has a lot to with attitude; it has a lot to do with the culture in this country; it has a lot to do with our sense of who we are as Americans and as a people.

But I do think that as we look at the trends in labor statistics and jobs and what is happening in this country that a lot of this has to do with—in fact, a large part of it has to do with how competitive are we as a country and how we can increase our productivity in various sectors, whether it is manufacturing, services or wherever.

To that end, Mr. Chairman, I think it is very instructive to see where we have been in the last several years; to look at our nonfarm growth rate of productivity.

And there is a chart over here which explains, I think, fairly graphically what is happening to us as a country. The first chart there shows the average annual growth rate in manufacturing productivity. It is a little bit difficult for some members to see in the light over there, but let me briefly explain that chart.

Again, it is the average annual growth rate in manufacturing productivity from the year 1960 to 1985, during the last 25 years. Looking first at the United States, which is at the far left, through the United Kingdom, Germany, France, Italy, and Japan at the far right. So for the last 25 years, the average annual growth rate in manufacturing productivity in the United States has been 2.7 percent. That is an average annual increase. Each year, there is an average annual 2.7 percent increase in manufacturing productivity.

On the far right, look at Japan. Average annual increase in the last 25 years in manufacturing productivity, 8 percent. That is three times the U.S. rate.

The Senator from Pennsylvania mentioned United Kingdom and the brain-drain that the United Kingdom experienced. We often think of the United Kingdom, Great Britain, as an empire in decline. But look at the average annual increase in manufacturing productivity in the United Kingdom in the last 25 years. That has been 3.6 percent. Again, much higher than the average annual increase in U.S. productivity in the last 25 years.

Next chart. There are only three charts altogether here.

The next chart shows the result of this. This is the total increase in manufacturing productivity for the same 25-year period from 1960 to 1985. Again, the same countries.

For the United States, the total increase in manufacturing productivity from 1960 to 1985, the last 25 years, is about 95 percent. It has almost doubled in the last 25 years.

Again, the far right, Japan. The total increase in manufacturing productivity is 589 percent, a sixfold increase in the last 25 years.

Senator HEINZ. Senator Baucus, would you yield for a clarification?

Do you mean manufacturing output?

Senator BAUCUS. That is productivity. That is output per hour.

Senator HEINZ. Thank you.

Senator BAUCUS. And, again, the United Kingdom. The United Kingdom increase is 141 percent. The United States has doubled in the last 25 years, and the United Kingdom has more than doubled in the last 25 years.

Now third chart. This is not just some abstraction. This translates into dollars and cents per American workers. What do I mean?

This last chart shows the average annual pay change for workers—that is, nonfarmers, and this is adjusted for inflation—in the 1950's the average annual pay change for U.S. workers, nonfarm workers, went up 2.5 percent. That is the 1950's. That is the bar on the far left.

Let us take the next decade which is the 1960's. The average annual pay change—this is what American workers are receiving for nonfarmers—went up by much less—1.7 percent for that decade, 1960's. This is, again, inflation adjusted.

In the 1970's, which is the third from the left, the second from the right, the average annual pay change in the 1970's for nonfarm workers went up 0.2 percent, barely at all. Again, this is inflation adjusted.

Let's look at the 1980's. That is the far graft to the right, which is declining. The average annual pay change for nonfarmers in America has fallen by 0.8 percent so far in the 1980's.

The point very simply is that there is a very strong correlation between the decline in American productivity, that is, the slow rate of American productivity, compared with other countries, and our trade deficit. I think it is a very major reason for our trade deficit. Let's remember that the Department of Commerce points out that 20 percent of our trade imbalance with Japan would be reduced if Japan were to completely open up its markets.

We have a $50 billion trade deficit with Japan. The Department of Commerce has said that if Japan were to completely open up its markets totally, that would result in only a $10 billion reduction in the trade deficit with Japan, leaving a $40 billion trade deficit with Japan. Now certainly it is not only the over-inflated U.S. dollar. The U.S. dollar in the last 18 months has declined by 40, 40-some percent, and still we have this big trade imbalance with Japan.

I submit that our decline—the increase in our trade deficit—the major reason for our trade deficit is the lack of U.S. competitiveness. And that goes into lack of education in this country; it goes into lack of knowing other countrys' cultures and their markets and trying to produce a product in another country. There is a myriad, infinite number of factors that go into this which are very, very hard to identify; very, very hard to put our finger on.

But I think this is the key to this. And that is why I think this hearing here is so important because it begins to touch on what I think is the more difficult problem that we are facing in our country.

To that end, Mr. Chairman, I and others are attempting to begin to address this. Our efforts began, well, basically with John Young, president of Hewlett-Packard, who chaired the President's Commission on Competitiveness. The Young Commission report, which outlined, I think, many areas where the United States can become more competitive, but unfortunately the President buried the Young Commission report. The Young Commission report never saw light of day.

But I and others have taken various features of the Young Commission—in fact, we have introduced a bill, which takes some of the core features of the Young Commission as an attempt to begin to get at the problem of U.S. competitiveness. One feature is the JETRO. That is a private organization to market products overseas, to help businesses sell their products overseas. Just one small way. There are various ways that we can begin to attempt to solve this problem.

One is to translate Japanese scientific and technological literature into English so that American companies readily have available Japanese scientific and technological literature. We used to think that the Japanese were imitators. They imitate what we do. It is true Japan has imitated a lot of what the United States has done, but Japan is a country of innovators, imitators, and innovators. And Japan is, I think, outdistancing us in many areas, many scientific and technological areas. We all know they graduate twice as many engineers, three times as many engineers, as we do on a per capita basis. There are lots of examples of this.

So at least if we can translate what they are doing into English, that is a small step to help American companies get a little farther ahead so they can produce what we have to produce.

Without taking anymore time, Mr. Chairman, I want to just thank you for what you have done here. It is a key subject. And, again, as we address our trade imbalance, it is very important that we pay attention to our national competitive position because I think that is probably one of the greater problems we have to face in this country.

Thank you.

The CHAIRMAN. Senator Grassley.

Senator GRASSLEY. Thank you, Mr. Chairman.

And it was back in March 1985 that this committee had an opportunity to hear from the President's Commission on Industrial Competitiveness. Now, of course, that covered a much broader concern, so I am pleased that we are holding this hearing today on a more specific relationship of productivity and employment and trade.

Now if there is anything that we ought to learn from the past in Government is that we can't legislate success. Rather, I think America's ability to compete lies primarily in our partnership between Government and business. In this agreement, Government, of course, should take the lead in nurturing an effective consensus-building dialog among leaders in industry, labor and agriculture and even the universities.

Unfortunately, one fact which stood out when I reviewed the Commission's report was the absence of agriculture from their recommendations for this consensus building. This month we have seen for the first time in over 20 years a trade deficit in agriculture. In other words, for the first time during the month of May the United States imported more food stuffs and fiber than we exported. We all know that the American farmer is the most productive farmer in the world.

And I would like to say, if I could, that our deficit problems go far beyond then the question of productivity considering the extreme success of the farmer in that area. This farm deficit that I referred to for the month of May underscores the major changes in the global food trade over the past 5 years. Many former food importers have teamed policy initiatives with new technology to grow their own food. Now India is an example. It has tripled its wheat production in just 5 years. China is winning corn and cotton markets throughout the Pacific Basin. Why? Just because of a political decision that they weren't turning their farmers free to produce in the market anyway they wanted to. Indonesia, once a major rice importer, raised its rice output 50 percent in just the last 7 years.

Now at the same time, we are seeing a flood ranging from Canadian hogs to Chinese mushrooms entering the United States market and boosting farm imports to this record level I have spoken of.

Mr. Chairman, I think that we can ill afford to permit the erosion of U.S. exports of our manufacturing and agricultural communities to continue as it has. Now in 1981—that is a long time ago—I called upon this administration in my first year in the Senate to establish a domestic and economic trade summit to establish a national trade policy for this nation. This group was to be composed of leading experts in the field of government, labor, business, agriculture and academia. And, in fact, a follow-on of a similar commission that did this work and came forth with very good suggestions and recommendations in the late 1960's.

While I look forward to the testimony of our witness today, it is my intent to reintroduce that legislation during this session of Congress. I see the problems of our trade deficit being much broader than an inability to be productive, as reflected by the current farm trade deficit. I believe it is more a problem resulting from a lack of a national trade policy.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Bentsen.

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

Commissioner Norwood, I am delighted to see you again. You have been subjected to all these opening statements because of our very strong concern about what is happening in trade. I share that concern. You will have to listen to one more comment.

It may be that our manufacturing base is strong. But it certainly hasn't been the engine for growth that Japan's manufacturing base has been. Where we have seen a drop in manufacturing jobs of about 1.8 million since 1979, Japan has an increase of about a million jobs in manufacturing during that same period of time.

Japan has expanded its manufacturing base while ours has shrunk to a mild degree. The reasons are pretty complex, but I think part of it is the trade policy of this administration. It gives me a great deal of concern.

I was looking at the report of the Bank of England on over-dependence on service jobs. Such over-dependence has not brought in the capital from outside; it has not helped England to the extent it should in regard to England's trade balance. To see us have a $150 billion trade deficit last year and to have it increase this year; to see us become the No. 1 debtor in the world and to see the Japanese become the No. 1 creditor of the world—now that's not Marshall plan money being sent to us. It will have to be paid back. I just don't believe that we can continue to grow and build on a Taco-Bell economy. I think you have to have a diversified economy, and that manufacturing has to be given a greater impetus if we can find a way to do it. We have before. Part of the answer is in trade policy of our country.

I look at the jobs, salaries, and wages in manufacturing as compared to the service industry. And I hear those numbers are in dispute.

I look at some figures showing $394 per week for manufacturing jobs that are lost versus $200 per week in services. What I am really trying to find, Dr. Norwood, is some solid numbers, if there are any.

I hope that one of your objectives is to see if we can get a good data base so that we have a better feel for the jobs in service and manufacturing and what is taking place and the effect it has on our economy.

There is no question in my mind that we have to do some things to try to open up these other markets so our products have greater access to them.

I am delighted to see some reaction beginning to take place on the part of the administration—the filing of some cases. This committee has fostered that process with the push and some of the criticisms that we have made in respect of the trade policy of our country.

I do hope that you can dedicate some of the resources you have in getting us better information on wage earning in the service and manufacturing sectors.

The CHAIRMAN. Senator Long.

Senator LONG. I would just like to ask you to tell me how many industries have had increased output and increased employment in spite of serious import competition in the absence of some sort of import protection. See what I mean? In other words, in situations where there ~~was no~~ import protection, how many industries would have increased their output and their employment in spite of serious imports?

The CHAIRMAN. I think she will get to some of that in her testimony. I am a little reluctant to have her answer questions now before she finishes her testimony, but she touches on that in her testimony.

Senator LONG. If you would rather answer later. That is the question.

Dr. NORWOOD. Well, Mr. Chairman, it is up to you.

The CHAIRMAN. I think I would just as soon have you go through your testimony.

Dr. NORWOOD. All right.

The CHAIRMAN. It is quite a coherent statement. And that is one of the things you didn't touch upon directly as to whether they have import protection or not, but you have got industries that have increased employment substantially and others that haven't.

Senator Danforth.

Senator DANFORTH. Mr. Chairman, I am sure this will disappoint you, but I will waive my opening statement.

The CHAIRMAN. Then, Commissioner, if you would start. I invited her to come today and be the only witness. And I don't think we need to hold you to our normal 5-minute statement. You can treat your entire statement as you want. Read it or abbreviate it, and leave more time for questions, as you choose.

STATEMENT OF HON. JANET L. NORWOOD, COMMISSIONER, BUREAU OF LABOR STATISTICS, U.S. DEPARTMENT OF LABOR, WASHINGTON, DC

Dr. NORWOOD. Thank you very much, Mr. Chairman.

I appreciate this opportunity to discuss some of the issues that the committee is considering and in relating them to some of the data that we have on the labor market and productivity and prices.

Our economy is a very dynamic one, and our labor market is flexible and changing. Especially in the last 5 years, I believe, a restructuring of our industrial composition has been widely discussed. But I think it is important to put these things in context and recognize that this kind of change is not really new for us. Our industries have undergone change for many decades.

But the changing orientation of our economy from one that depends on the production of goods to one that stresses services has been well documented, and I don't think I need to go into that. We do have a chart here which shows that trend fairly clearly. If you look at the yellow portion, you can see the shift away from the goods-produce sector in the last 35 years.

It is important to recognize that that development is primarily due to differential rates of growth rather than to widespread declines in goods-producing employment, which stands at nearly 25 million today—about where it was in 1969. Since that time, of course, the level has swung very sharply in response to three business cycles. We now have about 1.8 million fewer employed in the goods-producing sector than in 1979, but we are 2 million above the 1982 recession low.

In contrast, the service-producing sector has gained nearly 29 million jobs since 1969. While the service-producing sector generally has expanded during business downturns, manufacturing output and jobs have declined in recessions. The employment trends associated with the most recent downturn and recovery, however, are different from those of the recession of 1973 to 1975 and the subsequent recovery after that recession.

Following the manufacturing industry's employment trough of 18 million in mid-1975, factory jobs grew steadily for the next 4 years to over 21 million. Factory job losses during the 1981–82 recession were very similar to those that we experienced in the mid-1970's. But the current expansion has produced far fewer factory jobs. In 3½ years since the recession trough in November 1982, factory jobs have grown by 6 percent. After the 1975 trough, that gain had been 14 percent in the same period of recovery.

The contrast between the two recoveries is particularly sharp for nondurable goods industries where jobs in the current recovery have grown at only one-fourth the rate of the previous one.

If we look at some 20 manufacturing industries for which we regularly publish data, we can see that all but two increased employment in the 43 months following the 1975 business cycle trough. These two industries, steel and tobacco, were joined by five more in the current recovery where job losers included textiles, apparel, leather, chemicals and oil and coal products. Printing and publishing is the only 1 of the 20 industries whose growth is faster in the current recovery than in the previous one.

Now while manufacturing has shown less growth in the current recovery than in the turnaround beginning in 1975, employment reductions in several manufacturing industries predate both recessions. Annual average employment in the textile industry, for example, peaked in 1942, leather in 1941, and tobacco in 1947. A million jobs have been lost in these three industries over the last four decades. And that is about one-half of their peak work force.

The steel industry peaked in 1953 and has lost nearly one-half of 1 million jobs since then, about 60 percent of its work force.

While it is unlikely that the steel industry will return to its previous high levels, our BLS projections suggest that there will be some expansion in employment from current levels, particularly in small steel plants that use energy-efficient electric furnaces to process scrap metals.

If we look at the current recovery period, we can see that manufacturing employment showed strong and substantial growth during the first year and a half of the recovery. But since then, the overall number of factory jobs has shown no sustained growth. Indeed, more than 100,000 factory jobs have been lost in the last 5 months.

Now one industry that performed quite well during most of the current recovery is automobile manufacturing. A general uptrend has resulted in a gain of about 200,000 jobs, although the industry is still 200,000 jobs below its 1979 high. Both machinery and electronic showed strong growth in the first 2 years of recovery, but have been falling since then. A more common pattern has been growth over the first 2 years, followed by stability.

Now it is important to note that despite the lack of growth in employment in manufacturing, manufacturing output has continued to increase even since 1979. This reflects the productivity growth in our Nation's factories. Thus, the shift to a service-oriented economy does not signal an overall pattern of deindustrialization. Some specific manufacturing industries whose output has expanded in the past 15 years despite employment declines include furniture, farm machinery, household appliances, telephones and synthetics fibers. Of course, some industries with severe employment declines also had reduced outputs over the past 15 years, including steel, tobacco, tires, and shoes.

