"IS 'FREE TRADE' WORKING?"

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Chairman Dorgan, Senator DeMint, Members of the Subcommittee, thank you for inviting me to testify before you today. By way of introduction, I am Director of the Project on Trade and Global Markets at the Progressive Policy Institute. PPI is a non-profit think-tank based in Washington, DC, which conducts research and policy development in areas ranging from trade and the global economy to defense, foreign policy, health, energy and environment, social policy and other issues. My testimony will reflect personal views and opinions rather than any official views of the Institute.

INTRODUCTION

Today's hearing poses an interesting and important question: "Is 'Free Trade' Working?" In fact, neither the U.S. nor the world has achieved an academic ideal of 'free trade.' Sixty years of trade liberalization, combined with technological change and logistical innovation, has created a far more open and integrated world. Flows of goods, services and ideas – into our country, out of it, and around it – are larger than ever before, certainly in absolute terms and almost certainly relative to the US and global economies. But trade policy has also exempted some industries and missed some important parts of the world. A look at both the changes liberalization has brought, and the experience of the industries and regions where trade has not been liberalized, helps to shed some light on the Subcommittee's question.

Overall, as economic theory and foreign policy principles suggest, the opening of the world economy has brought us many benefits. The policies and technological advances that ease exchange of goods and services have helped to raise living standards, allow American businesses and farmers to serve larger markets, keep inflation and unemployment low, and promote global growth and political stability. In each of these areas more can be done. But the same policies and technical changes can bring stress and anxiety, as new competitors arise and workers and businesses feel sometimes intense pressure. Some fears rest upon misconceptions that need calm and factual response. But others are real and justified, reflecting problems that are not insoluble but require us to reshape domestic policies related to national competitiveness, improve adjustment programs and international financial policy, and strengthen the national safety net through a new 'social contract' to replace one now visibly outdated.

My testimony today will cover each of these topics, examining first the original purposes of American trade policy; then the results it has brought and the gaps it has left; and finally the stresses many Americans now feel and policy options that might help.

FRANKLIN ROOSEVELT AND THE PURPOSES OF TRADE POLICY

An appropriate place to begin an evaluation of U.S. trade policy is with its goals. Trade policy has many facets, from trade remedy laws to export and investment promotion, intellectual property enforcement and more. But its center, since approval of the Reciprocal Trade Agreements Act in 1934, has been negotiations with foreign governments to reduce trade barriers.

This is by now a very familiar approach to trade. In the 1930s it was something of a radical innovation. Trade policy in the 19th and early 20th century had revolved instead around legislative increases or reductions of tariffs and other trade policy instruments, and the approval of the RTA thus reflected the judgment of Franklin Roosevelt and the 73rd Congress that this approach had gone badly wrong.

The impetus for their change of strategy was the collapse of trade in the early years of the Depression. Convinced that America, as a high-wage country, could not compete with lower-wage rivals in Europe, China and Japan, the Hoover administration had overseen a sharp increase in tariffs in 1930, coinciding with the onset of the Depression. Most foreign countries quickly retaliated. The worldwide tariff hikes and retaliations, augmented by falling demand, cut U.S. trade from $9.6 billion in 1929 to $2.9 billion by 1932, and total world trade from $68 to $24 billion. Roosevelt and his contemporaries believed the event had deepened the Depression and made it harder to escape. As years passed, he concluded that it had helped discredit liberal politics and encourage radical nationalism in Europe and Asia. His address to the 1936 "Inter-American Conference for the Maintenance of Peace" in Buenos Aires explains:

> The welfare and prosperity of each of our Nations depend in large part on the benefits derived from commerce among ourselves and with other Nations, for our present civilization rests on the basis of an international exchange of commodities. Every Nation of the world has felt the evil effects of recent efforts to erect trade barriers of every known kind. Every individual citizen has suffered from them. It is no accident that the Nations which have carried this process farthest are those which proclaim most loudly that they require war as an instrument of their policy. It is no accident that attempts to be self-sufficient have led to falling standards for their people and to ever-increasing loss of the democratic ideals … It is no accident that, because of these suicidal policies and the suffering attending them, many of their people have come to believe with despair that the price of war seems less than the price of peace.

