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**THE CHANGING LABOR MARKETS OF THE
WESTERN HEMISPHERE**

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In the August 22nd edition of *The Washington Post*¹, there was an article by Robert Samuelson recalling Alfred Kahn. Fred Kahn was Jimmy Carter's head of voluntary price controls during that awful period in the late 1970's when inflation was raging out of control and interest rates were headed through the roof.

Fred was a no-nonsense guy. One day he gave what I thought was a darn good speech. He told it like it was: if we didn't get inflation under control, he said, we would tumble into "recession". Or maybe a "deep, deep depression."² Well, the alarm bell went off all over the White House. Kahn was called to the President's woodshed and told, in no uncertain terms, never to use the word "recession" again. He never did. Instead he used the word "banana."³ "If we don't lick this wage-price spiral," he would say, "we are headed for a big banana."

Well, to borrow from Harry Truman, in Washington, there is a lobby for almost everything. If you call someone a jackass in Washington, the jackass lobby

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¹Robert J. Samuelson, *Yes, We Have No Recession . . .*, THE WASH. POST, Aug. 22, 2001, at A19.

²*Id.*

³*Id.*

complains. Sure enough, within five minutes of Fred Kahn's speech he received a complaint from the banana producers. So he shifted to "kumquat."⁴

Ladies and gentlemen, if what we were facing before the tragic events of September 11th was not a global recession, we were facing one of the worst "kumquats" I've seen in 30 years of business and two terms of government.

Let me give you the stark statistics.

Europe's economic growth has been evaporating. Domestic demand for both consumer goods and industrial machinery around the European region has ground to a halt. Germany is the linchpin of Europe. It accounts for thirty-seven percent (37%) of Europe's industrial output. It was there a month ago. It has stopped growing and has started receding: manufacturing orders are declining, industrial production is down. They are struggling.

Moreover, the German mind-set is key to determining the policy of the European Central Bank, having a long memory of the consequences of hyperinflation as a destructive and dangerous political force.

So despite pleas from the Europeans for monetary ease and lower interest rates, the European Central Bank, worried about high energy and food prices, has kept the purse-strings tight and interest rates high, putting the brakes on the region's economies. The economies of France, Italy, Spain, and the rest of the EU have ground to a halt. Even little Ireland, the shining emerald of the EU, has seen layoffs, plant closings and rising unemployment.

Without growth, it becomes even more difficult for Germany and France to throw off their inefficiencies, just as they were beginning to take significant steps to liberalize their labor and capital markets to allow forces of competition, rather than the whim of bureaucrats, to determine the economy's allocation of resources. Now that process is being retarded, if not reversed: it has become more rather than less difficult for German companies to restructure their workforce, for example, and restructure operations.

My point: as a nation we can't look to Europe as an engine of growth for the immediate future, even with last week's urgent interest rate cuts by the European Central Bank and the Bank of England.

Asia looks bleak. Japan has been in a "kumquat" for a decade. The "Japanese Miracle" which spawned an entire industry of books like *Japan is Number One*⁵ and *The Japan That Can Say No*⁶ has become the Japanese nightmare.

Their economy is riddled with debt and hog-tied by reckless bureaucrats and politicians who have yet to learn that markets are better allocators of resources than they are, and are too timid, and in many cases too corrupt (or, should I say, too "invested in the system"), to do what needs to be done. They appear to have a brave and distinctively refreshing tell-it-like-it-is Prime Minister, Mr. Koizumi. He talks of reform and says all the right things. However, he has yet to *do* the right things. Japan is by far the second largest economy in the world, with \$4.4 trillion in

⁴*Id.*

⁵TAKANORI MIZUNO, *JAPAN IS NUMBER 1* (Tokuma Shoten, 1994).

⁶SHINTARO ISHIHARA, *THE JAPAN THAT CAN SAY NO* (Frank Baldwin trans., Simon & Schuster 1991).

annual output, but right now, and for the foreseeable future, it is dead in the water. It is doing us no good, and it will do us no good for a long time to come.

Singapore, one of Asia's most advanced and snappiest economies, is suffering its worst recession in fifteen years. Korea, the third largest economy in the region, is in a slump. Indonesia, the largest population base save China, is in political and economic turmoil. Malaysia, Thailand and Indochina are limping along. Taiwan, a great customer and shining star, is experiencing negative growth for the first time in eighteen years.