On the opposite side of all this is the service-producing sector of the economy which has increased its share of nonagricultural jobs from about 59 percent of the total in 1950 to 75 percent today. Thus more than 7 out of every 10 workers in this country are now working in the service-producing sector.

Very rapid growth has taken place in most of the service sector's industries. But of all of those, the services industry is the fastest growing one. Within that industry business and professional services have shown and are projected to continue to show extraordinary expansion. Rapid growth is also expected in the health field, although some problems of higher costs may slow the employment growth during the next decade.

The growth in service sector jobs and the decline in manufacturing has led to a common perception that high-wage factory jobs are being lost while low-wage, often part-time service jobs are being added. This notion is probably equal parts of fact and fiction.

It is true that many relatively high-wage jobs in steel and auto production have been lost, and the problems faced by the workers with those job losses are very great. But at the same time, we have lost many very low-wage factory jobs as well. Such as those in textiles, apparel, and leather.

It is also true that the service sector includes many low-wage, dead-end jobs in the rapidly growing fast food, and other retail industries, for example. But the service sector also has 85 percent of all professional employees, including most of the physicians, the lawyers, the airline pilots, the architects, the computer scientists, and teachers.

The point is—and I think this is a point that is too often overlooked—that the service sector is so diverse that it cannot be characterized as either high wage or low wage. We must be careful not to stereotype the job opportunities arising in a sector which now accounts for so much of our employment.

I would also like to point out that there is a considerable amount of interdependence between the goods-producing and the service-producing sectors. Production and consumption of goods leads to the development of transportation, retail trade and repair facilities.

In addition, some of the employment growth recorded in the service industries reflects work that some manufacturing firms have contracted out—accounting and payroll engineering, and legal services for example—that were formerly performed by workers on manufacturers' payrolls.

We don't now know exactly how much of that there is. We at the Bureau of Labor Statistics are trying through some pilot surveys to see whether we can get a better handle on that, but I think that is an area in which our current data system is really not sufficient. Related to the possible increase in contracting out is the actual, marked growth that has occurred in personnel supply agencies which produce temporary help to cope with periods of peak demand.

Unlike most other industrialized nations, we have consistently provided more and more jobs for our growing labor force, with job expansion pausing only briefly during major recessions. Whenever I go abroad, Mr. Chairman, I find that I am in very great demand because people want to know about the job miracle that we have in the United States. Most of the countries of Western Europe are losing employment. They have a fast-growing youth work force, and that work force has very, very high rates of unemployment. We are different in that sense because we have had a very fast job expansion to take account of the increasing number of people who have come into our labor force.

Now we have had a considerable number of problems in individual areas and in individual industries where plants closed down. And we at the Bureau of Labor Statistics have been trying to assist in the effort to determine the boundaries of that problem through some survey and analytical efforts.

In January 1984, we added a set of special questions to our monthly labor force survey in order to get information on people who had lost their jobs because of plant closings or because of slack work or the abolishment of their positions because of a shift close-down during the prior 5 years.

We found that there were about 11½ million such persons, but that only about 5.1 million of them had worked on their jobs for at least 3 years—that is, they had some job attachment to the employer.

Of those 5 million, about one-half had lost jobs in manufacturing, even though factories employed only about one-fifth of all workers. As of the January 1984 survey date, 60 percent of those displaced had found new jobs, a figure that had risen to about 67 percent a year later according to limited followup studies.

The proportion who were unemployed declined between January 1984 and January 1985 from 26 to 12 percent. In general, the older the worker, the less the chance of reemployment and the greater the chance of unemployment. Many of the older workers leave the labor force entirely following job loss.

The findings do show that many workers find new jobs at comparable earnings, but that many others take lower paying jobs, remain unemployed or withdraw from the labor force. And we have repeated that survey in January 1986. And preliminary results from it show that workers displaced during the prior 5 years had, as we would have expected in a period of recovery, fared somewhat better than those in the survey 2 years earlier.

The structural changes in the U.S. economy have focused a great deal of attention on our competitiveness. Foreign trade has become an increasingly important factor in the U.S. employment situation. I don't need to tell this committee about the shift in the proportion of imports and exports to our gross national product. That situation has changed enormously in the last 10 years.

But I would like to make one point. And that is that over the years, the Bureau of Labor Statistics has received numerous requests for information on the employment content of exports and of imports. In my view, conceptual and data problems make it impossible to estimate with statistical accuracy the employment effect of internationally traded products.

On the export side, we can say that the fact that exports accounted for a smaller proportion of our GNP in 1985 implies a similar relationship in terms of jobs. But the difficulty in developing estimates of the number of jobs associated with exports is that assumptions must be made about the marginal productivities associated with producing those exports. Models using an input-output approach exist, but the data required to estimate those models are available only in highly aggregated form. As you know, international trade occurs at the product level. The flow of goods that cross borders differs markedly among products; indeed, even among products in the same industry or plant.

In any case, such estimates, even if they could be produced, would tell us very little about what would happen to employment if exports were sharply cut back. On the import side, the estimation task is even more difficult. In my view, it is just not possible to estimate with accuracy the number of U.S. jobs that have been displaced by imports.

In the case of imports, there are no domestic jobs involved in producing the goods. The task is to estimate the employment that might take place, assuming other factors of production are constant—if those imports were or could be produced in the United States.

The problem is that the task requires answers to questions for which we have no basis in fact. How can we estimate for each sector of the economy the level of final demand which might occur if the United States were to cease importing? We do not even know if the country has the capacity to produce all those goods that are imported or whether attempts at self-sufficiency in import-competitive industries would result in bottlenecks. Even if it were possible for the United States to produce the goods which are being imported, major reallocations of resources would take place, and there would be concurrent changes in prices and in consumer preferences for goods.

There also would be shifts in employment based on imported goods, including transportation, sales and servicing.

Now we cannot estimate, I believe, the number of trade-related jobs that are generated or are lost with statistical accuracy, but we do have some data to compare the trends in U.S. factory productivity and labor costs with those of other countries. Since a large volume of trade in manufactured goods takes place because of differences in relative prices, labor costs, and, therefore, productivity, are extremely important.

Unfortunately, we do not have satisfactory data for considering productivity levels between countries, but we can compare trends in factory productivity.

Over the longer term, since 1960, the 2.7 percent per year increase in the United States manufacturing productivity which Mr. Baucus' chart shows has been slower than in the nine European countries for which we have data and considerably less than the 8 percent a year increase in Japan.

All 12 countries have experienced productivity growth rate slowdowns since 1973. The slowdowns in the other countries were greater than in the United States. But because the other countries had higher growth rates before the slowdown started, their growth rates since then have generally remained higher than those of this country. Their superior productivity performance, however, was accompanied by substantial reductions in factory employment.

In assessing changes in competitiveness, productivity developments need to be looked at in conjunction with relative changes in unit labor cost. Unit labor costs in manufacturing have risen less in the United States since 1980 than in any of the other countries except Japan. In the United States, the rate of productivity growth has improved in recent years and hourly compensation costs have risen at only about a 4-percent rate since 1982.

In fact, manufacturing unit labor costs were lower in 1985 than they were in 1982. From 1981 to 1985, they rose less than 1 percent a year.

Now these comparisons are based on measurements in national currencies. But as we all know, the cost of internationally traded goods is affected not only by productivity and costs within the producing country, but also by changes in the market value of each country's currency. If you look at the charts, numbered 3, and 4, you can see the differences. The black line is the United States. The first chart, No 3, in national currencies, shows we had a much better performance io recent years than other countries. But if you turn the page to chart No. 4, you can see that the situation changes considerably when we use a U.S. dollar basis. As we all know, there have been very different changes, different developments. From 1970 to 1980, the dollar depreciated against the yen and the currencies of most European countries. But from 1980 to 1985, the U.S. dollar rose strongly. And then about in the early part of 1985, the exchange rate changed again.

And the effect of these changes on comparative unit labor costs, I think, are very striking. When the appreciation of the dollar since 1980 is taken into account, only one country besides the United States—Canada—had an increase in manufacturing unit labor costs. A similar situation prevailed in the most recent year for which we have comparative data, 1985. On a national currency basis, seven of the nine foreign countries had larger unit labor costs increases between 1984 and 1985 than we did, but on a United States dollar basis, only Denmark and the United Kingdom had larger increases.

Now I want to point out that those data are based on annual averages, and there has been a shift in 1985 because as of May

1986 the Japanese yen had appreciated by 43 percent against the United States dollar.

Whether U.S. relative unit labor costs will fall this year in line with the depreciation of the dollar will, of course, depend on comparative 1986 developments in factory productivity in hourly compensation costs.

Mr. Chairman, the last part of my statement includes a special analysis we did for this morning's hearing, looking at our price situation. It is unfortunate but true that many people when they look at the international trading activities of the United States often forget that they can affect the prices which American consumers pay for their products.

Now it is generally expected that the recent dramatic movements in exchange rates will have an impact on price levels in this country. As you know, what we had during the latter part of the 1970's and into 1980 were very high rates of inflation. Those rates of inflation have decelerated, and there has been a considerable downward pull on the Consumer Price Index from imported products.

Since the change in the value of the dollar, you can see in the last chart, chart No. 5, the blue line, the bottom line, is our import price index. And one can see quite clearly that after some considerable time lag, import prices have risen markedly.

We have found that it takes a much longer period of time for these price changes to have as much of an effect on the Consumer Price Index. We would expect to see some increases in the prices of imported products. But, if you look at the last table that is attached to my statement, you can see that for a series of products that we were able to pull out of the Consumer Price Index there were no clear patterns in the trends over various periods of time when there were changes in the value of the dollar.

Generally, that completes the summary of my statement. I would be glad to try to answer any questions.

[The prepared written statement of Dr. Norwood follows:]

Statement of
Dr. Janet L. Norwood
Commissioner
Bureau of Labor Statistics
before the
Senate Finance Committee
United States Congress
July 16, 1986

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to discuss with you some of the Bureau of Labor Statistics (BLS) data which have a bearing on our international trade position. The structure of employment and industry, the nature of productivity and unit labor costs, and the prices of domestic and internationally traded goods form an important part of the background against which our trade takes place.

The U.S. economy is a dynamic one; our labor market is flexible and changing. Especially, in the last five years, the restructuring of our industrial composition has been widely discussed. But this kind of change is not new for us. This country's industries have undergone change for many decades. Indeed, in the past -- for example, with the shift of workers from the farms to the cities -- the change was even more profound than it is today.

Employment Trends

The changing orientation of our economy, from one that depends on the production of goods to one that stresses services, has been well-documented. It is important to remember that this development is primarily due to differential rates of growth rather than to widespread declines.

Thus, goods-producing employment, which stands at 24.9 million today, is about where it was in 1969 (24.4 million). But since that time, the level has swung sharply in response to three business cycles. The current level is 1.8 million jobs below its 1979 peak, although it is 2 million above its 1982 recession level. In contrast, the service-producing sector has gained nearly 29 million jobs since 1969. (See Table 1.)

While the service-producing sector generally has expanded (or at least held its own) during business downturns, manufacturing output and jobs have declined in recessions.

The employment trends associated with the most recent downturn and recovery, however, have been quite different from those of the 1973-75 recession and subsequent recovery. Following the manufacturing industry's employment trough of 18 million in mid-1975, factory jobs grew steadily for the next 4 years, to over 21 million. Factory job losses during the 1981-82 recession were similar to those in the mid-70's. But the current expansion has produced far fewer factory jobs. In the three and one-half years since the recession trough in November 1982, manufacturing jobs have grown by 6 percent; the gain had been 14 percent in the same time period following the 1975 economic turnaround. The contrast between the two recoveries is particularly sharp for nondurable goods industries, where jobs in the current recovery have grown at only one-fourth the rate of the previous one.

Looking at the 20 manufacturing industries for which we publish data in our monthly press release, we see that all, but two increased their employment in the 43 months following the 1975 business cycle trough. These two industries which lost jobs--steel and tobacco--were joined by five more in the current recovery where job losers included textiles, apparel, leather, chemicals, and oil and coal products. Printing and publishing is the only one of the 20 industries whose growth is faster in the current recovery than in the previous one.

While manufacturing has shown less growth in the current recovery than in the turnaround beginning in 1975, employment reductions in several manufacturing industries predate both recessions. Annual average employment in the textile industry, for example, peaked in 1942, leather in 1941, and tobacco in 1947. A million jobs have been lost in these three industries over the last four decades, about one-half of their peak work force. The steel industry peaked in 1953, and has lost nearly half a million jobs since then--about 60 percent of its work force. While it is unlikely that the steel industry will return to its previous high levels, our BLS projections suggest that there will be some expansion from current levels, particularly in small steel plants that use energy efficient electric furnaces to process scrap metals.

Focusing on trends within the current recovery period, we see that manufacturing employment showed strong and substantial growth during the first year and a half of recovery. Since then, the overall number of factory jobs has shown no sustained growth. Indeed, more than 100,000 factory jobs have been lost in the last five months.

One industry that has performed reasonably well in the current recovery is automobile manufacturing. A general uptrend has resulted in a gain of about 200,000 jobs, although the industry is still 200,000 jobs, below the 1979 high. Both machinery and electronics showed strong growth in the first two years of recovery, but have been falling since then. A more common pattern has been growth over the first two years followed by job stability since then.

It is important to note that despite the lack of growth in manufacturing jobs, manufacturing output has continued to increase even since 1979. This reflects the productivity growth in our factories. Thus, the shift to a service oriented economy does not signal an overall pattern of deindustrialization. Some specific manufacturing industries whose output has expanded in the past 15 years despite employment declines include furniture, farm machinery, household appliances, telephones, and synthetic fibers. Of course, some industries with severe employment declines also had reduced output over the past 15 years, including steel, tobacco, tires, and shoes.

On the opposite side of the coin is the service-producing sector of the economy, which has increased its share of nonagricultural jobs from 59 percent of the total in 1950 to 75 percent today. Very rapid growth has taken place in most of the sector's industries, particularly services, State and local government (although not in recent years), finance, insurance, and real estate; as well as wholesale and retail trade. The services industry is the fastest growing one of all. Within that industry, business and professional services have shown, and are projected to continue to show, extraordinary expansion. Rapid growth is also expected to take place in the health field, although higher costs and limited expansion in Government programs are expected to slow the rate of employment growth in the next decade.

Type of Jobs Created. The growth in service-sector jobs and the decline in manufacturing has led to a common perception that high wage factory jobs are being lost, while low-wage, often part-time service jobs are being added. This notion is probably equal parts fact and fiction. It is true that many relatively high-wage jobs in steel and auto production, for example, have been lost. And the problem faced by workers with these job losses are numerous. However, at the same time, we have also lost many very low-wage factory jobs as well, such as those in textiles, apparel, and leather. It is true that the service sector includes many low-wage, dead-end jobs in the rapidly growing fast-food and retail industries, for example. But the service sector also has 85 percent of all professional employees including most of the physicians, lawyers, airline pilots, architects, computer scientists, and teachers. The point is that the service sector is so diverse that it cannot be characterized as either high wage or low wage. We must be careful not to stereotype the job opportunities arising in a sector which now accounts for three-fourths of all jobs and almost all of the net job growth.

It is also important to recognize the considerable interdependence between the goods and the service sectors. For example, the production and consumption of goods leads to the development of such services as transportation, retail trade, and repair facilities. Moreover, some of the employment growth recorded in the service industries reflects work that some manufacturing firms have contracted out--accounting, engineering, legal, and other services that were formerly performed by workers on the manufacturers' payrolls. In addition, marked growth has occurred in personnel supply agencies, which provide temporary help to businesses to cope with periods of peak demand or vacations.