Since then – especially since the end of the Second World War – the principal focus of US trade policy has been to reduce trade barriers. Again one can quote from Roosevelt in a message sent to Congress in March of 1945. Announcing the opening of the first multilateral trade negotiations, this defines the purposes of modern trade policy: to encourage growth and rising living standards, create a set of rules and binding agreements that would prevent a repetition of the 1929-1932 experience, and ultimately "lay the economic basis for the secure and peaceful world we all desire."

TRADE LIBERALIZATION 1945-2006

Each of the eleven succeeding presidents has built trade policy on this foundation. Over sixty years, their policies have joined structural changes arising from geopolitics, technological change and logistics to create a far more open world.

1. Trade Negotiations Since 1945

Trade negotiations have proceeded, with only a few gaps, since Roosevelt's letter to Congress in 1945. A brief review of the record is as follows:

- *GATT/WTO agreements*: Since 1945, the U.S. has participated in twelve multilateral agreements, including eight through the General Agreement on Tariffs and Trade between 1947 and 1994 and then four at its successor, the modern WTO, in the late 1990s.[1] Cumulatively, they have cut average tariffs by well over 90% in rich countries – for the U.S., trade-weighted tariffs have dropped from an average of 40% during the Depression-era peak to about 2.0%, or to 1.4% including the effects of Free Trade Agreements negotiated over the last 20 years – and abolished them altogether in industries such as information technology, toys, scientific instruments, and others. These agreements have also eliminated most quotas and import licenses outside agriculture, eliminated most industrial subsidies and limited subsidies in agriculture, developed an international agreement on intellectual property; created agreements on technical standards and government procurement, begun liberalizing some services industries; and invented a dispute-settlement system that has considered 361 complaints since the creation of the WTO in 1994.

- *GATT/WTO membership expansion:* Simultaneously, the trading system has broadened as "accession" agreements added 127 new members to the original 23 GATT founders. These have included first Japan and Germany, then dozens of new countries emerging from colonial rule, then the new democracies in central and Eastern Europe, and most recently some least-developed nations and large trading economies such as China, Taiwan, Vietnam and Saudi Arabia. At present, 30 more countries, ranging from Bosnia and Afghanistan to Russia, are negotiating on their terms of membership.

- *FTAs and Preferences:* Finally, the U.S. has developed a set of tariff 'preference' programs which exempt poor countries from tariffs, and a series of free trade agreements with individual countries. Most significant is the North American Free Trade Agreement with Canada and Mexico, which in 2006 covered about $900 of America's $2800 billion in two-way goods trade, and $100 billion out of $750 billion in services trade. The preference programs for Africa, Latin America, Haiti and the Caribbean apply to about 5% of goods imports, and the FTAs apart from NAFTA to about 4% of two-way trade.

2. Structural Change: Geopolitics, Logistics and Telecommunications

Meanwhile, powerful structural forces independent of government policies – in particular geopolitical change, logistical innovation, and new telecommunications technologies – have been accelerating the opening and integration of the global economy by opening major economies and making trade in goods and services cheaper and more efficient. Their effects are probably harder to measure than those of government-to-government negotiations, but some estimates suggest that they have been as important to trade growth and "globalization" as trade negotiations and tariff cuts. Since no major multilateral trade agreement has been concluded since the late 1990s, they have probably been the most powerful forces for integrating the global economy in this decade.

- *Geopolitics and internal reform:* Shifts of political orientation and changes in the domestic policies of big economies have self-evidently powerful effects. The end of the Second World War returned Japan and Germany to the global economy in the late 1940s; more recently, the end of the Cold War and the discrediting of economic planning has accelerated the integration of China, central and eastern Europe, Russia, Cambodia, Laos and Vietnam. A similar shift may now be underway in parts of the Muslim world, in particular through reform in Pakistan and Egypt.