Alone in that trans-Pacific sea, China is reporting economic growth: eight percent (8%) a year like clockwork. Don't get too excited. To begin with, the numbers are suspect. Recently, China reported the growth numbers for a quarter the day before the quarter ended. So you have to take their reports of growth with a big grain of salt.

Thirty years ago I was on the team that established normal trade relations with Deng and Xiaoping; and from 1997 to 2000, I was on the team headed by Charlene Barshefsky that negotiated the deal to bring China into the World Trade Organization (WTO). Just last week, the so-called "Working Party" to finalize the deal for Chinese and Taiwanese accession to the WTO, completed their work. At the WTO meeting in November, whether it is in Doha, or Geneva, or someplace else, a big, new member will join. The good news: China now begins to play by recognized rules of the road. The bad news: it will take time for the pressures of reform to take root in China.

China does have great potential, but it will be long in coming. Yes, there are 1.2 billion people in China, but 900 million of these people are peasants, poor as church mice. This leaves 300 million potential consumers in the immediate future; however, the income of these 300 million is low and the obstacles to reaching them are still high. Small wonder that last year the mighty U.S. export machine sold China only \$16 billion worth of goods and services, barely fifty percent (50%) more than what the State of Virginia alone exported last year to the world.

Given the day's focus on a Free Trade Area of the Americas, I'd like to be able to say that our own hemisphere is flying over and around the Asian and European headwinds. But Latin America is not in good shape. Argentina is hemorrhaging financially. Brazil, a country so big and vast that one Brazilian state alone, Bahia, covers an area larger than France, is rationing electricity and bracing for a difficult presidential election in 2002. Venezuela is led by a wild man. Colombia is in a perpetual state of civil war. Even the mighty Switzerland of Latin America—Chile—is experiencing negative economic growth and, just yesterday, saw its currency plummet to 699 to the dollar, its lowest level since the peso replaced the escudo in 1975.

And our next-door neighbors, also, are being impacted by the great "kumquat." For the past seven years, Mexico's strong market and economic indicators have thrilled the world. But they have begun to turn down; Canada's have too. Both of these vital NAFTA partners, who depend on us for approximately ninety percent (90%) of their export markets, suffer from the U.S. turndown.

Which leads me to a key point for today's symposium and for consideration of trade policy in general: the U.S. is key. It is important to remember our enormous weight in the global system. Only seven economies on the planet produce more than \$1 trillion in output every year: France, Italy, Germany, the U.K.,

China, Japan, and the U.S. The U.S. is the big daddy of them all. We have a gross domestic product (GDP) of \$10 trillion, which makes us two and a quarter times larger than Japan at \$4.4 trillion, five times larger than Germany, almost ten times each of the other four.

When we sneeze, the rest of the world—especially Mexico and Canada, catches a cold. Right now, if we are not sneezing, we are at least wheezing from our phenomenal economic sprint of the past decade:

- “Industrial production has declined for ten consecutive”⁷ months in the U.S.;
- Business investment in equipment and machinery and software has declined “5.1 percent since the third quarter of 2000;”⁸
- Last quarter’s 39% decline in corporate profits may seem like good news when this quarter is fully known;
- Unemployment in August rose faster than anytime in the last six years to 4.9%—and that was without September’s far-reaching layoffs. The effect of September 11th has been staggering—in the three days after the Pentagon and New York City attacks, unemployment filings in Hawaii tripled;
- The stock market is getting hammered; and
- The idea of a budget surplus is, for all intents and purposes, now a myth.

This all assumes even greater gravity when you realize how much interdependent with the rest of the world we have become.

Trade, the subject that draws us here today, now accounts for twenty-five percent (25%) of the world’s output, double its share of twenty-five years ago. It has become a vital part of our well-being. Let me put this in a personal perspective. I graduated from Harvard University in 1971. Then, we had a \$1 trillion economy in the United States. Then, defense spending as a percent of that GDP amounted to \$108 billion or 10.8 percent and trade—the sum of exports plus imports divided by GDP—was less than eight percent.

Today, defense spending as a percent of GDP, is slightly less than three percent (3%). Trade in goods and services represents *twenty-six percent* (26%) of GDP.

This is as it should be. Then we were finishing up a hot war in Vietnam and fighting a cold war with the Soviet Union and Mao Tse-tung’s China.

Until September 11th, we were at peace with the world. Until that day, we created jobs not by girding our loins for war, but through the peaceable interchange of goods and services. We created jobs by selling \$196 billion to markets across the Pacific and \$165 billion to Europe and \$180 billion in goods to Canada.