Unlike most other major industrialized nations, we have consistently provided more and more jobs for our growing labor force, with job expansion pausing only briefly during major recessions. We cannot, however, discount the harm done to the many individuals who are displaced by the inevitable cycles of industry decline. We know that it takes considerable time for an area hard hit by industry decline to rebuild. For example, only in the past five years or so has New England's economy regained its employment potential lost in the 1940's and 50's, as its old industries, particularly textiles, largely disappeared. It clearly is in the nation's best interests for workers to regain productive employment as quickly as possible. We, at the Bureau of Labor Statistics, are assisting in the effort through survey and analytical efforts to identify the size and scope of the problems associated with industrial restructuring.

Displaced Workers. In January 1984, we added a set of supplemental questions to the monthly labor force survey--the Current Population Survey--to gather information on persons who had lost their jobs due to plant closings or moves, slack work, or the abolishment of their positions or shifts, during the prior five years. Eleven and a half million such persons over age 20 were identified, 5.1 million of whom had worked on their jobs for at least three years. About half of the 5 million had lost jobs in manufacturing, even though factories employed only about one-fifth of all workers. As of the January 1984 survey date, 60 percent of those displaced had found new jobs, a figure that had risen to about 67 percent a year later according to a limited follow-up study. The proportion who were unemployed declined between January 1984 and January 1985, from 26 to 12 percent. In general, the older the worker, the less the chance of reemployment and the greater the chance of unemployment. Many of the older workers leave the labor force following job loss, either immediately or after a failed job search.

The findings show that, many workers do find new jobs at comparable earnings, but that many others take lower-paying jobs, remain unemployed, or withdraw from the labor force. Essentially, the same survey was repeated in January, 1986. Preliminary results show that workers displaced during the prior five years had fared somewhat better than those in the survey two years earlier. As would be expected in an economy that is growing during recovery, more had found jobs and fewer were unemployed.

Foreign Trade and U.S. Employment

The structural changes in the U.S. economy have focused attention on our international competitiveness. Foreign trade has become an increasingly important factor affecting the U.S. employment situation. In 1970, merchandise exports and imports each represented only about 4 percent of our gross national product (GNP). Ten years later -- by 1980, these ratios had risen to about 8 and 9 percent respectively. Since 1981, however, our trade balance has changed. Merchandise exports have declined (even on a current dollar basis), and as of 1985, represented 5.4 percent of the GNP. Merchandise imports, in contrast, continued to rise and still represented nearly the same proportion of the GNP in 1985, as in 1980.

Over the years, the Bureau of Labor Statistics has received numerous requests for information on the employment content of exports and of imports. In my view, conceptual and data problems make it impossible to estimate the employment effects of internationally traded products with statistical accuracy.

On the export side, we can say that the fact that exports accounted for a smaller proportion of our GNP in 1985, implies a similar relationship in terms of jobs. But, the difficulty in developing estimates of the number of jobs associated with exports is that assumptions must be made about the marginal productivities associated with producing those exports. Models using an input-output approach exist, but the data required to estimate those models are available only in a highly aggregated form. International trade occurs at the product level. The flow of goods across borders differs markedly among products -- indeed, even among products in the same industry or plant. In any case, such estimates, even if they could be produced, would tell us very little about what would happen to employment if exports were sharply cut back.

On the import side, the estimation task in even more difficult. In my view, it is just not possible to estimate with accuracy the number of U.S. jobs that have been displaced by imports. In the case of imports, there are no domestic jobs involved in producing the goods. The task is to estimate the employment that might take place, assuming other factors of production are constant, if those imports were or could be produced in the U.S.

The problem is that the task requires answers to questions for which we have no basis in fact. How can we estimate for each sector of the economy the level of final demand which might occur if the United States were to cease importing? We do not even know whether the country has the capacity to produce the amounts of the goods which are imported or whether attempts at self-sufficency in import-competitive industries would result in bottlenecks. Even if it were possible for the United States to produce the goods which are being imported, major reallocations of resources would take place, and there would be concurrent changes in prices and in consumer preferences for goods. There also would be shifts in employment based on imported goods, including transportation, sales, and servicing.

Productivity and Unit Labor Costs

While we cannot estimate the number of trade-related jobs that are generated or lost with statistical accuracy, we do have data to compare trends in U.S. factory productivity and labor costs with those of other countries. Since a large volume of trade in manufactured goods takes place because of differences in relative prices, labor costs and, therefore, productivity are extremely important. U.S. international industrial competitiveness depends heavily on the relationship of U.S. labor costs to those in other countries. The relevant comparison is of unit labor costs -- total compensation per unit of output -- since a producer with a higher level of productivity (as measured by output per hour), can pay higher wages and still remain price competitive. Unfortunately, we do not have satisfactory data for comparing productivity levels between countries, but we can compare trends in factory productivity and unit labor costs.

Over the longer term, since 1960, the 2.7 percent per year increase in U.S. manufacturing productivity has been slower than in the nine European countries for which we have data and considerably less than the 8 percent per year increase in Japan. (See Table 2.)

All 12 countries have experienced productivity growth rate slowdowns since about 1973. The slowdowns in the other countries were greater than in the United States. But, because the other countries had higher growth rates before the slowdown started, their growth rates since then have generally remained higher than those of this country (with the exception of Canada and Norway). Their superior productivity performance, however, was accompanied by substantial reductions in factory employment.

In assessing changes in competitiveness, productivity developments need to be looked at in conjunction with relative changes in hourly compensation costs. Unit labor costs in manufacturing (the ratio between hourly compensation costs and output per hour) have risen less in the United States since 1960, than in any of the other countries except Japan. We, along with Canada, had the smallest rate of gain in hourly compensation costs, thereby largely counteracting our slower rate of productivity growth. In the United States, the rate of productivity growth has improved in recent years, and hourly compensation costs have risen at only about a 4 percent rate since 1982. In fact, manufacturing unit labor costs were lower in 1985, than in 1982. From 1981 to 1985, they rose less than one percent per year. Even so, however, Germany matched our small rate of increase, and Japanese unit labor costs actually fell at an average rate of 2.4 percent per year.

The comparisons I have just discussed are based on measurement in each country's own currency. However, the cost of internationally traded goods is affected not only by productivity and cost developments within each country, but also by changes in the market value of each country's currency. These changes in exchange rates alter the effect of relative changes in costs in national currencies and, therefore, need to be taken into account in assessing changes in unit labor costs in competitive terms.

Between 1971 and about 1979 or 1980, the dollar depreciated against the Japanese yen and the currencies of most of the European countries. When adjusted for exchange rate changes, during this period, Canada had a somewhat lower rate of increase in unit labor costs than we did, Japanese unit labor costs rose at the same rate as in the United States, and all the European countries had substantially larger increases.

Between 1980 and 1985, the U.S. dollar rose strongly versus the Canadian dollar and the European currencies and somewhat against the Japanese yen. In 1985, the yen was only 5 percent below is 1980 value, but the Canadian dollar was down to 86 percent of its 1980 value, relative to the U.S. dollar, and the European currencies ranged between about 45 and 60 percent of their 1980 values. The effect on comparative unit labor cost trends was striking. In national currencies, unit labor costs for most of the European countries (except Germany) had larger increases than the United States. But when the appreciation of the dollar since 1980 is taken into account, only one country besides the United States -- Canada -- had an increase in manufacturing unit labor costs. Japanese unit labor costs fell 2.3 percent per year and European unit labor costs between 4 and 9 percent per year.

A similar situation prevailed in the most recent year for which we have comparative data--1985. On a national currency basis, seven of the nine foreign countries had larger unit labor cost increases between 1984 and 1985 than the United States; on a U.S. dollar basis, however, only Denmark and the United Kingdom had larger increases.

These comparisons are based on annual average data, and they have been adjusted to U.S. dollars using annual average exchange rates. On an annual average basis, the dollar was generally higher in 1985, than in the previous year. But, by the end of 1985, and during the first half of 1986, the U.S. dollar had depreciated strongly against the yen and most European currencies.

As of May 1986, the Japanese yen had appreciated by 43 percent against the U.S. dollar compared with its average 1985 value, and was up 36 percent over 1980. The European currencies, as of May 1986, had appreciated by 15 to 30 percent over 1985 -- although they were still some 20 to 40 percent below their 1980 values. Whether U.S. relative unit labor costs will fall this year in line with the depreciation of the dollar will, of course, depend on comparative 1986 developments in factory productivity and hourly compensation costs.

Prices

To the extent that unit labor costs are a large proportion of total production costs, they affect the competitiveness of U.S. products. People often forget that the international trading activities of the United States can also affect the prices which American consumers pay. It is generally expected, for example, that the recent dramatic movements in exchange rates will have an impact on price levels in this country. But that impact is complex and may take a long time to be felt.

After experiencing double digit inflation through most of 1979, 1980, and the first three quarters of 1981, consumer price increases in this country began to slow dramatically. From the last quarter of 1981, until the end of 1985, the rate of inflation was less than 4 percent per year. Did the increase in the value of the dollar from mid-1980 until March 1985, help to bring about this slowdown? Will the decline in the dollar's value since March 1985, contribute to an increase in inflation in this country?

These are difficult questions to answer. To look at them, we can examine BLS import and consumer price indexes for consumer commodities for the periods of higher, and then lower exchange rate values of the dollar. Food and energy should be set aside since special conditions apply to them.

The non-food, non-energy commodities comprise about one-quarter of the CPI. Prices for them, on average, rose at an annual rate of 8.7 percent from the close of 1978, through the third quarter of 1981, and then began to slow sharply, finally reaching an inflation rate of only 3.8 percent for the 12 months ended March 1985. For the same period, prices for services (other than energy and shelter) also slowed, but for the 12 months ended March, 1985, they posted annual price increases of 5.4 percent.

This divergence in commodity and service prices suggests that commodity prices in this country may have been affected by lower priced imports resulting from the high value of the dollar relative to other countries. When the dollar was appreciating from 1981 to 1985, foreign suppliers of imports could receive the same income in their own currency by selling the same quantity of imports at lower dollar prices, as each dollar received by them commanded a greater amount of their own currency. However, it may have taken some time for the rising value of the dollar to have translated into relatively lower costs of imports; a recent Federal Reserve Bulletin article estimated that such an impact may take up to two years to affect price increases for particular imports. Indeed, the impact of the changing value of the dollar on import prices can be delayed or reduced substantially as a result of changing profit margins of suppliers, the necessity to revise dollar contracts, and specific trade restrictions such as import quotas. Also, as I mentioned earlier, changes in the rates of exchange between the dollar and the currencies of our various trading partners have not been uniform. Another point is that the relative price level of imports may be strongly affected by the growth rate of the domestic economy. Thus, while the depreciation of the dollar starting in March 1985, may stimulate future increases in dollar prices of imports, the timing and magnitude of these lags in price effects is uncertain.

Although these factors may weaken or delay the impact of exchange rates of import prices, examination of relevant BLS price statistics is instructive. On average, import prices rose more slowly than did the comparable commodity components of the CPI when the U.S. dollar was appreciating in the 1982-1985 period. When we look at import price indexes from June 1982, through March 1985, we see that import prices for consumer commodities (other than energy, food, and used cars) rose at an annual rate of only 0.7 percent while the CPI covering the same set of commodities rose at an annual rate of 3.0 percent.

The BLS price statistics also show a shift in the behavior of import prices relative to prices of the comparable CPI components since the dollar began to generally depreciate in foreign exchange markets last year. In the year following the March 1985 peak value of the dollar, these import prices accelerated sharply, rising 7.2 percent, while the corresponding consumer prices actually slowed more and rose only 2.3 percent.

Unfortunately, detailed analyses relating changes in import prices to average consumer costs are not possible; imported items cannot now be separately identified in the surveys for the CPI. However, we have compiled some data on price changes for those non-food, non-energy components of the CPI which are judged to have an above average representation of imports in market sales. It is estimated that, for each of the sixteen commodity groups presented in Table 3, import sales constituted more than ten percent of 1984 total sales.

Table 3 presents annualized rates of change in the commodity price indexes for five periods; price changes shown for the first and last periods were periods of depreciation of the dollar in foreign exchange markets and the others were periods of dollar appreciation. The bottom row of Table 3 provides a count of the commodities registering smaller percentage increases (or decreases) than the corresponding index for all commodities excluding food and energy in the CPI.

Review of the bottom row of Table 3 shows that in every period examined except the most recent period of depreciation of the dollar, most of the commodities registered smaller increases (or decreases) in prices than the all commodity CPI average. The individual commodity price movements show considerable variability, undoubtedly reflecting the particular circumstances affecting market developments in each case. For example, the sharp price increases in whiskey and other distilled spirits which occurred in the 3/85-5/86 period are primarily accounted for by the increase in the federal excise tax on these products in October 1985. Detailed study of market developments for other commodities might provide better accounting of the other price variations.

In summary, BLS import price data show that import prices, on average, rose much more slowly than the comparable index of consumer prices when the dollar appreciated in foreign exchange markets over the period 1982-1985. During the recent depreciation of the dollar, import prices have registered sharp increases. Nevertheless, our analysis summarized in Table 3 indicates that general exchange rate movements may not serve as a reliable guide in predicting changes in consumer costs for specific products having high import representation, as other factors influencing price change in particular markets may predominate.

Mr. Chairman, I have appreciated the chance to describe some of the BLS data that relate to our international trade situation. I shall be happy to try to answer any questions that you might have.