- *Logistics:* The invention of container shipping in 1956 and the development of large-scale airborne express delivery services in the 1990s, have drastically cut the time and cost of moving manufactured goods among continents. Both continue to progress rapidly. For example, the average capacity of a container ship has risen from 1500 TEU's[a] in 1996 to 2500 TEUs in 2006, and the large new container ships now under construction or newly launched carry 12,000 containers and sometimes more.

- *Telecommunications:* The global telecommunications network and the Internet, in particular the launch of the World-Wide Web in 1993, the replacement of most of the world's copper submarine cables with fiber-optics, and the continuous deployment of new and more powerful communications satellites are now speeding the integration of many services industries. One indication is the fact that the average price of an international phone call from the United States has fallen from $1.00 per minute in 1990 to fifty-three cents per minute in 2000 and fourteen cents as of 2004.

RESULTS

Altogether, sixty years of trade negotiations, logistical innovation and improving telecommunications have created a vastly more integrated world economy than the one in which Roosevelt and his administration launched today's trade policy – or, for that matter, than those in which Presidents Kennedy and Clinton formed trade policy.

1. Integration to Date

The WTO's release last week found world goods and services exports rising to $14.4 trillion in 2006, in a global economy of $66.2 trillion. This means exports are the equivalent of 22% of global GDP, as compared to roughly 5% in the late 1940s, and records for the United States are much the same, with trade rising continuously and roughly quintupling relative to GDP. Table 1 illustrates the trend, using a few watershed years for trade negotiations and technical change as markers.

[a] Twenty-foot equivalent units, the size of a 20'x8'x8.5' container.

TABLE 1: TRADE VS. GDP, 1947-2006[2]

Year	Trade Event	Real GDP in 2000 Dollars	Import/GDP Ratio	US Private-sector Employment
1947	1st GATT Agreement	$1.57 trillion	3.3%	39.0 million
1956	Container shipping invented	$2.23 trillion	4.5%	45.3 million
1968	Kennedy Round implemented	$3.65 trillion	5.0%	57.1 million
1974	1974 Trade Act	$4.32 trillion	8.3%	63.1 million
1980	Trade with China re-opened	$5.16 trillion	10.4%	74.6 million
1994	NAFTA implemented, WTO created, World-Wide Web launched	$7.84 trillion	11.3%	96.7 million
2006	Today	$11.05 trillion*	16.6%	115.1 million

* Actual GDP in 2006 dollars was $13.246 trillion.

2. Exemptions and Exclusions

Nonetheless, trade liberalization is partial, not complete. A look at the US tariff system shows that some industries remain little touched by trade negotiations. As Table 2 shows, while average tariffs are low, consumer goods and some types of food remain covered by tariffs roughly twenty times higher than those on most other goods, and occasionally other forms of trade restrictions.

TABLE 2: THE U.S. TARIFF SYSTEM TODAY

	2006 Tariff Receipts	Imports	Rate
TOTAL TARIFF COLLECTION:	$25.2 billion	$1.845 trillion*	1.4%
Light consumer goods/ assorted foods	$13 billion	$122 billion	10.7%
Clothes	*$8.9 billion*	*$79 billion*	*11.3%*
Shoes	*$1.9 billion*	*$19 billion*	*10.0%*
Luggage/Handbags	*$0.9 billion*	*$6.8 billion*	*12.9%*
Household linens, silverware Plates, glasses, watches	*$1.0 billion*	*$15.4 billion*	*6.5%*
Cheese/orange juice/tuna	*$0.2 billion*	*$2.0 billion*	*10.5%*
Cars	$2.1 billion	$138 billion	1.6%
All other goods	$10.2 billion	$1.586 trillion	0.6%

* Includes all products imported duty-free under FTAs and preferences.