We created jobs by selling 28,000 cars and trucks to Mexico *every month*, \$48 million in surgical equipment to Mexico *every month*, 250,000 tons in soybeans *every month* to Mexico, and, my favorite statistic, 200,000 golf balls and 3,000 sets of gold clubs *every month*. Hmmm... that’s seventy golf balls per set of clubs, these are my kind of high-handicap golfers. I love these guys. They are lousy golfers, but great customers.

My pont is this: exports are an engine of job creation.

⁷Samuelson, *supra* note 1, at A19.

⁸*Id.*

And imports—we buy—\$1.4 trillion of them a year—put clothes on our backs and food in our bellies and keep the cost of living down for those who can least afford it.

We must keep this engine of trade stoked up and steaming forward. And we must do so even more because of the weak global economic outlook and the body blow that the weakening economy received by the attack on America on September 11th.

Ten years ago, one of the important books people were reading was *The Rise and Fall of the Great Powers*,⁹ with a chapter titled, “The United States: The Problem of Number One in Relative Decline.” Nine years ago a *U.S. News & World Report* magazine cover carried the headline, “Victory over Saddam Hussein Temporarily Masked America’s Declining Power.”¹⁰ The French newspaper *Le Monde* was running a 12-part series which kicked off with the following sentence: “The United States won the war against the ‘evil empire’ but it is losing the battle against the forces of decline.”¹¹

It was not that long ago that the world was saying we were all hat and no cattle. Conventional wisdom told us our main job creator was hamburger-flipping, that U.S. industries were uncompetitive and that Asia and Europe were going to eat our economic lunch. Conventional wisdom, as it often is, was completely wrong. I’ll tell you one way we got ourselves out of that fix: we actively pushed for trade liberalization.

We built upon the good work of President Reagan and President Bush—“Bush 41”—and completed a massive trade agreement with the world, called the Uruguay Round, to open markets to our goods and services in return for us opening ours.

One key aspect of the Uruguay Round was that we lowered our import tariffs from 5.8% to 2.8%—that’s a big deal given the huge volume we import. We realized this was, in effect, a tax cut at the border of our producers and consumers equivalent to some \$22 billion a year.

Good Democrats are mindful of Grover Cleveland’s message to Congress in 1887: “Tariffs are a vicious, inequitably, and illogical source of unnecessary taxation that raises prices to consumers” (and producers)¹². So the Clinton Administration worked with Congress to complete the Uruguay Round. Then, we completed what “Bush 41” began, and signed NAFTA, bringing Mexico into the North American fold and reducing tariffs—taxes—at the Mexican and Canadian borders by another \$15 billion a year. That action was met with huge resistance. You remember the political heat. My friend Ross Perot campaigned against it. The late Jimmy Goldsmith, the flamboyant British politician, called it the race to the bottom. The American labor movement fought it tooth and nail. Many in the Democratic Party, forgetful of

⁹PAUL M. KENNEDY, *THE RISE AND FALL OF THE GREAT POWERS* 514 (Random House 1987).

¹⁰Brian Duffy & Peter Cary, *Hollow victory - Triumph Without Victory: the Unreported History of the Persian Gulf War*, U.S. NEWS & WORLD REPORT, Jan. 20, 1992, (Cover Story, Special Report) at 42.

¹¹See generally *LE MONDE*, Oct. 20, 1992 (presenting a 12-part series).

¹²See President Grover Cleveland, Address to Congress (1887).

President Cleveland's wisdom, were apoplectic. But we swallowed hard and forged ahead.

The giant sucking sound never materialized. That "race to the bottom" turned out instead to be a near-decade long race to the top.

America is now the largest trading nation in the world. Not just in absolute numbers, but in relative terms. Remember: trade is now twenty-six percent (26%) of our economy. It's greater than Japan at nineteen percent (19%). And it is more than the twenty-one percent (21%) that the external trade represents as a portion of Europe's collective economy.

The United States is more internationally exposed than any other major nation or trading block. The United States is more dependent on trade for its economic vitality. The United States is more dependent on trade for job creation.

As we contemplate our own hemisphere, it is important to note that the big enchilada of trade is NAFTA—our NAFTA partners now represent forty percent (40%) of our sales and a third of our purchases. We sell more to Canada than we do to the EU. We buy more from Canada than we do from the EU. Canada is our largest market. And to think we used to describe it in years past as the "vichyssoise of nations;" cold, half-French and difficult to stir. It is a hot, vibrant market, a faithful ally, and we should be thankful for Canada.