TABLE 1
CURRENT EMPLOYMENT VS.
ALL-TIME HIGHEST LEVEL
ALL EMPLOYEES, SEASONALLY ADJUSTED
CURRENT MONTH = JUNE 1986

INDUSTRY (numbers in thousands)	DATE OF HIGHEST EMPLOYMENT	EMPLOYMENT LEVEL	CURRENT EMPLOYMENT	DIFFERENCE FROM HIGHEST LEVEL
Total Non-Agricultural	MAY 86	99908	99819	-89
Total Private	MAY 86	83165	83104	-61
Goods Producing	JUL 79	26619	24859	-1760
Mining	FEB 82	1221	769	-452
Oil and Gas Extraction	MAR 82	761	443	-318
Construction	MAY 86	4976	4946	-30
General Building Contractors	JAN 86	1330	1296	-34
Manufacturing	JUN 79	21162	19144	-2018
Durable Goods	JUN 79	12858	11317	-1541
Lumber and Wood Products	JAN 47	913	722	-191
Furniture and Fixtures	JUN 73	511	496	-15
Stone, Clay, and Glass Products	DEC 73	730	598	-132
Primary Metals	JUL 53	1349	763	-586
Blast Furnace and Basic Steel	JAN 57	744	288	-456
Fabricated Metals	JUN 79	1732	1442	-290
Machinery except Electrical	JAN 80	2540	2087	-453
Electrical and Electronic Equipment	DEC 84	2251	2148	-103
Transportation Equipment	DEC 43	3998	1973	-2025
Motor Vehicles and Equipment	JAN 79	1050	837	-213
Instruments and Related Products	SEP 81	738	720	-18
Miscellaneous Manufacturing	JAN 74	461	368	-93
Non-Durable Goods	JAN 79	8313	7827	-486
Food and Kindred Products	SEP 48	1887	1650	-237
Tobacco Manufactures	FEB 47	126	62	-64
Textile Mill Products	JUL 41	1380	706	-674
Apparel and Other Textiles	APR 73	1451	1106	-345
Paper and Allied Products	MAR 70	717	689	-28
Printing and Publishing	JUN 86	1478	1478	0
Chemicals and Allied Products	APR 80	1118	1023	-95
Petroleum and Coal Products	AUG 53	243	165	-78
Rubber and Miscellaneous Plastics	MAR 86	804	796	-8
Leather and Leather Products	AUG 41	427	152	-275
Service Producing	JUN 86	74962	74962	0
Transportation and Public Utilities	JAN 86	5286	5170	-116
Transportation	JAN 86	3056	3039	-17
Communications and Public Utilities	JUN 82	2299	2131	-168
Wholesale Trade	MAY 86	5868	5824	-44
Durables	MAY 86	3485	3449	-36
Non Durables	MAY 86	2383	2375	-8
Retail Trade	JUN 86	17919	17919	0
General Merchandise Stores	MAY 86	2345	2341	-4
Food Stores	JUN 86	2932	2932	0
Auto Dealers and Service Stations	JUN 86	1944	1944	0
Eating and Drinking Places	JUN 86	5918	5918	0
Finance, Insurance, and Real Estate	JUN 86	6276	6276	0
Finance	JUN 86	3149	3149	0
Insurance	JUN 86	1922	1922	0
Real Estate	MAY 86	1206	1205	-1
Services	JUN 86	23057	23057	0
Business Services	JUN 86	4807	4807	0
Health Services	JUN 86	6553	6553	0
Government	MAY 86	16743	16715	-28
Federal	APR 80	3111	2931	-180
State	APR 86	3938	3930	-8
Local	MAY 86	9887	9854	-33

Source: U.S. Department of Labor
Bureau of Labor Statistics

TABLE 2

OUTPUT PER HOUR AND UNIT LABOR COSTS
MANUFACTURING, 12 COUNTRIES, 1960-1985

AVERAGE ANNUAL RATES OF CHANGE (1)

COUNTRY	1960-85 (2)	1960-73	1973-85 (2)	1982	1983	1984	1985
			OUTPUT PER HOUR				
UNITED STATES	2.7	3.2	2.2	2.2	6.6	4.9	2.8
CANADA	3.4	4.7	1.9	-2.8	6.4	3.7	3.2
JAPAN	8.0	10.3	5.6	6.1	5.4	7.0	5.0
BELGIUM	6.4	7.0	5.7	4.4	6.2	3.2	NA
DENMARK	4.7	6.4	3.0	0.4	2.4	0.9	0.1
FRANCE	5.5	6.5	4.5	6.1	4.7	4.4	3.8
GERMANY	4.9	5.8	3.8	1.5	5.7	4.8	5.7
ITALY	5.5	7.3	3.6	2.0	2.6	6.6	3.1
NETHERLANDS	6.3	7.4	5.0	2.1	5.6	10.5	NA
NORWAY	3.4	4.3	2.3	2.6	5.9	2.6	2.2
SWEDEN	4.8	6.4	3.0	3.0	7.7	5.7	2.0
UNITED KINGDOM	3.6	4.3	2.8	4.5	7.6	4.1	2.8

CONTINUED ON NEXT PAGE

Source: Bureau of Labor Statistics

TABLE 2-CONTINUED

OUTPUT PER HOUR AND UNIT LABOR COSTS
MANUFACTURING, 12 COUNTRIES, 1960-1985

AVERAGE ANNUAL RATES OF CHANGE (1)

COUNTRY	1960-85 (2)	1960-73	1973-85 (2)	1982	1983	1984	1985
UNIT LABOR COSTS: NATIONAL CURRENCY BASIS							
UNITED STATES	3.7	1.8	5.8	6.2	-2.8	-1.2	1.6
CANADA	4.6	1.4	8.2	13.5	0.8	-2.1	1.9
JAPAN	3.6	4.3	2.8	-0.8	-2.3	-3.9	-2.5
BELGIUM	4.5	3.8	5.4	0.7	1.5	4.6	NA
DENMARK	6.5	5.5	7.7	8.5	4.5	4.6	6.2
FRANCE	6.2	3.3	9.4	11.2	7.6	4.3	2.7
GERMANY	4.0	4.3	3.8	3.3	-0.4	-0.1	0.3
ITALY	9.9	5.9	14.3	18.1	13.5	2.8	7.0
NETHERLANDS	4.5	5.2	3.6	4.3	-0.4	-4.4	NA
NORWAY	7.2	5.4	9.1	6.5	5.0	5.8	6.6
SWEDEN	6.1	3.9	8.5	4.2	1.3	6.1	5.8
UNITED KINGDOM	8.2	4.4	12.5	4.6	0.2	2.4	5.4
UNIT LABOR COSTS: U.S. DOLLAR BASIS							
UNITED STATES	3.7	1.8	5.8	6.2	-2.8	-1.2	1.6
CANADA	3.2	1.2	5.4	10.2	1.0	-6.8	-3.4
JAPAN	5.3	6.6	3.9	-12.1	2.5	-3.8	-2.9
BELGIUM	3.9	5.8	1.7	-18.6	-9.1	-7.4	NA
DENMARK	4.7	6.6	2.8	-7.3	-4.7	-7.6	3.8
FRANCE	3.7	4.1	3.2	-8.1	-7.1	-9.0	-0.1
GERMANY	5.5	8.0	2.8	-4.1	-5.3	-10.4	-3.0
ITALY	5.0	6.4	3.6	-0.7	1.1	-11.0	-1.6
NETHERLANDS	5.2	7.7	2.3	-2.9	-6.8	-15.0	NA
NORWAY	6.4	7.2	5.5	-5.3	-7.1	-5.3	1.2
SWEDEN	3.9	5.3	2.5	-16.0	-17.0	-3.4	1.7
UNITED KINGDOM	4.9	3.3	6.7	-9.7	-13.1	-9.7	2.3

(1) RATES OF CHANGE BASED ON THE COMPOUND RATE METHOD.
(2) FOR BELGIUM AND THE NETHERLANDS, DATA RELATE TO PERIOD ENDING 1984.

NOTE: DATA RELATE TO ALL EMPLOYED PERSONS IN THE UNITED STATES AND CANADA; ALL EMPLOYEES IN THE OTHER COUNTRIES.

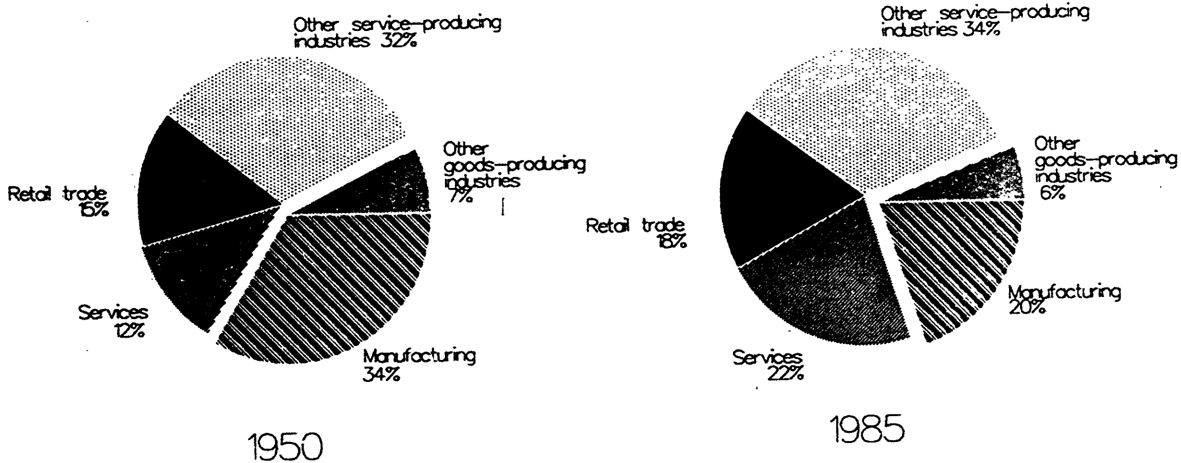
Source: Bureau of Labor Statistics

Table 3 Selected Seasonally Adjusted Annual Rates of Change for Consumer Price Indexes for Commodities With Higher Than Average Import Proportions

	12/78-9/81	9/8-12/82	12/82-12/83	12/83-3/85	3/85-5/86
Commodities less food and energy	8.7	5.1	5.0	3.5	0.7
Wine at home	8.4	2.0	-1.5	0.7	2.3
Whiskey at home	5.9	2.6	1.5	1.3	8.5
Alcoholic spirits excluding whiskey	4.6	1.8	1.0	2.0	10.0
TV and sound equipment	1.9	-1.1	-2.2	-4.1	-5.1
Clocks, lamps, and decor items	8.3	1.7	2.4	1.0	0.3
Tableware, serving pieces and nonelectric kitchenware	9.8	2.7	1.6	0.5	1.2
Lawn equipment, power tools, other hardware	6.3	6.1	2.3	1.9	-2.3
Men's and boys' apparel	4.7	2.9	2.3	2.3	1.6
Women's and girls' apparel	2.0	0.1	3.3	2.5	-1.6
Infants and toddlers' apparel	7.3	2.0	3.5	5.5	4.6
Jewelry and luggage	11.9	-2.2	3.4	0.3	-1.4
Footwear	6.7	1.4	1.0	2.0	-1.2
New vehicles	7.2	2.6	3.3	3.0	3.8
Sporting goods and equipment	7.6	2.7	2.6	2.5	.1
Toys, hobbies, and other entertainment commodities	8.2	4.0	1.5	1.3	2.2
Other toilet goods and small personal care appliances	9.3	5.3	5.2	3.6	3.3
Number with smaller percentage increases (or decreases) than CPI commodities less food and energy	13	14	15	15	7

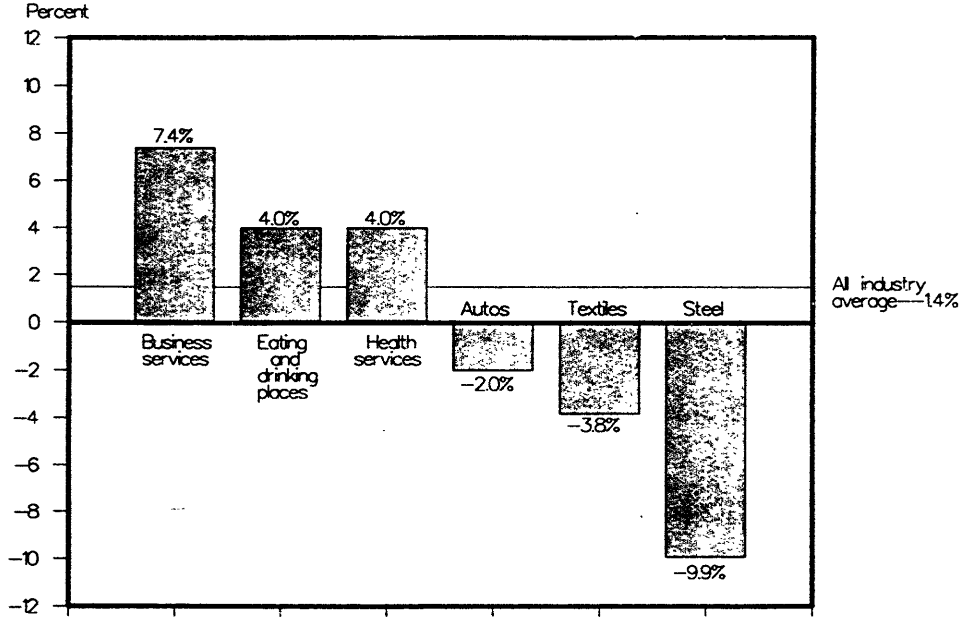
Source: Bureau of Labor Statistics

Chart 1. Distribution of nonagricultural employment by industry group, 1950 and 1985



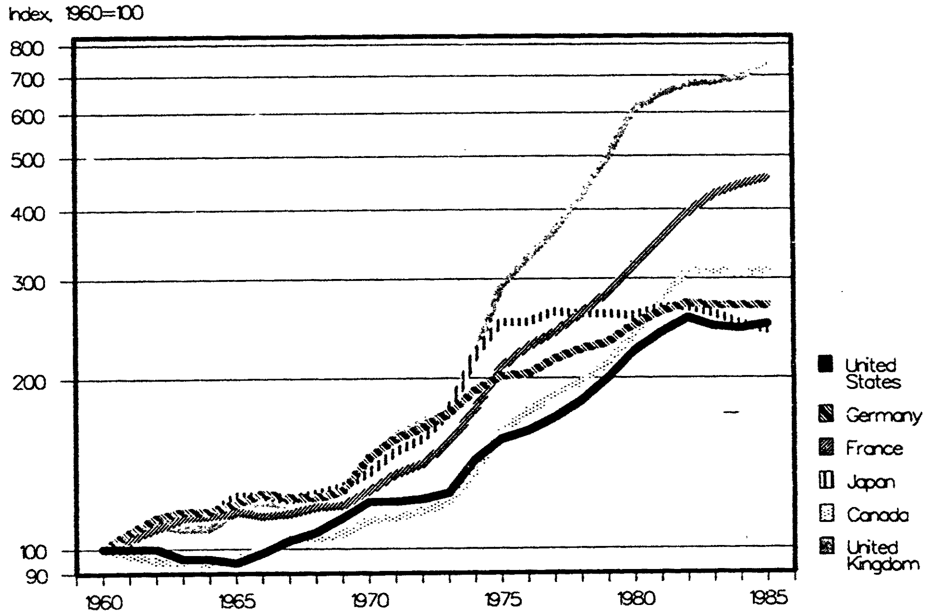
Source: Bureau of Labor Statistics.

Chart 2. Average annual percent change in employment, selected industries, 1979–85



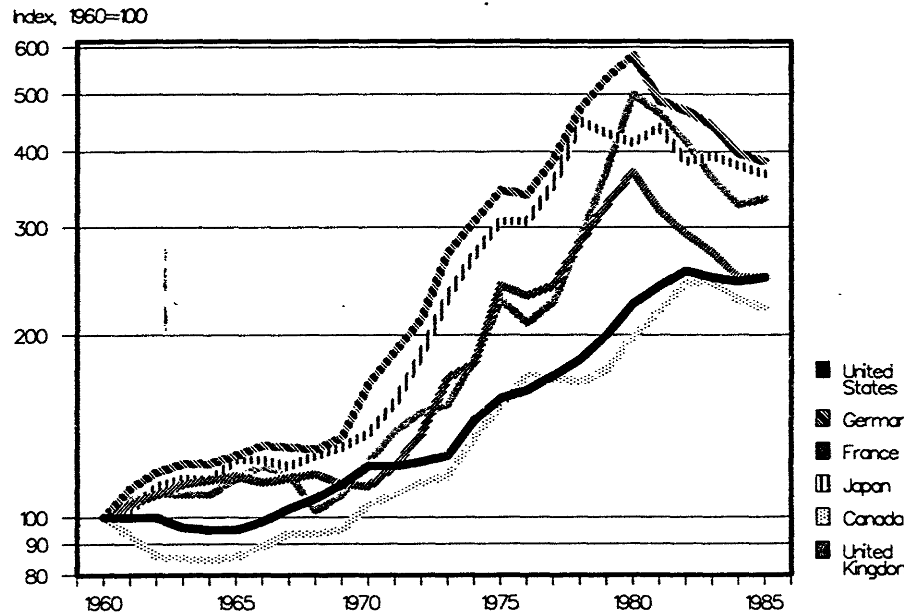
Source: Bureau of Labor Statistics.