In addition, trade liberalization has missed much of the Muslim world, with the states of the greater Middle East participating less in the WTO and retaining higher trade barriers than Europe, the Americas, sub-Saharan Africa or East and Southeast Asia.

Both exceptions have important and unpleasant effects, which I will come to in a moment. But the modern American economy is certainly closer to "free trade" than was the America of the 1940s, 1960s, or 1980s. As Roosevelt intended, we export more, we have a broader choice of the world's goods and services, and we compete more against foreign producers. We can assess the consequences in three ways: the positive results, the areas in which too little has been done, and stresses successful policy has brought.

ASSESSMENT 1: POSITIVE RESULTS

First, we can judge the results against Roosevelt's original goals – a stronger peace, long-term growth and rising living standards, a defense against a repeat of the Depression. Here, the record looks very good.

Politically, despite the high tension in the Middle East, the world is more peaceful than at any time in the 20th century. None of the world's great powers – the U.S., Japan, Germany, U.K., France, Russia, China, India – have come into direct conflict with one another since the 1960s. This long peace has no parallel in modern history, or for that matter, apparently, in medieval history. On a broader scale, a study last year at the University of British Columbia found a "radical" decline in warfare almost everywhere in recent decades, with the 1990s "the least violent decade since the end of World War II." The authors suggest a mix of causes – ideological conflict has waned since the Cold War, decolonization has removed a grievance, UN peacekeeping missions are often effective in preserving calm in tense regions – but credit the global economy as well:

> The most effective path to prosperity in modern economies is through increasing productivity and international trade, not through seizing land and raw materials. In addition, the existence of an open global trading regime means it is nearly always cheaper to buy resources from overseas than to use force to acquire them.[3]

Economically, no crisis like that of the 1930s has recurred. Even during the moments of greatest stress – the oil shock of the 1970s and the Asian financial crisis of the late 1990s – respect for agreements and rules proved strong enough to prevent a tariff war and a second Depression. Instead there has been a long period of growth, during which in real terms the U.S. has tripled private-sector employment and raised GDP in real terms about eight-fold.

This reflects in part the fact that with more open markets, American exporters can serve larger markets and take advantage of economies of scale. Last year's exports totaled $1.2 trillion worth of goods and services abroad in 2006, the largest figure in the world and $200 billion above second-place Germany. American aircraft plants sold 418 big civil aircraft abroad last year, with China the largest buyer; vineyards exported about 376 million quarts of wine last year, in particular to Britain, Canada and Japan. American medical equipment, high-performance computers, oranges, and grains all do well in foreign markets. It is especially heartening to note last year's $100 billion in manufacturing export growth.

Imports also have an important place in the U.S. economy. Import competition, especially when – as it is today – accompanied by structural change in the global economy, can create stress and anxiety which require well-designed safety nets and adjustment programs. But overall, openness to imports not only helps raise living standards by giving consumers broader choice and better prices, but can keep inflation down and thus facilitate faster rates of growth with lower unemployment. A striking example is very recent: since the early 1990s and the conclusion of the Uruguay Round, passage of the North American Free Trade Agreement and the launch of the World-Wide Web, the U.S. has added over 20 million private-sector jobs, and reduced unemployment rates from an average of 7.1% between 1980 and 1993 to 5.2% in the years since.

Abroad, trade policy can be remarkably effective in helping to promote development and reduce deep poverty. Overall, economic growth spurred by trade liberalization has combined with science, medical advances, and public health and education to reduce poverty. Since the 1950s, for example, global infant mortality rates have dropped by more than two-thirds; and the ILO's recent report "The End of Child Labour: Within Reach" [4] suggests that child labor rates are falling rapidly as well.

US policy has made important contributions to this. The African Growth and Opportunity Act, passed during the Clinton administration and extended last year, is an excellent example, helping create nearly two hundred thousand urban jobs in low-income African states like Lesotho and Swaziland since 2000. Another is the reopening of trade with Cambodia in 1996, which has created a national export-garment industry that now provides jobs for 300,000 young women – a fifth of the capital's population – and through them, cash income for hundreds of thousands of nearly destitute rural families.

