

Testimony of Former Senator William E. Brock

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A New Trade Agenda

There are times when politics can be a tough business—especially, when doing the right thing means you have to tell your voters some hard truths. We are in one of those periods now—particularly when we are talking about globalism and international trade, and how to save, much less improve, the World Trade Organization (WTO). If you listen to some of the prophets of gloom in this country, you may come quickly to the conclusion that the United States is stumbling, desperately in trouble, that our best days are behind us, that we should pull in our horns, hunker down, and wait for the worst. “Run for the hills, boys! The Chinese are coming!” Well, that’s not the America that I know.

Let’s put a few facts on the table. There is no country in the history of the world that has been as dominant—not just militarily, but economically and politically—as the United States is today. There was never—in the history of the world—a nation that has had a more productive, vibrant, entrepreneurial, creative, innovative people than the American people. We attract more young people from around the world to our universities than any country in the history of man. We attract more investment than any nation. We are the largest manufacturing nation in the world. No people in the world have more freedom than our people. No people in the world have more opportunity than our people.

Because I have been around longer than virtually anybody else in the room, I would like to add just a bit more context. The last time I testified before this committee on a matter of trade relations, it was as United States Trade Representative, more than twenty years ago. Those were pretty good days. We had come out of the dark days of the seventies with a renewed spirit, great vitality, and a resurging economy. We had dealt with the oil shocks, the Arab embargoes. We were just beginning the conversations that led to the Uruguay Round, and its’ consequence, the World Trade Organization, and to Free Trade Agreements with Canada and Mexico—finalized as NAFTA under then President Clinton. We were beginning to get the rest of the world to think more broadly about a world trading system that would encompass areas of strength for the U.S., including services and intellectual property, not just goods.

It has been a great run since those formative years. World trade has doubled in just the past 15 years, and as a consequence, more than a billion people, I’ll say that again—a billion people—have found a way to climb out of poverty. There are more middle-income consumers in India, and probably in China as well, than there are adults in the United States. Have we gained as well?

Look at the facts. The U.S. is the most competitive, the most dominant economy in the world. Because we are the best, the most rewarding, and the safest place in the world for investment; we receive far more of the world’s investment dollars. This helps us maintain high rates of growth and low inflation. Even today, despite

horrendous oil shocks and the current subprime mortgage mess, we have a rate of unemployment well below its historical average of the past 40 or 50 years.

It is important to bear those things in mind when we talk about how we relate to the rest of the world, whether it is in trade or any other area for that matter. As we take steps to build a system to sustain a rapidly evolving global economy however, our role and responsibility as the world leader is virtually unique. Our actions always speak louder than our words. Thus, every time we break the rules with some new act of protectionism, add a new subsidy solely to satisfy a domestic constituency, let petty demagoguery deter us from passing a small bi-lateral trade agreement with an important neighbor, much less devalue our own currency through enormous deficits, we threaten the very global trade system which we have built, and which has given us such incredible growth.

Thus, the conversation we are having is important, and I am grateful, Mr. Chairman, for your leadership in initiating it.

Last week we witnessed Ambassador Susan Schwab devoting every resource to salvaging this seemingly endless Round of global trade talks. Having experienced some of the challenges she faced, I cannot tell you how much I respect her and the entire U.S. team. She is terrific. It is almost impossible to conceive the difficulty of dealing with officials from well more than 150 nations, each with its own diverse range of political and economic constituencies. The U.S. has much to be proud of.

As we look at the WTO today, we should acknowledge that we have come a very long way in the construct of a real trading system, one that will continue to facilitate the expansion of global exchanges while also providing a reasonable and fair dispute settlement process, something greatly needed in such a complex world. Yet, we have also seen how difficult it is to gather so many nations of such incredible diversity, not just in economic terms, but socially, and politically as well, and bring them to a clear common purpose.

Beyond that political complexity however, there is a major new overlay on the challenges facing the trading system, one more traditionally in the hands of finance ministers. Events of these past few months have given us ample evidence of the dramatically increasing importance of the financial sector, including exchange rates, sovereign wealth funds, capital flows, investments, and on and on. These matters may not be on the table as our negotiators seek ways to develop further the capabilities of the WTO, but few would question the impact they have on trade.

As if that were not enough, we now have witnessed the advent of an incredible new technology, which has had an even more dramatic impact on the trading as well as the financial system. Just a dozen years ago, a brand new way of connecting and communicating called the Internet stormed onto the stage. Today, because of that Internet, trillions of dollars move around the world every day in nanoseconds. That poses a whole new ballgame for us, and it is not just in the world of finance.

The pace of these changes is incredible. Their impact is almost incalculable. All this will require some very new and different thinking.