Mexico is the "salsa" of markets for us.

Last year:

- We imported more from Mexico than we did from Japan.
- We sold more to Mexico than we did to Japan and China added together.
- And, if you extrapolate forward what has happened to trade with Mexico since NAFTA came into place in 1994, in another three years we will sell more to Mexico than we will sell to all of Europe.

Yet, astoundingly, we have to defend trade in this country, still. We have to debate the merits of engaging the world. And empowering the President of the United States to easily negotiate new trade agreements through Trade Promotion Authority is not a slam-dunk.

One of the most difficult issues to factor into politics of trade policy is the issue of labor.

There is a vigorous debate about whether trade results in a loss of U.S. jobs and whether worker security and prosperity are sacrificed for imports and exports. We've waged the debate for some seventy years. In 1932, Herbert Hoover told America that with our high standard of living and costs of production we could not compete with laborers whose wages are only sufficient to buy from one-eighth to one-third of the amount of bread and butter we can buy. On the other side was Franklin Roosevelt, who was confident that Americans would succeed in an open world market and certain that American workers and partners would benefit from reduced barriers to trade. FDR set us on a course for global trade with a commitment to open markets and trade liberalization that has been sustained by every president since.

But Roosevelt did something else as part of promoting international trade—he signed on to U.S. membership in the International Labor Organization, whose mission was to set international standards for labor rights and working conditions.

This is still at the heart of our debate today. The Buchanan-Nader types and others who honestly think that America loses when we trade with the poor

versus mainstream political and business leaders like President Bush, Al Gore, Jack Welch, Warren Buffett and others who argue that U.S. goods and services are in demand around the world and that commerce abroad creates jobs and paychecks at home.

To be fair, we know that some jobs are lost because of trade. The Institute for International Economics last year suggested that about ten percent (10%) of jobs lost in the U.S. were from trade-related reasons. The other ninety percent (90%) comes from the usual American forces of technology and innovation, consumer demand and free markets, competition, and Wall Street pressures. But trade is an easy target, focusing on cheap and foreign labor and disloyal American employers. It is also a false target.

This particular debate is older than any of us in this room. French economist Frederic Bastiat wrote about the battle between free trade and protectionism in the mid-1800s. In one of his best-known essays, Bastiat sarcastically argued on behalf of French candlemakers who faced unfair competition from a "foreign rival who works under conditions far superior to our own for the production of light that he is flooding the market with it at an incredibly low price."¹³ The rival? The sun. Bastiat suggested, in line with the arguments of the day and of the present, that all windows be shuttered, and that all Frenchmen be kept permanently in the dark, an action which would benefit not only the candle industry, but also every industry which supplies it.

On the other hand libertarian economists are quite Darwinian about the topic of job losses due to trade. They'll tell you that the jobs we lose are jobs we likely don't really want in the U.S., they are low skill, low security, low wage positions so the down-side is minimal—that we don't want the same work at higher pay with the inflation that will follow. These proponents are full-throated believers in the unhampered application of what Ricardo called competitive advantage some 200 years ago.¹⁴ That kind of analysis is hard to swallow for most Americans because it ignores the human element of the equation.

I'd turn that logic around some and say that Americans don't want jobs at the bottom of the economy, we want jobs at the top, and the topic for discussion should be how to get there.

Without question, we must ensure that U.S. workers have the best training and education, as well as buffer against downturns and massive changes to our economy. We can create greater incentives for employers to provide ongoing education so that workers are at least always employable. We can make the costs of education more easily tax deductible and tuition aid more readily available so that more families have a reason to aim for college. And we can help workers who have lost their jobs train for better, higher paying ones.

Abroad, we should first remind those who consider trade a blight on other markets that, in general, U.S. companies tend to export the best of business practices to factories and offices abroad -- imposing U.S. safety, health, environmental, and ethics practices on managers and facilities around the world.

¹³See generally FREDRIC BASTIAT, *THE PETITION OF THE CANDLEMAKERS AGAINST THE SUN, ECONOMIC SOPHISMS* (Arthur Goddard trans., Foundation Econ. 1964).

¹⁴See generally DAVID RICARDO, *PRINCIPLES OF POLITICAL ECONOMY AND TAXATION* (1817).

The Bush Administration and Congress and private sector organizations might consider advocating, if not actually legislating, some kind of model business practices code that takes into account safe and healthy workplaces, fair environmental practices, compliance with laws and ethical standards, and good corporate citizenship. Nothing on this list varies much from the practices most American multinationals already have in place here at home and want for their business operations worldwide.