Chart 3. Unit labor costs in manufacturing, national currency basis, selected countries, 1960–85



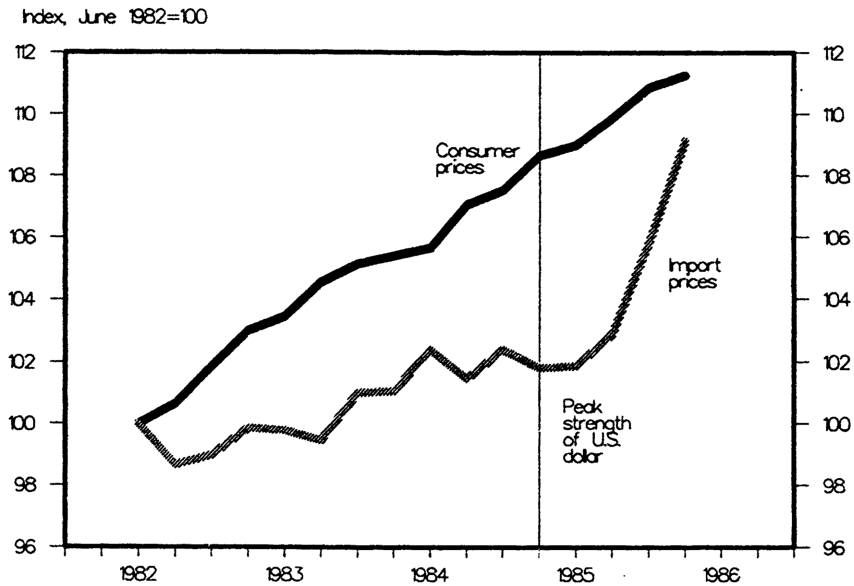
Source: Bureau of Labor Statistics.

Chart 4. Unit labor costs in manufacturing, U.S. dollar basis, selected countries, 1960–85



Source: Bureau of Labor Statistics.

Chart 5. Consumer and import price indexes for commodities excluding food, energy, and used cars 1982-86



Source: Bureau of Labor Statistics.

The CHAIRMAN. We go on a first-come-first-served basis on questions here. And the order I have is as follows: Senators Moynihan, Packwood, Heinz, Durenberger, Baucus, Grassley, Bentsen, Long, Danforth, and Chafee.

Senator Moynihan.

Senator MOYNIHAN. Dr. Norwood, to a point which Senator Baucus made earlier and to which we have been discussing from time to time on this committee, which is a question of wages and income which is sort of a summation of what happens in the end, if I am correct, I believe that a median family income of the United States today is exactly what it was in 1970. It peaked in 1973. And I am using 1984 data, which I think is the last we have. And that hourly wages in nonagricultural sector—and you know the day may come when BLS might want to reconsider that term. It sounds like a very restrictive term—nonagricultural. It is 99.5 percent of all jobs. Am I right? Why not just say hourly wages?

They are the same today as they were in 1968. Now two things. Would it be the case that there is no equivalent period in this history of our data and probably in the history of the Nation in which family incomes have been flat for 15 years and hourly wages for almost 20. And, two, how do you—what do you think about that in terms of our relative—is this not a reflection in the most specific way of kind of a general decline of productivity? Or is it the diffusion of the work force, there are more people, or what? That is what we depend on you for.

First question: Is this not unprecedented? And, two, what would you like to say about it?

Dr. NORWOOD. Well, let me say, first, Senator, that I am not sure it is really true.

Senator MOYNIHAN. Well, if it is not true, why do you keep publishing it?

Dr. NORWOOD. Well, one of the problems is—I saw that article in the New York Times, too.

Senator MOYNIHAN. No, no, no. I am talking about page 286 of the Economic Report. Don't say the New York Times.

Dr. NORWOOD. I was referring to the——

Senator MOYNIHAN. I am talking about the Economic Report in 1985, page 286.

Dr. NORWOOD. I think there are some reasons for much of this, but I do have some data here. Median income did fall in the early 1980's, and it is beginning to rise now. This is family income I am talking about, total money income. The level now is really not much higher than it was in the early 1970's. That is true. I don't think it is lower, but it is not much higher.

Senator MOYNIHAN. What I said was that the Economic Report of the President said that median family income in 1984 was exactly what it was in the 1970's.

Dr. NORWOOD. Now that is correct. I'm sorry. That is correct.

Senator MOYNIHAN. That is what I said.

Dr. NORWOOD. Well, I was perhaps taken up with the other part about wages which we can get to later. You are quite right. Median family income has not been rising. I think there are some reasons for that however. One is that when we talk about families we have to recognize that we have smaller households. That is one point.

Senator MOYNIHAN. Right.

Dr. NORWOOD. Second, we have a lot more older people, and older people traditionally have had much lower incomes. We have larger numbers of people who are elderly who are living alone.

Senator MOYNIHAN. My time is running. We know those numbers. This committee knows things like that. And that 15-year flat period might not be as impression because of the composition——

Dr. NORWOOD. That is right.

Senator MOYNIHAN [continuing]. If it wasn't accompanied by an equally flat period of hourly wages. Isn't that so?

Dr. NORWOOD. Well, there are many ways to look at wages. The average hourly earning series which many people use, and is a product of the Bureau of Labor Statistics, has to be looked at very carefully because it includes full-time and part-time people and includes all kinds of industry shifts. There are no——

Senator MOYNIHAN. Have you ever had 18 years flat?

Dr. NORWOOD. Well, what I would say is that we have not, because if you look at the employment cost index, which does correct for much of this, we have not had tremendous increases. We have had periods which are somewhat higher and somewhat lower. The employment cost index, for example, did increase between 1975 and 1978. Then it went down, and now from 1981 to 1986, it has risen 6.4 percent, when corrected for prices. And I think that is a better measure than average earnings. They both show that there is some problem. I am not wishing it away, but I think part of the difficulty is that the average hourly earning series is not the best way to look at this problem.

Senator MOYNIHAN. Thank you.

The CHAIRMAN. Dr. Norwood, the flat manufacturing employment, if you want to call it that, is not unique to the United States. This has been true of most of the industrialized world for the last decade or more, hasn't it?

Dr. NORWOOD. Yes; in fact, most of them have been losing employment in manufacturing much earlier than——

The CHAIRMAN. So it is not a question that they are increasing their manufacturing employment at our detriment? All the industrialized world has roughly the same pattern.

Dr. NORWOOD. It is one of the reasons they have had higher productivity growth.

The CHAIRMAN. Now I am curious about something. Why in Europe—we sort of think of Europe like ourselves—why have they had no apparently service sector growth, or if they have, no general growth in employment whereas we have?

Dr. NORWOOD. Well, I don't know. Most of the European countries have had very little job creation generally. Whatever job creation and job growth they have had has been in services, but their economies have not been as expansive as ours have been.

The CHAIRMAN. Have not been as expansive and yet the European Community has a $35 billion trade surplus with us over the last 2 years. I am trying to put my finger on why. You say that the jobs we have created are not necessarily all hamburger-flipping jobs.

Dr. NORWOOD. Right.

The CHAIRMAN. That a fair portion of them are better paying jobs than the jobs in some of the industries we are losing. We are still remaining competitive in many areas. Europe has a trade advantage with us and yet has created no new jobs. I can't put my finger on quite why they are flat and apparently are going to remain flat in employment, and they are not anymore greatly more productive than we are in the last decade.

Dr. NORWOOD. Well, I think it is a matter of fact the than many of the European countries are going to have an even harder time than we because demographic forces are against them. That is, they are going to have more and more women coming into the labor force. We have already had a lot of ours coming in. We will have more. They are having a baby-boom generation reaching labor force age, while we are having a declining number of young people entering the labor force.

So I think there are some changes there. But, generally speaking, we have created millions of jobs. In the last 15 years, we have created something like 27 million jobs in this country. European countries have either held stable or reduced jobs. They believe many of these are part-time jobs, but that is just not true. We have a lot of part-time people. About 15 million people are working part time voluntarily. But we also have had a large number of full-time jobs that are not in fast-food places.

The CHAIRMAN. You mentioned the women coming into the labor force. I think I saw in your publication that we have basically absorbed the baby boom into—the 1945 to 1965 baby boom into the labor force, and that women started coming in, in great numbers about in 1960. And the increase in those coming in does not seem as disproportionate to the total number of women as it was in 1965, 1975, 1980. And that as I recall your projections, we are only going to have to increase the number of jobs in this country about 1.2 to 1.3 percent a year over the next decade as opposed to about 2½ percent over the last decade and a half to keep even. Is that correct?

Dr. NORWOOD. Yes; the demographics are in our favor in many ways, largely because of the proportion of young people who will not be growing up to labor force age because birth rates changed.

However, one problem that we will face is that a much larger proportion of our labor force of the future will be made up of minorities, and they always have a harder time in the labor force.

The CHAIRMAN. Question: If we have had the drop in the birth rate from 1965 onward, if we have absorbed this great proportion of women in the labor force and while they continue to come in, in big numbers, it won't be disproportionate numbers, should not that bode for a rather consistent downturn in unemployment or almost a buyer's market for those looking for work over the next decade?

Dr. NORWOOD. We are already seeing, Mr. Chairman, a great deal more competition for jobs in the service producing sectors. And wages and salaries in the service-producing sector are rising much more rapidly than in the goods-producing sector where we are seeing a lot more give backs. These trends are what you would expect because of supply and demand.

The CHAIRMAN. Senator Heinz.

Senator HEINZ. Thank you, Mr. Chairman.

Dr. Norwood, on page 4 of your statement you talk about how one industry has performed reasonably well in the current recovery, auto manufacturing. Do you believe that automotive manufacturing would have performed reasonably well if it had not been protected aggressively by the Reagan administration since 1981?

Dr. NORWOOD. Well, Senator, I always try not to get involved in policy decisions. Let me just say that it is quite clear that the prices of cars have had some effect upon the market. One need only have gone off to buy a Japanese car during the period of the voluntary export restraints to see the additional prices. And American manufacturers began producing cars to compete with the imports which they had not done in very large amounts before.

Senator HEINZ. Maybe I didn't make my question clear. Do you think that the automotive industry would have done this well if they hadn't been protected?

Dr. NORWOOD. That depends on whether the automobile industry had continued the product mix that it had before. I think that the competition from abroad really required a change in product mix, and, as a matter of fact, in technology, which is now taking place.

Senator HEINZ. Well, let me ask you a related question then. Could it have generated the capital necessary to retool and reorient its product mix without the period of protection which it enjoyed and which substantially improved its cash and profit?

Dr. NORWOOD. Well, I don't know. And there are many experts who argue against that.

Senator HEINZ. Argue against what?

Dr. NORWOOD. Argue against that view.

Senator HEINZ. Argue against what view?

Dr. NORWOOD. The view that the protection really provided the impetus that made the automobile industry come to where it is. As a matter of fact, automobile prices have been very much different from what one might expect. As competition has increased, automobile prices have actually gone up. We are finding in our price data that automobile manufacturers, domestic automobile manufacturers, are adjusting prices by adjusting the interest rate. So that they can put on a special financing arrangement and——

Senator HEINZ. What conclusion——

Dr. NORWOOD. Leaving the price higher.

Senator HEINZ. What conclusion does that lead you to? Other than the marketing.

Dr. NORWOOD. Well, I think that it is something of a resistance to the market place in terms of the price of the car.

Senator HEINZ. Let me ask you a different question. You mentioned how the Europeans wonder about the United States economic miracle that Senator Packwood asked about—that while the Europeans were flat in terms of job creation; we were not. Could it have anything to do with the Federal budget deficit? If you take the $200 billion a year deficit that we have, and you divide it by $20,000, which is a very substantial number, it turns out it goes into $200 billion exactly 10 million times. So simplistically speaking you could say, well, if we just printed that money and spent it or got it magically from abroad, didn't in some sense have to pay a price right now, the $200 billion a year is certainly adequate for the creation of 10 million jobs on an ongoing basis if you paid everybody $20,000 a year. Is that why we have an economic miracle? Because we have found a way because of our dynamic economy to plow somehow this money into the economy for consumption and thereby job creation? And that is why we are currently, and maybe temporarily, doing so well in job creation?

Dr. NORWOOD. Well, I think that what you are getting at is the fact that we have had in a sense much more economic stimulation to our economy, fiscal stimulation to our economy, than many other economies. And that is quite true. We have had a lot of jobs created by our defense buildup, for example.

But I think that there is something more than that. The American labor market is a very dynamic one. People are always moving. They have jobs, they lose jobs, they find jobs, they leave the labor force, they come back to the labor force. If you look at the number of people who are unemployed in any specific month, and then look at them a month later, you find that about one-half of then are no longer unemployed, and about one-quarter of them have left the labor force.

So we have a very dynamic labor market. And many other countries have many, many more rigidities built into the labor market than we do. And I think that is a tremendous advantage that we in this country have that other countries do not have.

Senator HEINZ. Just a brief followup. If we can spend money for large deficits, notwithstanding the advantage in mobility that you just described, would we have created the roughly 8, 9, 10 million jobs over the last 4 years that we have?

Dr. NORWOOD. Well, I don't really know the answer to that. Certainly it would have been more difficult. I don't think it would have been impossible. But I don't really know the answer to that.

If you go back to the 1970's, for example, and you look at the tremendous job creation during all of that period——

Senator HEINZ. My time has expired. Thank you.

The CHAIRMAN. Senator Baucus.

Senator BAUCUS. Dr. Norwood, I'd like you to tell us, if you can, what explains the relative lower growth rate in U.S. productivity from 1960 to 1985 compared with other countries. The U.S. average annual growth rate is about 2.7 percent since 1960; Japan, 8 percent. That is three times the U.S. average annual rate since 1960. What explains it?

I think there is a fairly deep-seated sense of uneasiness in this country. There are high budget deficits. Also we are a net debtor nation. And now for the first time, I think, since 1917, Senator Grassley pointed out that for the first time in our country's history, at least modern history, we are a net importer of agricultural products——

Dr. NORWOOD. Yes.

Senator BAUCUS [continuing]. Due in large part to the increases of technological advances in other countries who are now producing many more agricultural products. Stock markets have fell 140 points in the last 90 days. I am not saying that is a long-term effect, but I just think there is a growing sense of worry in the United States that perhaps the United States is not competing as well as it has in the past. And Americans are worried about our future. And part of it, I think, is a lower growth rate of U.S. productivity compared with other countries in the last 25 years.

What explains it? What do your figures show that explain the lower growth rate in the United States? What is the cause of this?

Dr. NORWOOD. There has clearly been a slow down in the rate of productivity growth since about 1973. And the reasons for it are somewhat elusive. We know some things. We know, for example, that our multifactor productivity measures which look at the value of the productivity capital suggests that it is not really the reduction in the role of capital. But it may well have been the reduction or the change in the type of capital investments that we have had. We have had somewhat less research and development activity, and we have invested in a lot of things which are very important for public policy, such as cleaning up the smokestacks and the environment, but which may have directed capital into the kind of investment that was important for social purposes but which may not have resulted in greater efficiency.

Senator BAUCUS. What about education? Because we see that the U.S. work force is like 20 percent functionally illiterate. Less than 1 percent in Japan. We see all kinds of studies which show that the U.S. high school students, particularly in math and science, in international tests are scoring much lower than our comparable students in other countries. I saw one Los Angeles Times story about 2 months ago that eighth graders, U.S. eighth graders, scored in math compared with other eighth graders around the world not first, not second, not third, but 14th. They ranked 14th compared with eighth graders in other countries.

Does your data show any correlation between educational standards in this country compared with other countries and productivity or with anything that might begin to show some trends in any way?

Dr. NORWOOD. We do not have comparative data with other countries on the quality of education. But we do have some information. We know, for example, that more young people and women who had not had prior experience in the labor force came into the labor force and got jobs. As they mature and get older, we would expect that that inexperience would be less of a factor and we would have better productivity growth.