Early in my time at USTR, I asked my counterparts in Europe, Japan, and Canada to join me in regular off-line meetings to coordinate our actions as we sought to address the evolving trading system, and the need to work in harmony toward a common objective to the extent possible. We called it the Quad Group, and essentially it was tacit recognition of the fact that any of these four parties could keep the process from moving forward. If we wanted to get the larger community of nations to make progress in constructing what was to become the WTO, it was important that these four work together.

It is not asking too much to note the obvious fact that any such group today would have to be composed of a number of nations, which were not on our radar screen in 1982, but clearly suggests that such a group is needed today, even more than it was then.

In the 80s I also initiated something we called the Rio Group. It was composed of trade and finance officials, and was created so that we might talk through some problems common to both sectors. Today, the importance of this interrelationship between trade and finance can no longer be ignored institutionally.

I do not suggest a broader jurisdiction for the WTO, whose challenges are sufficient as they are. However, I do believe we need to think anew about the possible construct of institutions which can undergird the global marketplace, and enable the freest possible exchange of goods, services, ideas, and investments.

To do so will require international as well as domestic organizations with a capacity to facilitate, and to the extent possible, make transparent the financial flows of this global world, where transactions of mind-boggling magnitude occur in nanoseconds. However composed, they will need far greater scope and far greater competence (and they will have to be far more efficient, and far more expeditious in responding to possible challenges), than any we have at the moment.

Domestically, we have more to do as well. Over the last decade, since we first heard of the Internet and began to discuss that much-maligned word "globalization," it seems that many in this town, and around the country, have been increasingly focused on the jobs lost to "outsourcing." Politicians, talking heads at CNN and elsewhere, along with a great many others, began to rant about how unfair all this is, how unfair the Chinese, or the Indians, or the Vietnamese are, much less 'big business,' which to listen to many has no greater purpose than the export of U.S. jobs. Baloney!

Of course jobs have been, and are being, outsourced, but is outsourcing the primary factor in all this pain? No, not really. The fact is that in this, the world's most vibrant and innovative market, 7 or 8 million jobs are lost every 3 months in the United States, and almost an equal number, or slightly more, are created. These are not jobs

that are lost to outsourcing, they are lost largely to technology, to changing markets, changing consumer demands, and, yes, to enhanced productivity.

I have yet to hear a single member of the Congress—Democrat or Republican, liberal or conservative—condemn productivity improvements. Every one of us knows that our competitive viability in the world, and, in fact, our very standard of living, is dependent upon maintaining the highest levels of productivity. As the most productive people in the world, we've done a heck of a good job of doing just that. Are we worse off? Not on your life. We are more competitive, have lower unemployment, and higher rates of growth.

The fact is, for every job that is lost to outsourcing, nine or more are affected by changing market patterns, by productivity enhancements, by technology. By putting all the blame on "outsourcing," we divert attention from the other factors which compose this radical reshaping of our economy and which must be addressed in better ways if we are to prevail. So let's stop making excuses, finding someone else to blame, and address what we need to do to keep this nation at the top of the heap.

The explosion in world trade is the best opportunity the world has ever had to take people out of poverty, and it can be the best opportunity for U.S. economic wellbeing if we take advantage of it instead of reacting negatively to it. What does that mean?

Well, in fundamentally human terms, it means we have got to do a far better job of educating our kids and giving them the skills to be competitive in a knowledge-based, highly competitive, fully-networked global economy. The truth is that transforming our present system of education will take a long time, and it will have to be done in each state, so we must begin now. No more excuses.

The more immediate need is reflected in the fact that the great majority of men and women who will be in the workforce twenty years from now are already working. They are the ones who feel the pressure of the rapid changes besetting our economy, for they are on the front lines. And this is one area where we can, and must, do something now.

This Congress clearly needs to think about an urgent change in the way we address people whose jobs have been affected by all these varied economic forces, not just trade.

One of the problems in doing so is that our trade adjustment assistance is based largely on giving workers some help when their jobs are affected by trade. Well, what if it wasn't trade that cost them their employment? What if it was just the fact that Americans preferred hybrid cars to buggy whips? They are still out of work, and we need them just as much as they need a job. Why do we lead them to believe that we only care if they lost their job due to some competitor overseas, for that is at least the implicit message of our present trade adjustment assistance program?

I suggest that one critical step in a new trade policy would be to address this issue. In a world where the pace of change seems locked into 'warp' speed, hard-working

men and women are going to be faced with changes in their job situation time and again throughout their working lives. The studies we did when I was at Labor indicated that our youngsters coming out of school could expect to hold eight to ten jobs, and have two to three careers during their working lives. If anything, we may have underestimated the magnitude of the problem. To date, this nation has done virtually nothing to address this fact, but the loss of skills, which occurs because we do not, costs us dearly.