The point: we have let the easy stuff throw a huge roadblock in front of our trade work—the fact that trade generates wealth for all is just plain lost in the argument. We need to accept that there is some job dislocation from trade, that lower standards abroad may be legitimate reason for worry, see them as manageable elements to trade policy, deal with them and move on.

Let's recap what I have said.

First, before September 11th, the global economy was a Perfect Storm Economy. The spreading recession in the U.S. was colliding with the recession in Japan and the onset of recession in Europe, all at one point in time. The world's equity markets were collapsing, discounting, as markets do, further economic weakness. The S&P 500 was down twenty percent (20%) for the year. The NASDAQ was down thirty-six percent (36%). The EAFE (Europe, Asia and the rest of the world, ex-North America) was down twenty-nine percent (29%). Japan was down by thirty-three percent (33%). And the Hang Seng index was down thirty-eight percent (38%). Before Tuesday, we were in the soup, economically. Hold that thought.

Second, trade is our engine of growth, especially, by the way, for small and medium-sized enterprises. At last count, there were over 205,000 U.S. firms exporting goods. That's up over eighty percent (80%) in the past decade. All employers in the U.S. — big and medium and small — need better access to other markets to grow. We all need better access to other markets to grow.

Third, we need to recognize that the welfare of our workers should be borne in mind as we develop trade policy.

In times of war and distress it is critical that partisanship be set aside. Congress has displayed appropriate and necessary unity behind President Bush, telegraphing to the nation and the world that, when threatened, we are indeed the *United States of America*. Republicans and Democrats are, as we speak, working hand in glove with the President to develop an economic stimulus package which promises to be the largest fiscal stimulus package in thirty-eight years. And the Federal Reserve is providing dramatic amounts of liquidity to lubricate a recovery. An important component of this effort to get our economy moving again will be to have Congress give the President authority to negotiate meaningful, far-reaching and comprehensive trade agreements that spur access to markets overseas. An FTAA, an Andean Trade Preferences pact, and a U.S.-Chile agreement would be the immediate beneficiaries. And with TPA in hand, we would greatly enhance our authority in making the case for a new global trade round.

One way to look at all this is simplistically: if the U.S. is the key to global recovery and we now have an action-forcing event to pull up our (and our trading partners') economic socks, in turn we should receive from the rest of the world

better access to their markets, just as we give them access to ours.¹⁵ Congress must consider this and give the President authority to negotiate further trade liberalization around the world as part of any stimulus package they craft. In doing so, they must deal with whatever labor issues might arise in the process in a way which is politically practicable, much like the proposal that has been put forth by Republican Congressman Bill Thomas and Democrat Cal Dooley.

Now why, some of you may ask, should we waste our time thinking about trade negotiating authority at a time of war? Let me tell you why.

On March 18, 1968, my 19th birthday, a young Marine named Greg Lavery was working his way across a rice paddy in Vietnam. He was felled by a single sniper shot to the head.

In high school, I was quarterback of our varsity team. Greg Lavery was my star end. We were inseparable and sometimes insufferable. He was dead at nineteen, and it left a scar on my heart.

On July 25, 1999 – thirty-one years later – I sat in Hanoi and together with Vietnam's Trade Minister announced the conclusion in principal of the U.S.-Vietnam Bilateral Commercial Agreement—the normalization of economic relations with a once-hated bitter enemy that the U.S. Senate approved two days ago by a vote of 88-12.

My negotiating counterpart, Minister Tuyen, had been a Viet Cong officer. For all I know, he could have been the man who commanded the unit that killed Greg Lavery.

On September 11th, terrorists flew an American Airlines 757 into the Pentagon. The captain of that plane, Chic Burlingame, was a Naval Academy classmate of mine. He was a great guy. He flew F-4's and had once landed a plane on an aircraft carrier without landing gear. This was a good man. A man of honor and integrity. A man with a loving wife. A true patriot. Now he's gone.

I am hopeful that someday some other trade negotiator will sit down with the sovereign governments who were behind the men who killed Chic and negotiate peacefully to bring about mutual economic opportunity and prosperity. It will be a long, long time from now. But it must – and I trust it will – be done.

I think you get the point. If not, well as one might say in my fractured Latin, "*Possum haec tibi explicare, sed non possum tibi comprehendere.*" Bubba, I can explain it to you, but I can't understand it for you.

Thank you.

¹⁵See Samuelson, *supra* note 1, at A19.