It is true that there is much too large a number of people who are illiterate in the work force. In fact, we have a program to work with the States to try to find out the numbers of people and the characteristics of people who are affected by plant close-downs. And one of the States had added another little survey onto that and found that among those in their forties and fifties who had lost jobs because of a plant close-down, a very significant number of them could not even fill out a job application. So rather than trying to find a job for them, they had to start really with education. Secretary Brock is very concerned about that. And there are plans in the Labor Department to try to build education, reading and writing, into some of the employment training programs.

Senator BAUCUS. Thank you.

The CHAIRMAN. Senator Grassley.

Senator GRASSLEY. Thank you, Mr. Chairman.

Dr. Norwood, taking off from where I previously discussed in my opening statement in regard to the farm economy, we have got the most productive agriculture in the world. We have a situation until where recently—well, maybe even still—the productivity of our agriculture has been the single most positive aspect of our trading and contributed to favorable balances or at least not as serious imbalances we would have without that.

Now considering the productivity of the American farmer, I have got to ask your reaction to how that squares with the theory of U.S. productivity lag as a real trade problem. Your reaction.

Dr. NORWOOD. Well, of course, when we talk about the productivity lag, we are usually talking about the manufacturing sector partly because, frankly, we can measure it better. Measurement is one of the big problems we have with agriculture and the rural labor force. Also agriculture has traditionally been subjected both in this country and especially abroad to government intervention and various kinds of subsidy arrangements. And with the development of the European Community, there were special arrangements to protect European agriculture. It has been one of the most difficult areas, I think, for our trade negotiators.

Senator GRASSLEY. Basically, you are saying we ignore the productivity of agriculture in describing U.S. productivity as a problem in trade now. I mean just——

Dr. NORWOOD. No, I wouldn't say that we ignore it. All I am saying is that I think the situation is different for agriculture and for manufacturing output. Agriculture, you are quite right, has used equipment very efficiently and has been a model of increasing output, particularly with some of our mechanized farms.

But all that I would say is that the agricultural sector in trade has always been extremely sticky because of these special arrangements. In the early days, the United States has always had special arrangements to keep farm prices up. European countries, in particular, have been notoriously protectionist in the agricultural field.

Senator GRASSLEY. On another point, hopefully, this committee will vote out a trade bill as we try to address our current trade problems that we are now experiencing. As we begin to mold such a bill and as we try to as a Congress to deal with the problems of displaced workers, and part of that solution is the retraining of those workers, do you have some thoughts on the best way to do that? Direct grants to the individual to use for job retraining or the use of the Job Partnership Training Act or competitive funds to universities and institutions to do that sort of thing? Or maybe none of the above? I don't know. I want your view, though.

Dr. NORWOOD. Well, I really don't have any special expertise in that area. The one point that I would underscore is the fact that many of the people who are affected by the restructuring that is occurring in our economy are quite able to take care of themselves. Many of them will find other jobs, and they will do all right. But there are some in our society who are not in that position. And what we need to do, I think—and I feel very strongly about this—what we need to do is not look at the aggregates, but to look at the particular groups of people and to target the particular programs that we have to the people who are in need. All too often, we see that there are 8 million people unemployed, and we say we have a terrible problem for 8 million people. That is not true. The problem many people in this country have are very short spells of unemployment, and after that short spell which may be a matter of great concern to them, nevertheless they do find jobs.

What we need to do is to see to it that we train the people who have no skills and can find no jobs month after month after month. Or the people who are living in poverty and single parent households who grow up with no hope; the people who have been unemployed for 6, 7, 8, 9 months. Those are the people whom we need to target programs for rather than for the totality of the people who suffer some short period of job loss.

Senator GRASSLEY. Thank you.

The CHAIRMAN. Senator Bentsen.

Senator BENTSEN. Dr. Norwood, I couldn't agree more with that last statement. I have one area that has 22.7 percent unemployment. The problem is an incredible one. I feel sometimes that I am representing a war zone.

Dr. NORWOOD. Yes.

Senator BENTSEN. I have never seen the kind of problem that we have down there on the United States-Mexico border.

I looked at your comments on our inability to define what the trade deficit does to us in the way of jobs. As an economist, you certainly must agree that a trade deficit does slow down growth. Slowing down growth certainly costs us jobs. I read a report on Japan in 1981 that trade surplus accounts for some 30 to 40 percent of growth in that country.

This trade deficit has cost us dearly. I don't know whether it is 3 million jobs or 2 million jobs or a million jobs. There is no question that it has cost a great many.

I do hope that you can find a way to further define it. If we ask the Joint Tax Committee for numbers, the committee can always come up with them. I am not sure I buy all the numbers. You have a good reputation, but if we could get better number—to the extent we can—on manufacturing and service jobs, it would be helpful to us in trying to set policy.

Dr. NORWOOD. We are trying, Senator, to do some of that work. In particular, I am very anxious to see whether we can get a better handle on how money of the service producing jobs we are developing are really jobs that would formerly have been classified as manufacturing because the factories are now contracting out a good bit of work. Those people are now classified in the service-producing sector because that is where they are being paid.

We don't have, as yet, any surveys which do that. And so we, at BLS, are trying to make some changes so that we will be able to at least get a little bit of information in that area.

Senator BENTSEN. Thank you very much.

The CHAIRMAN. Senator Danforth.

Senator DANFORTH. Dr. Norwood, wowld I be correct in believing that as far as, say, the average person is concerned, say somebody with a 100 IQ and a high school education, for that person a manufacturing job would probably be a better job than a service job?

Dr. NORWOOD. Not necessarily.

Senator DANFORTH. But probably; isn't that right?

Dr. NORWOOD. I suppose that a janitor in the steel industry in a steel plant might be paid somewhat more, in the past at least, than a janitor in a——

Senator DANFORTH. Let me just ask you this: Say that I have an IQ of 100, and I have a high school education, and that is it. I would probably find a better job, if one was available, going to the auto plant or the steel plant, joining the union, becoming employed in the industrial sector, than I would in the service industry; wouldn't I?

Dr. NORWOOD. In the past, I think so. But I am not sure about the future. In the past, the trade union movement has been very strong in the industrial sector and has not had as many members, that is as large a proportion of members, in the service-producing sector. I think that is going to change. And as that changes, I think we will see changes occurring in working conditions.

I keep getting calls from people now in the retail trade industry, department stores, who tell me that they used to be able to get people at the minimum wage level, and they can't do it anymore. And they have now gone $1, $2 an hour more than the minimum wage level just to get people to come to work in retail trade.

So I think we will see some changes occurring.

Senator DANFORTH. The better paying jobs in the service sector would tend to require greater skills and higher educational attainment than the better paying jobs in the manufacturing sectors. I don't know, but I am——

Dr. NORWOOD. I am not sure that is any longer true, Senator. We are seeing a very real shift even within the Nation's factories in the occupational structure. We are seeing many more white-collar employees and fewer blue-collar employees, production workers. As production facilities make greater use of new technologies, we are finding greater need for people with technical training.

Senator DANFORTH. I would think that for the—I mean I don't know, but I would think that for the person of ordinary or maybe slightly lower than ordinary ability, somebody, say 90 IQ, 95 IQ, that that person would be much more likely to be able to prosper and provide a good life for his family if he had a manufacturing job. I would think that the service jobs—the good paying ones—would require a level of mental agility which this individual would not have. Is that right, do you think?

Dr. NORWOOD. No; I don't think I would agree with that. I think what you are doing is looking at the past where we have very high wages in many of the Nation's factories. And I think that situation is changing. We have seen that nonunion wages have been going up much faster in recent periods than wages in union jobs.

Senator DANFORTH. I am not so much talking about union-nonunion as where a person could get the outlet for his skills. I meant you know, a person who has physical abilities is more likely to do well in a manufacturing job, and a person with mental abilities would, in the higher paying service jobs, more likely benefit from being in the service sector. Isn't that correct?

Dr. NORWOOD. What we are seeing is that there are all kinds of jobs both in the service sector and in the Nation's factories. What I think we have to face is the fact that people without training have difficulty now but will have even more difficulty in the future, whether in a factory or in a service establishment.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

Dr. Norwood, somebody gave me a statistic the other day, and I don't know whether it is true or not, but I would ask you. And that is that manufactured goods are now the same percentage of the GNP as they were in, say, 1960—U.S. manufacturing. Does that sound right?

Dr. NORWOOD. Well, I don't know whether that proportion is exactly so, but the basic point, and one which I made in my statement, is that manufacturing output has not declined as employment has declined. And we sometimes look at manufacturing employment and say, oh, we are losing our industrial base. What determines the industrial base is the output of manufacturing. And, in fact, if we could produce that output at lower cost, include, lower unit labor cost, the country as a whole would be better off and more competitive. And we are seeing a tightening within the manufacturing sector in terms of employment in this recovery very clearly.

Senator CHAFEE. For instance, you gave a statistic about the automobile industry. You said that they have picked up, I believe, 200,000 jobs.

Dr. NORWOOD. Yes.

Senator CHAFEE. But, still, they are still 200,000 below of what they were in 1979. Now my question to you is: Are those 200,000 fewer auto workers producing the same number of units as they were in 1979 or close thereto? I suspect they are.

Dr. NORWOOD. Well, the automobile industry is not producing as many units, I believe, as it did then. I can supply that for the record. But the point is that there are newer approaches to production, and what we are seeing is that employers, recognizing the importance of their labor costs, are trying to produce the same output with fewer people.

Senator CHAFEE. I think you said the steel industry has lost 60 percent of its work force.

Dr. NORWOOD. Yes; that is right.

Senator CHAFEE. I just want to say for the record here that I think for us to constantly talk about the steel industry or the automobile industry in these discussions is not the best point because I think both of those industries were extremely high wage, way beyond the normal manufacturing wage. Both of them were affected by both labor and management practices, I think, that needed vast overhauling, and, indeed, have been overhauled to a considerable degree. So I don't think we are getting very far in these discussions by constantly talking about those two industries.

Let me ask you about the statistics. Is there anything in European statistics that perhaps there is a leakage there that doesn't show up? Let me give you an example.

One of the great growth industries in our country has been, I believe, the hotel-motel as a service industry. I recently returned from Europe, and all over England there are these—you see signs along the roads: "B&B, bed and breakfast, 200 yards down the road."

Now there are a number of people involved in that industry. There must be. But yet I presume that they don't count as hotel service employees. Obviously, they are not working for any company. They are working for themselves. Now you don't see that so far in the United States. I wonder if there are many such aberrations that possibly have affected the absence of the growth of the service industries in Europe.

Dr. NORWOOD. To the extent that other countries have household surveys, as we do, those people would be picked up because that is employment activity.

Senator CHAFEE. Would they be picked up in U.S. statistics?

Dr. NORWOOD. Yes. Because when the interviewer asks if they have worked at all at paid or unpaid activity, they respond that they have been. And by the way, I have just come back from Maine where you see bed and breakfast signs all over the place. So I think it is something that is increasing here as well.

There are, of course, some people in this country and abroad who do not get into the statistics. There is no question about that.

Senator CHAFEE. I recognize that. And if we are working from a common base, the same thing.

Dr. NORWOOD. The point is that in many of the other countries the base for the employment and unemployment statistics, particularly the unemployment statistics, is the registration figures. And we don't use that.

Senator CHAFEE. One more quick question, and this follows on Senator Heinz's question. Why do you think we have had this burst of unemployment in the United States as opposed to other nations? I mean is it the deregulation, like the airlines. I suppose there are far more people working in the airline industry now than there were 20 years ago. Is that true?

Dr. NORWOOD. Well, I don't have the figures here, but I would expect that certainly deregulation has an effect. So does the overall state of the economy have an effect. The fact that our consumers have a great deal of confidence and spend——

Senator CHAFEE. Incentives for entreprenuerial activities—you think of the U.S. Tax Code?

Dr. NORWOOD. Well, yes, except of course during a period of recession. But, yes, I think that is true as well.

Senator CHAFEE. Thank you.

The CHAIRMAN. Let me follow on Senator Danforth's question about are you better off with an IQ of 100 going into a manufacturing industry versus a service industry.

First, a number of years ago I attempted as best as possible to put together a demographic background of the average 18-year-old going into the steel industry versus the lumber industry. Would it take any more intelligence to do one or the other; any more strength, any more education? And I couldn't find much. As a matter of fact, the average age of the people was roughly the same. Yet the steelworkers were infinitely higher paid than the lumber workers.

And I surmised it was for two reasons. One, a long time ago almost all of the—almost all the steel industry in this country was unionized. So long as there was no import competition to any degree, it did not matter to the steel companies what wages they paid so long as they all paid the same wages.

I found that same pattern true in the auto industry. No import competition, as long as you all paid—and I found it true in regulated industries, especially in the teamsters and over-the-road truck drivers where if you had a master contract and it covered all of the major truckers in the country, and they paid a 20-percent wage increase, they could go to the Interstate Commerce Commission and say, see, it is not our fault; our wages have gone up; you have to increase our prices.

And that began to break down in the steel and auto industry, and will continue to based upon import competition, and it will break down in the trucking industry because of deregulation. And, indeed, employment in the trucking industry has gone up, not down, since deregulation.

Now with that background, I am curious about your answer because I think it is accurate. In the service industries, you are starting to see wages go up. You are an 18-year-old. You have graduated from high school. You have a 100 IQ. Apart from some traditional very well-paid manufacturing industries, my hunch is you would do as well as a checker at the Giant as you will do in most manufacturing, most manufacturing, industries. And a checker at the Giant is a service, is a union job. But that is going to be the continuing trend. The biggest growing unions are the United Food and Commercial Workers and the American Federation of State, County and Municipal Employees. Both of them are service unions. And the ones that are not growing very fast or declining are the industrial unions.

So I think you are going to see that coming together next. If you are a young kid growing up in South Carolina and your choice is going to work in a manufacturing industry, so forth, textiles, it doesn't pay very well, period, or leather doesn't pay very well, period, assuming you can find a job in it. There you may be better off going to work in service industries.

So, I wonder if the answer to Senator Danforth's question—the answer is yes only if you are still able to go to work for a traditional, unionized, highly paid manufacturing industry whose wages are perhaps disproportionate to other manufacturing industries or any other industries, because they face no import competition and they were almost totally unionized.

Dr. NORWOOD. Well, I think that Senator Danforth's question was really based upon the situation that existed in the past. But if I might just give you a few figures. If we look at total compensation over the last year, union pay has gone up 2.9 percent and nonunion pay has gone up 4.2 percent. If we look at wages and salaries in the goods-producing industries, they have gone up 3.3 percent. And in the service-producing sector, they have gone up 4½ percent.

So I think what we are seeing, as one would expect, because of supply and demand—we are seeing a much greater rate of increase in the service sector and the nonunion jobs. And even though many service sector jobs may have started at somewhat a lower level, they are rising faster than in manufacturing.

It is true, as you point out, Mr. Chairman, that in some jobs, the pay levels in manufacturing have been extraordinarily high. That is why I think it is important to recognize that we are also losing some jobs in manufacturing that paid extraordinarily little—shoe manufacturing, for example.

The CHAIRMAN. Senator Baucus.

Senator BAUCUS. Dr. Norwood, as you well know——

The CHAIRMAN. Excuse me. Senator Heinz. I'm sorry. My mistake.

Senator HEINZ. Mr. Chairman, one thing that has been puzzling me for a long time is the way we count gross national product in this country. I would like to just ask Dr. Norwood: Think of a very simple economy of three people, one of which is an employer making $50,000 a year. Another is a worker in the economy. Another is a housewife. The housewife, the way we count economic activity in this country, may be doing a lot of useful, valuable things—food preparation, bathing children, educating them, shopping, driving, chores around the household. The worker also happens to be a female, and she is employed at $10,000 a year by the one employer. So the total value of wages and salaries in that economy, as we would count it today, is, as I understand it, $60,000, 50 plus 10. We would not count anything for the woman who was doing useful work in the house.