If we could create a far more comprehensive worker adjustment and training system, it would not only be more humane to those individuals who are suffering, through no fault of their own, but it would expedite their return to the workforce, perhaps more effectively than ever.

I must add that since many, and probably most, will be moving to new and different jobs, the odds are that they will, for a time, suffer a real reduction in earnings—at least until their skills are matched to their new responsibilities by additional experience and training. Some form of wage insurance would help expedite this transition, again, to the benefit of all parties.

I should note that Ambassador Hills and I have discussed this approach, and while the amount of the insurance, its duration, and the phasing of it are critical matters for your decision, I think we both feel some reasonable plan of this nature would be a signal contribution to the challenges posed our economy and its workforce by such a radically changing world.

May I now put on my other former hat, and mention a domestic concern in this context? I believe it is long past time that we lay to rest this nibbling talk that 'globalization' is the major cause of our current economic pain.

Yes, competition does come from nations around the world, many of which we never gave a thought to in terms of effective competition even a decade ago, and it is good competition, and tough. What Fareed Zakaria calls the 'post-American world' is alive and thriving. He notes that over that last decade 120 nations have averaged 4% annual growth. That represents a great deal of new competition; and we must not forget that it represents unparalleled opportunity as well.

Our challenge must be to understand that they want what we have, and they are fully aware of what it will take to get it—the best educated and trained workforce in the world.

For a long time, we have been talking in the U. S. about the consequence of having our economy driven not by muscle power, but by mind power. It was precisely a quarter-of-a-century ago when some remarkably thoughtful people published a report called "A Nation At Risk," in which they said that the coming changes meant that we had to do a much, much, much better job of educating our kids and our workers. Our inattention to the subject of better schools had, even in 1983, created a situation in which the authors said that if a foreign power were doing to our kids what we were doing to them, we would consider it an act of war. We did not pay

enough attention to that report then, nor to all the subsequent presidential Goals Panels and commissions that followed.

To repeat, it is the lack of attention we give human development in America that is my most pressing concern. Our people are, in fact, our only resource of consequence. If we do not see that they have to have the tools to compete fully and effectively in a global world where virtually all improvements in productivity are knowledge-based, they will face a steadily declining standard of living.

The United States is still the best, most competitive nation on the face of this planet, but because we have failed to do what we must in education and training in the last 25 years, we are increasingly reliant on the best educated among our citizenry to keep our competitive edge. Now, out of frustration with stagnant incomes for many in our middle class, coupled with unacceptable deficits at the federal level, some are suggesting that the solution is to raise taxes massively on those among the best educated. Why not, instead, take every step to improve the earning capacity of all our people through far better schools and far better training?

We are now competing with countries that can, and do, have highly educated workers, and many of these countries offer a better education to a higher proportion of their students than we do.

It is a tragic fact that American students finish anywhere from the middle to the bottom of the pack among advanced industrialized nations, and even among many developing nations, in math, science, and general literacy. The International Literacy Institute ranked 19 nations on literacy among high school graduates in the workforce. The United States ranked last.

Business can source its products and services anywhere, as it must if it is to survive in a highly competitive global economy, so it really matters if it is easier to get higher skills at lower costs than those available here. Yet, according to the National Association of Manufacturers' 2005 report of the skills gap, 84% of employers say that schools are not preparing students for college or work, and their job applicants with a high school diploma, have weaknesses in reading, writing, math, continuous learning, and workforce disciplines. Even college graduates' weaknesses were evident in math, writing, global integration, applied learning, and workforce disciplines.

Here's the problem: Out of 100 youths who enter the 9th grade, only 68 finish high school four years later. Of those, 40 go on to college. Of those, only 27 make it to their second year, and of those, 18 get an associates degree in three years, or a bachelor's degree in six. Yet, according the bureau of labor statistics, over the next decade, while the growth in jobs will outpace the growth in our workforce, 85% of all new jobs will require some degree of post-secondary education. Moreover, the number of new unskilled jobs will drop from a current rate of 12% to 2%, and the fastest declining jobs are those that require the lowest education and offer the lowest pay.

Knowledge jobs are complex, requiring workers grounded in higher level academics with adaptable skills and a capacity for problem solving, multi-tasking, and increased responsibility.

Even our vaunted system of higher education is not performing as a whole to the level required. The 2003 NAEP study showed the prose literacy of college graduates had fallen from 40% in 1992 to 31% in 2003, document literacy from 37% to 25%, while quantitative literacy held firm at an unacceptable 31%.

Clearly something must change, and soon. Are better education and training of fundamental importance to American trade policy? Absolutely!