On the other hand, if the woman who was working in the house decides that she is going to be the receptionist for the employer, gets the $10,000, hires a person who, in this other parallel economy might have been the receptionist, for $8,000; does what the housewife used to do. And the employer still is paid $50,000. Instead of a $60,000 economy, we have created a $68,000 economy just because of the way we count.

Is that basically right? Is that the way we do it? The way we count determines how much we get?

Dr. NORWOOD. We do not include the contributions of people who—women in particular, but other people too—work at home production without pay in our gross national product accounts.

Senator HEINZ. Could that mean that as we have brought more women into the work force and created more substitutes for the kinds of activities they used to provide at home, whether it is corporation day-care centers or community day-care centers or whatever you want to call it, shopping services, so on and so forth, is it possible that what we really are doing is overstating relative to the way we did it 10 or 20 years ago, our gross national product? Are we partly the victims of the way we are forced to count?

Dr. NORWOOD. I think that I would prefer to say that we understated it before. But you are quite right that there are differences that are occurring because the fact that we have such a tremendous part of the population——

Senator HEINZ. Are we overstating the growth in our gross national product?

Dr. NORWOOD. Well, it is hard to define what you mean, really. If you look at—I mean what we all mean. If you look, for example, at the tremendously high proportion of people who are employed in this country—our employment population ratio is close to an all-time high—what does that mean? It means really that we have got a lot more kitchen appliances so that peoole when they come home can make food more rapidly. That creates production, that creates jobs.

Senator HEINZ. No one is arguing about that.

Dr. NORWOOD. That is right.

Senator HEINZ. I am talking about a particular kind of wage counting. It is a very important component of the gross national product.

Dr. NORWOOD. I think some of what you are saying is correct.

Senator HEINZ. Before I run out of time I want to get to the point of all of this.

Dr. NORWOOD. Sure.

Senator HEINZ. Now we were talking earlier about service jobs and their value. To what extent do higher paid service jobs correlate with increases in manufacturing output?

Dr. NORWOOD. I don't know the answer to that today. Certainly, some of them must be related. We know that there is, for example, staff being supplied by the service-producing sector to the manufacturing industry. Companies used to have a legal force. Now some of them go to the service sector, and they hire obtain their legal services there. There are more sales people. There are different kinds of occupations that are associated with the service-producing sector, and many have high pay.

I think you are right about that.

The CHAIRMAN. Senator Baucus.

Senator BAUCUS. Dr. Norwood, as I understand your basic point—that is, that there are changes in the American economy—some service-paying jobs are higher paying jobs than other service-related jobs.

Dr. NORWOOD. Yes.

Senator BAUCUS. And some manufacturing jobs are better paying than some other manufacturing jobs. But when you net it all out, by and large in the aggregate, as I understand you, there is not a significant aggregate change. Is that correct?

Dr. NORWOOD. There is a lot of dispute about that. And I believe and our work at the BLS so far shows that because there is a structural shift of industry as well as of occupation that the likelihood is that there has not been a big shift away from high-paying to low-paying jobs.

Senator BAUCUS. What bothers me about that, frankly, is that it seems to give an OK, give a green light, to the trend that is occurring in this country. That is, from manufacturing jobs to service jobs. It is saying, basically, well, that is OK, don't worry about it.

Here is why I am concerned. I am concerned because I think that most of the increases in this country's standard of living are due to technological changes, increases in technology, productivity increase—automobiles, telephone, TV sets, computers, airplanes. These are technological advances in this country because of some inventor, some smart person, that figured out how to make a better product.

What bothers me is that most of these service jobs, not all of them, of course, but most of them—and this is somewhat the point that Senator Heinz alluded to—are not jobs which, as I understand it, produce or are inclined to produce better technology. Now there are some service-related technologies. And if you are looking at manufacturing based jobs, it seems to me we are more likely as a country to increase ourselves technologically with new inventions, new patents. I saw recently that the number of U.S. patents now are down to 44 percent. That is either the foreign amount of patents held in the United States by foreigners is up to 44 percent or the United States is down to 44 percent. The point being the dramatic trend in the number of patents now held in the United States that are held by foreigners. A big increase held by foreigners.

What I am really getting at is isn't it true that this country's standard of living is more likely to increase at a faster rate if we have a base of manufacturing jobs, maybe even more manufacturing jobs, so that there is a greater likelihood of increases in technology and new inventions?

My big concern in all of this in this discussion—and, frankly, your testimony is, well, don't worry too much about what is happening because it is OK. The long-term trend, I think, is not OK. The long-term trend is that we are lowering our competitive position; we are lowering our competitiveness compared with other countries.

The world is not just beginning to change. It has changed. It has changed dramatically in the last 10, 15, 20 years. And if we are going to—for our children in the year 2000 to wake up and find our U.S. standard of living at a higher level certainly compared with other countries than it is today, it seems to me that we should be alarmed about this trend, that we should begin to stress more directly our U.S. competitive position. Mainly, we should try to figure out what it is that we can do to increase the R&D and technology advances so that our U.S. standard of living increases.

Let me sum up just by asking the question: What can we do to help you change, the degree it should be changed, what you are doing from the data you are looking at to help better serve our country? It seems to me that to some degree we have to look at educational data, compare educational data of our country with other countries, and R&D data. It just seems to me if the BLS looks only in the confines of the four corners of the United States. It is not helping it very much. So what is it that we can do to help you to address the future a little more so that by the year 2000 we are proud of what we have done.

Dr. NORWOOD. It is a tempting question, Mr. Baucus. But let me just say a couple of things. One, I don't agree with you that the only place we will have innovation or that place where we will have the most innovation must be the goods-producing sector. If we can produce more output with fewer people because of the use of new technology, then I think the standard of living of the country is better. I also think that there are many places in the service-producing sector—computer services, for example which is a very fast-growing industry; telecommunications, for another, where we have had very, very large increases in the application of new technology. So it is not just the goods-producing sector.

I would also just like to point out to you that we do have a program of international comparisons. It is very small. We are trying to do the best that we can; we provide training to other countries, and we do international comparisons of statistics.

Senator BAUCUS. I just think we could learn a lot by looking more closely.

Dr. NORWOOD. Well, we believe that too.

Senator BAUCUS. Not that we should automatically adopt what they are doing, but we can probably learn a lot.

Dr. NORWOOD. Well, I agree with that. And that is why although that program was eliminated from our budget some years ago, I have put it back in in a very small way. It is still there.

Senator BAUCUS. Thank you.

The CHAIRMAN. Senator Danforth.

Senator DANFORTH. Dr. Norwood, I want to ask you about rural-urban demographics and the relationship between rural-urban demographics and the shift from the manufacturing economy to a service economy.

It would seem to me—I am just using my logic so I am just ripe for being debunked by the experts. It would seem to me that if I were the mayor of Trenton, MO, I would be particularly alarmed by the shift, more so than my urban counterparts would be. Why?

Because the farm economy is bad; takes less people to produce fewer agricultural products now; people are leaving the farm. Therefore, my hope for stabilizing my community and the lifestyle that it entails depends on having some alternative form of employment other than working on the farm.

My community as a service center is declining. There are fewer people living in the area who want to trade in my community. Those who do want to trade are more likely to go farther away to bigger communities where they will probably get bigger prices and bigger stores.

So what do I do for jobs? I am not performing services to people in the immediate area because there are fewer people in the immediate area. It would seem to me that if I were looking for job-creating possibilities, I would almost necessarily have to look to the manufacturing sector, not to the service.

Am I right? I mean should I be particularly concerned about the shift from manufacturing jobs to service jobs if I were concerned about smaller communities in the rural areas?

Dr. NORWOOD. Senator, I think what bothers me about much of the discussion here this morning is that there seems to be the view that it is going to be either or. That we are either going to have a manufacturing base or we are not. And that we are either going to have everybody employed in services and——

Senator DANFORTH. No, I am not suggesting that. What I am asking is: If my concern is rural communities, should I be especially concerned about the fact that relatively fewer people are going to be in manufacturing jobs than in service jobs? Is it going to be harder for me to pick up service employment in my community than it will be my—than will be the case with my counterparts in the cities?

Dr. NORWOOD. Well, I think if your concern is in a rural area, people in rural areas, because of the situation on our country's farms and in agricultural sales and so on, is very serious. There is no question about that.

And I would think that the economic development activities in many of our states which have large rural components are—there are attempts to bring new industry in, and some of that is manufacturing.

What I think we want to have, though——

Senator DANFORTH. Most of it would have to be manufacturing.

Dr. NORWOOD. Well, a large part of it. But I think the important point is that manufacturing should be efficient manufacturing. And if we can produce output from a factory with 1,000 employees instead of with 5,000 employees, we should not say that this is disaster. We are seeing, I think, a rationalization of industry.

Senator DANFORTH. It is more likely to be disastrous for the rural communities because it is less likely that the slack will be picked up by service jobs.

Dr. NORWOOD. Not necessarily. In some of our cities and towns are single industry areas, if a plant closes down, there is great distress; there is very real difficulty, even though that may have been a manufacturing area.

I think we have different kinds of things going on. The only point I am making really is that the fact that we have been losing jobs in manufacturing and gaining them in services does not mean that we are necessarily losing our industrial base. We may, in fact, be better off if we can produce more with fewer people.

Senator DANFORTH. I fully understand.

Dr. NORWOOD. That is all I am saying.

Senator DANFORTH. I fully understand your position in a sort of national, huge picture approach.

Dr. NORWOOD. But it is very much more difficult in a local area.

Senator DANFORTH. What I am saying is that I really think there are severe demographic consequences. And at the same time, the agricultural economy is having a hard time of losing manufacturing jobs which have become the alternative source of income for people who live in rural communities.

And I don't think that that void is likely to be filled by service jobs because they are not the people who perform services. In other words, the shift, I would think, from the countryside to the city is going to be exacerbated by the shift from manufacturing employment to services employment.

Do you dispute that?

Dr. NORWOOD. I am not sure that that is necessarily true.

The CHAIRMAN. Let me follow up so I am sure I understand the distinction.

You work for Textronics in Metropolitan Portland, which is a company that makes computers, faciliscopes and things. You are a secretary in that firm. You would be classified as in the manufacturing industry in that sense.

Dr. NORWOOD. Yes.

The CHAIRMAN. Now you are a secretary for that gigantic credit card operation that either Citibank or Chase Manhattan has set up in South Dakota. I am not sure which it is, but you are a secretary doing the same thing. You are now in the service industry; is that correct?

Dr. NORWOOD. Correct.

The CHAIRMAN. All right.

I am not sure that Trenton, MO, is necessarily that much disadvantaged as more and more work—whether you call it service industry on manufacturing—can be done with computers and telephone lines and the location is not as critical as it used to be. My hunch is that rural America will be a very attractive place for a number of service industries to locate. I am not going to get into the argument as to whether they think it is lower wage or no unions, but at least it will be land. Real estate prices will be lower, and they will attract industries. And they don't have to be located any longer in downtown Manhattan to do the job that they used to be located in downtown Manhattan to do.

Dr. NORWOOD. Well, that is quite true. You know, I have just come back from a rural area in Maine where the economic activity is quite low. This used to be interestingly enough a chicken-processing area. But the plants there were not able to compete with the chicken production in Maryland and elsewhere, and they had large transportations costs. And so that industry has gone.

And what are you seeing? You are beginning to see many more small service establishments. Much to my surprise, yesterday on my way to the airport I saw a big sign up on computer services being available. Now those people are not very well off up there yet. Certainly as things develop, we would hope that they would improve their standard of living.

But I don't think that it is merely production of something that we call physical output that counts. We have a lot of financial services that are going on that can be done, as you say, Mr. Chairman, anywhere in the country.

Senator DANFORTH. I just think that is fully—I think the idea that Aunt Bertha down in Mountain Grove, MO, loses a job in manufacturing is going to get a job in services. The service jobs in that area are going to decline rapidly because of the loss of major employment. And I think it is really grasping at straws to argue that somehow some computer service company is going to move into Mountain Grove.

Dr. NORWOOD. Well, Mr. Danforth, I was very careful to say earlier that one needs to look at the particular situation in local areas. If you have a one-industry town and the plant closes down, everybody is in trouble. If you have a rural area which is depending on farming and the bottom falls out of farm prices, people are in trouble. And it doesn't matter whether you call it agriculture or services or manufacturing. There are difficulties.

One does need to look at specific local situations. And, generally, people try their best to bring in goods-producing factories, if they can. Now I don't think there is any question about that. It is just can you take that a step further. If you can have a service producing facility of some kind in that area, is that necessarily going to mean that the people are worse off? I think the answer is no.

Senator DANFORTH. Oh, no. You can have them, but you are not going to get them.

Dr. NORWOOD. Well, it depends. It depends on the situation.

Senator BAUCUS. If I might join this conversation.

The CHAIRMAN. It is all on my time. Go ahead.

Senator DANFORTH. Everything——

Senator BAUCUS. Everything is on your time, Mr. Chairman. [Laughter.]

The CHAIRMAN. Go ahead, Max.

Senator BAUCUS. It is just that I think it does depend on the situation. I am thinking of two or three communities in Montana, one-company towns where the companies left. Some are doing well now, some are not doing well. It just depends upon the situation.

Dr. NORWOOD. That is right.

Senator BAUCUS. One is Butte, MT. Butte, MT, had Anaconda Copper. It shut down. No mining there at all. Butte, MT, in 1920 had a population of 100,000 people. It now has a population of about 30,000 people. It is because the mines have slowly shut down. It went from underground to open pit, and now the open pit has shut down. And the smelter shut down. It was a one-company town, basically. But Butte is coming back. It is coming back basically because of the spirit of the people. They are scrappers.

The CHAIRMAN. What kind of industry?

Senator BAUCUS. Well, it is a little bit here and there. Little niches here and there. They have brought in a technology called magnetohydrodynamics. It is going along. And there is an outfit called Incap. It is applying technology to lower income homes and helping with heating and conservation measures and so forth.

The CHAIRMAN. This would be a service industry.

Senator BAUCUS. It is service industry, although they are developing new technologies too. They invent things, they make things, they develop things.

Another town that is having a tougher time right now is Livingston, MT. The industry there is railroad. It is being pulled out. And they are having a tough time. But I have found—it has been my experience that it depends probably on the spirit of the people and their willingness to try to find a new way to meet the adversity. It also depends somewhat on the nature of the industry that has pulled out. As Dr. Norwood said, in those communities in Montana, in their agricultural communities it is tough, it is very tough. Banks are closing. Railroads are closing down. And some of those people are having a harder time.

The CHAIRMAN. Put your finger on it when you say it is often the spirit. I can go up and down the Oregon coast, and there are a lot of towns with relatively small harbors. These are not major merchant ship harbors. And somehow, someway, some of them have a local spirit, and they say, well, we can make a sports fishing marina. And they make it go. And somebody else still tries to pretend the sailing ships are coming back, and the sailing ships aren't coming back. And there is a difference in local leadership that makes an extraordinary difference in what they attract.

Senator BAUCUS. That is true in Butte, MT. The chief executive is named Don Peoples, and a lot of this is due to Don Peoples. He is a super guy.

The CHAIRMAN. Senator Heinz.

Senator HEINZ. Thank you, Mr. Chairman.

I don't know how many members of the committee have seen the Business Week article entitled "Hollow Corp.," March 1986. It basically describes how manufacturing corporations are simply becoming importers of components, assembling them as quickly as possible whether it is watches or whatever. And they basically take a marketing profit and not much else. They don't employ a lot of people.

If this trend were to accelerate, would that entail the loss of high technology or higher paid service jobs as well?

Dr. NORWOOD. I don't know. It certainly is not a trend that we would like to have continue. And it could, I suppose, affect some of the services industries, but not necessarily. I think one of the things that we are seeing is that some of the developments that we would have expected by now to have taken place in our export prices—that is, a reduction of them—has not taken place. And some of that, in addition to the attempt to get back profit margins, I think is because a lot of companies during the last 5 years when the value of the dollar was so high have outsourced production. And they are not going to change that now.

Senator HEINZ. One of the conclusions of this particular article is that: "Unchecked, this trend will only hurt the economy's starting productivity, standard of living, as well as technology also."

Let me go to another area that is related; namely, displaced workers that you were discussing on pages 7 and 8 of your statement. If I understand the numbers correctly, if you use the January 1985 update, 67 percent of the displaced workers have found jobs, meaning that 33 percent of the 11½ million haven't, which means that there were still 3½ to 4 million displaced workers who were unemployed. Is that correct?

Dr. NORWOOD. Not necessarily because many of them, particularly if they were older workers, have left the labor force and retired or something of that sort.

Senator HEINZ. What number would you say we are dealing with?

Dr. NORWOOD. Well, I thought we said something here about that. The unemployment rates were 12 percent—the unemployment rate was 12 percent in January 1985. It was 26 percent in January 1984.

Senator HEINZ. I wasn't clear of what that was a percentage of.

Dr. NORWOOD. That is the proportion of the workers who had lost jobs——

Senator HEINZ. The displaced workers?

Dr. NORWOOD. Displaced workers, yes.

Senator HEINZ. Who are actively seeking work.

Dr. NORWOOD. That is correct.

Senator HEINZ. Who haven't thrown their hands up in despair and so on and so forth.

Dr. NORWOOD. Or retired early.

Senator HEINZ. So at a minimum, 1.1, and there is always an argument about whether people have stopped looking for work but are somehow getting by because their wife or their husband is supporting them.

Dr. NORWOOD. Yes.

Senator HEINZ. You know, what they are. What are they? They are what they are.

The question I have got is this: We have had an unemployment rate of about 7 percent for the last 5 years. And that 7 percent includes the 1.1 million displaced workers which is a very strict definition of displaced because it includes those that are still actively seeking work.

And that 7 percent and that 1.1 million number right now is, with the economy, probably at its peak. Everybody else says the economy isn't going to get better. And what that implies to me is this: The 7 percent is kind of the base level for unemployment in this country and it is not ever, for a long time, going to get better. We are not going to see unemployment really ever get much below 7 percent. And if we get into another recession, our base of unemployment off of which we are going to build is 7 percent. And instead of having 1.1 million displaced workers, we are going to have a lot more of them like we did 3 or 4 years ago. Is that a reasonable conclusion?

Dr. NORWOOD. Well, we do seem to be having trouble getting the unemployment rate much below 7 percent. I think that is quite clear.

There are some developments over the next couple of years that suggest less upward pressure on the unemployment rate. That is, we are going to have fewer young people, for example, in the labor force. They will be a smaller proportion of the labor force. They have a higher unemployment rate.

Senator HEINZ. How about more illegal aliens?

Dr. NORWOOD. We may have more illegal aliens. I don't know.

Senator HEINZ. We are, every year.

Dr. NORWOOD. Yes.

Senator HEINZ. Lots of them.

Dr. NORWOOD. I am not sure how many there are. I don't think anybody really does, but you are quite right. That is a serious problem.

As Senator Bentsen was commenting earlier, he has got areas with 20-odd percent unemployment. Many of those are the border areas with Mexico. No matter what you do, you bring—the more jobs you create in those border areas, the more people pour across the borders, so the unemployment rate remains high.

So there are problems of that kind. And I don't know what is going to happen to unemployment, of course, but we have generally gone into each recession with a higher unemployment rate at the beginning than the previous one. That has been the trend.

Senator HEINZ. My time has expired, but I really worry that somehow the 7 percent number is going to become the acceptable level for unemployment. I worry about that because it does include a large number of skilled, displaced, hungry workers who cannot somehow be accommodated. If we do somehow get around to accepting 7 percent as an acceptable number, I think we will be making a great mistake because we will be wasting a lot of talent, a lot of education, a lot of investment in those workers and probably some others as well.

I thank you very much.

Dr. NORWOOD. Thank you.

The CHAIRMAN. Dr. Norwood, I have no other questions. Thank you very much for interrupting your vacation and coming down. It has been a very, very instructive day.

Dr. NORWOOD. It has been a great pleasure for me. Thank you.

The CHAIRMAN. Are you going back this afternoon?

Dr. NORWOOD. Yes.

The CHAIRMAN. Good. Thank you again.

Dr. NORWOOD. Thank you.

[Whereupon, at 11:45 a.m., the hearing was concluded.]

[By direction of the chairman the following communications were made a part of the hearing record:]

CONSUMERS FOR WORLD TRADE
1001 Connecticut Avenue, N.W.
Suite 800
Washington, D.C. 20036
202-785-4835

August 18, 1986

CWT TESTIMONY ON TRADE REFORM LEGISLATION
SUBMITTED TO THE SENATE FINANCE COMMITTEE

Consumers for World Trade (CWT) is a national, non-profit membership organization established in 1978. CWT supports expanded foreign trade to help promote healthy economic growth; provide choices in the marketplace for consumers; and counteract inflationary price increases. CWT believes in the importance of increasing productivity through the efficient utilization of human and capital resources. CWT conducts its educational programs to keep American consumers informed of their stake in international trade policy and speaks out for the interests of consumers when trade policy is being formulated.

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Consumers for World Trade (CWT) believes a significant threat to consumers would result if some of the trade law reform proposals being considered by the Senate, especially changes in 201 and 301 of the Trade Act of 1974, were adopted by Congress.

The Interest of Consumers - A Proposed Amendment to the Trade Act

We have followed escape clause and unfair trade practices cases over the years, and have been very concerned that the economic impact of trade remedies on consumers and on the nation as a whole is considered only at the very last stages of the decision-making process. By the time the President announces his decision, the American public has been saturated with graphic stories of the problems of the ailing industry and its workers. The effect of a proposed remedy on the nation and its citizenry, however, is never adequately publicized. Unlike an action taken by Congress, the consumers' opportunity to make their views known before the International Trade Commission (ITC) is limited and, unless an independent economic study has been prepared, consumers do not have enough information to present their side effectively. As a result, there is little public awareness and reaction to such trade actions and to their consequences.

CWT believes that the cost of a proposed remedy should be researched and made public from the time the remedy has been selected up to the President's final determination. In this context, we are proposing an amendment to the Trade Act which would require that the ITC prepare and publish an analysis of the economic impact of the duty or import restriction under consideration.

This analysis could include broader issues which the President is mandated to consider and others. For example:

An estimate of the cost to consumers of the restrictions.

An estimate of the effect on prices, pre-tax revenues, and jobs in the industry(ies) to be protected.

An estimate of the effect on output, employment and profits in related industries, taking into account the effect on production costs and the international competitive position of these other industries. These estimates should take into separate account the effects of possible retaliatory trade actions by our trading partners.

In the case of quotas or other quantitative restraints, an estimate of the effect on the current balance of the U.S. payments account.

An estimate of the net impact on the GNP.

The remedies proposed to afford relief to an import-injured industry have an impact going far beyond the protected sector. If the products involved are inputs for other industries, such as steel and copper, prices and competitive positions in those industries are affected. If the products are for final consumption, such as shoes, the position of retailers is worsened. At the end of the line, whatever the products concerned, the income of consumers is reduced. Beyond that, since import protection is a decision to forego efficiency gains from trade, the national economy loses.

These broader consequences of protection are not adequately recognized in trade laws. Section 202c of the Trade Act of 1974 directs the President to take some of the secondary considerations into account when deciding upon escape clause relief. It does not cover the full range of the adverse effect of protection, nor does it require that the full findings be made public.

Techniques for assessing relative costs and benefits of import relief have been improved in recent years. When such assessments have been made the basis for decision-making has been notably broadened. The proposal herein is to make the cost-benefit assessment a standard practice in the consideration of claims for protection. It would not prevent grants of import relief but it would assure that decisions about them would be taken in the light of a comprehensive evaluation of their likely economic aftermath.

In addition, we cannot emphasize enough how important it is for the consumer to understand the broader effects of international actions. We believe strongly that responsible public awareness would result in a more effective conduct of our country's trade policy.

Transfer of Decision-making Authority

CWT opposes any proposal to transfer decision-making authority on 201 or 301 cases from the President to USTR or any other body. According to present law, the President in making his decision to accept, alter or reject an ITC recommendation for relief to an injured industry, must take into account a number of additional factors, such as: the effectiveness of the proposed relief; competition; international interests and the effect of the remedy on consumers. This mandate to consider the interest of consumers did not exist before the Trade Act of 1974, and it is the only time that the consumer is mentioned in the entire law. The consumer interest should be a major factor in the formulation and conduct of trade policy, since the American public pays the ultimate price of trade restrictive practices, which is estimated to be over $56 billion yearly. Any actions which affect consumers negatively, affect the national economy as well. This is why the mandate to consider their interest can be neither ignored nor eliminated. The President, the only elected official with a national constituency, is the proper person to fulfill that responsibility.

Automaticity

CWT opposes the call for automatic relief or retaliation contained in some of the proposals. This would weaken the President's discretionary right to dispose of cases in a manner which he deems most favorable for the nation as a whole. The President must be allowed the flexibility necessary to carry out his constitutional responsibility.

To the extent that automaticity proposals were prompted by the President's rejection, in 1985, of quotas for imported non-rubber footwear, it is a mistake to conclude that this indicated an unavailability of import relief under the present statute. To the contrary, this case demonstrated the justified application of broad criteria as required by the Trade Act. In this instance, the President did not consider that the ITC's trade-restrictive remedy, based on past history, would be an effective way to help the industry. In addition, he felt that imposing quotas would result in certain retaliation by our trading partners and in a huge cost to consumers.

This last concern was verified in an economic study prepared by International Economic, Inc. under the direction of Dr. William R. Cline, which indicated that reducing footwear imports by 18 to 24 percent would have cost American consumers $2 billion annually in extra costs; increased prices by 13 percent; and decreased consumption by nearly 3 percent. Total consumer costs would have been $10 billion or higher over a five year period. The consumer cost per job created in the industry would have been as high as $62,400. The ITC itself estimated a cost of approximately $50,000 per $14,000 a year job saved. The heaviest part of this burden would have been forced upon low and fixed-income consumers. These statistics certainly justify the President's decision.

In addition, there are occasions when the President has rejected an ITC proposal and opted for negotiated voluntary export restraint arrangements (VERs) which would afford comparable relief to an injured industry. Unfortunately, these VERs do not take into account the consumer interest. The recent cases of steel and automobiles are clear examples. CWT opposes the use of VERs as a method of quantitatively restricting imports without regard for the negative effect of these restrictions on the national interest.

Amendments to Antidumping and Countervailing Duty Laws

Consumers for World Trade opposes the inclusion of S.2244 in any trade legislation considered by the Senate Finance Committee. S.2244 would amend the antidumping and countervailing duty laws to modify the injury analysis conducted by the International Trade Commission (ITC) in cases involving agricultural products. In certain agricultural cases, these proposals would have the effect of combining agricultural growers and processors into a single "industry" for the purposes of injury analysis. This would result in eventual harm to U.S. consumers.

The proposed change in the trade law is motivated solely by dissatisfaction with the result of a particular case, in which the ITC declined to combine hog growers and pork processors into a single "industry." The proposal would: (1) unfairly and unjustifiably change U.S. law in all agricultural cases because of a single decision that is still on appeal; (2) complicate bilateral trade negotiations with Canada and legislatively lock in a particular bargaining position; (3) threaten U.S. agricultural exports with the spectre of "mirror-image" policymaking abroad; and (4) result in U.S. law inconsistent with U.S. international obligations under the GATT.

In the case that prompted this proposal, it was determined that Canadian producers of fresh, chilled and frozen pork (Canadian pork packers) do not receive <u>any</u> subsidies from the Canadian government. The claim that Canadian pork is subsidized rests entirely upon the premise that Canadian government programs to assist hog farmers confer indirect benefits upon pork packers. If countervailing duties are imposed upon Canadian pork imports on this basis, U.S. trading partners could adopt similar policies that would jeopardize U.S. exports of many processed agricultural products that are produced from raw products which benefit from U.S. farm programs. Soybean products, tobacco products, grain products, and peanut products are but a few of the potentially threatened categories of processed exports.

<u>Trade Adjustment Assistance</u>

Generally, CWT supports some form of temporary assistance to workers in a non-competitive industry who have been displaced because of imports. (Pure logic would suggest that such assistance should be tendered as well to workers displaced because of retaliation against a U.S. industry or those whose jobs were related to an imported product which has been affected by a trade-limiting action.) We believe that in developing an effective adjustment assistance plan the emphasis should be on retraining and relocating the worker, not on a direct subsidy to the industry.

<u>Negotiating Authority</u>

CWT strongly supports negotiating authority for a new round of international talks. We have reached a critical time in our trading system, when the multilateral conduct of trade as established in the GATT has been overcome by unilateral, bilateral and regional trade action. Clearly, Article I of the GATT has been seriously weakened. In order to restore confidence in the GATT as the best vehicle for the governance of international commerce, it must be strengthened and its coverage extended to issues of present concern.

CWT favors a number of the agenda items proposed in the various bills, with the understanding that our negotiators will be given sufficient flexibility to progress toward these goals. It should also be kept in mind that, if not all of the agenda items are successfully resolved in this round, it will not signify the failure of the system.

CWT opposes the linkage of negotiating authority to the convening of a multinational conference on the monetary system. Although we agree that U.S. trade policy must be formulated within the context of U.S. macro- and micro-economics and that the monetary system plays a major role in international trade, it would be a mistake to delay the GATT negotiations while awaiting a Conference that may not be a feasible way to deal with world monetary arrangements.

Among the proposed agenda items, CWT supports: strengthening the dispute settlement and enforcement mechanism; rules for agricultural subsidies with the long-term objective of eliminating all subsidies; extending GATT coverage to services, investments and intellectual property rights; graduating advanced developing countries out of the General System of Preferences; substituting tariffs, more easily apparent to consumers, for quotas; completing negotiations on a safeguards code and integrating agricultural trade into the GATT system.

Conclusion

There is no such thing as a perfect statute. However, there are infinite dangers in attempting to revise laws so that they meet the needs and interests of everyone affected. CWT believes that the principal shortcoming of the international trading system is that the domestic import relief laws are not accepted as a rule of conduct for U.S. trade policy but as a means of protecting domestic producers from foreign competition or as a threat to our trading partners to achieve export market expansion. In trying to solve trade problems, we believe it is more efficient to place the emphasis on the carrot rather than the stick. This was clearly demonstrated in the progress made during the Moss talks with Japan. Section 201 and 301, when used judiciously, have generally worked as designed. We should be asking ourselves if our trade practices, albeit better than some others, would stand up to the requirements of our own laws.

At a time when strong protectionist sentiment in Congress is endangering our country's open trade posture, it is essential to strive for thoughtful trade policies aimed toward a global liberalizaton of markets rather than the closing of U.S. doors to foreign products. Such policies recognize the fact that a healthy trading system cannot be achieved if the largest trading nation abandons the principles of open multilateral trade in f vor of the quick-fixes of protectionism. Protectionism is not an effective solution. It has been tried many times and has failed, at a heavy cost to all concerned, especially the American consumer.

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