ASSESSMENT 2: WORK UNDONE

Second, these achievements have gaps. Trade policy can be bolder and more ambitious in opening closed markets abroad, reforming outdated and regressive American policies, and addressing the deep economic crisis of the Muslim world.

1. Opening Foreign Markets

To begin with, many significant barriers to US exports remain in place. Some are matters already covered by agreements and require vigorous enforcement, to ensure that Americans receive the full benefit of market-opening agreements and to defend the rule of law in the global economy. Examples now subject to dispute settlement are the European Union's Airbus subsidies and some aspects of Chinese intellectual property piracy. Others require negotiation; representative but hardly exclusive examples include high agricultural trade barriers in the European Union, Chinese and Indian tariffs and limits on services trade and tariffs on semiconductors and other information technology manufactures in Brazil.

I might note that a trade policy focused on bilateral Free Trade Agreements is unlikely to address these effectively. Two-thirds of US trade is with the EU, Japan, China, Canada and Mexico. The only present forum in which to reduce trade barriers in these countries (and large developing economies like Brazil, Egypt, India and Indonesia) is the WTO, most immediately the Doha Round. WTO negotiations also offer the most important opportunities to use trade to promote environmental goals. The fishery subsidy reduction proposal in Doha is a path-breaking example of use of the WTO to reduce subsidies that threaten the environment, and there may be options for multilateral ways to reduce mining, timber and similar subsidies. APEC also has a ten-year-old list of tariffs on environmentally beneficial goods, where liberalization can reduce the cost of environmental protection; environmental services are also an important opportunity.

2. U.S. Tariffs and the Poor

At home as well, American trade policy needs reform, with the tariff system in particular tilted sharply against poorer Americans and also many poor countries.

Since the early 1940s, the tariff system has been the smallest of the major federal taxes, raising about 1% of national revenue. As such, it has received little attention from Congress or the Treasury Department since the 1960s or 1970s. But it continues to raise $25 billion per year – about as much as the estate tax and half the gasoline tax – and does so in an extraordinarily regressive way.

America's highest tariffs, as Table 1 above showed, are on shoes, clothes and some kinds of food. Shoes and clothes alone, which account for about 6% of American imports, raised nearly 40% of all tariff money last year. Given the roughly three-fold markup between border and store-shelf, shoe and clothing tariffs probably cost the public $35 billion a year, and – like any life-necessity tax – hit poor families with children much harder than wealthy or middle-class families.[5] Even this understates the system's tilt against the poor, as tariffs on cheap and simple goods are far higher than tariffs on luxury goods. For example, sterling silver forks have no tariff while cheap stainless steel forks get 20%. A long-sleeved men's silk shirt has a 1.1% tariff and its polyester equivalent 25.9%. A cashmere sweater has a 4% tariff and an acrylic sweater 32%; a cheap drinking glass valued at 30 cents or less gets 28.5%, and a luxury drinking glass valued at $5 or more only 3%; and the tariff schedule is filled with similar inequities.

The effect abroad is much the same. U.S. tariffs are now minimal for wealthy countries and energy producers, but very high for low-income countries in Asia and the Muslim world. As Table 3 shows, the high tariffs on cheap clothes sewn in Cambodia and Bangladesh mean goods from these countries face higher tariff penalties than the much larger volume of imports from their old colonial powers, France and Britain.

TABLE 3: US TARIFF COLLECTION FROM SELECTED COUNTRIES, 2006

Country	U.S. Imports 2006	U.S. Tariffs 2006	Average Rate
Cambodia	$2.2 billion	$367 million	16.9%
Bangladesh	$3.3 billion	$496 million	15.2%
Pakistan	$3.7 billion	$368 million	10.0%
WORLD	*[$1.84 trillion]*	*[$25.3 billion]*	*1.4%*
France	$36.8 billion	$367 million	1.0%
U.K.	$53.5 billion	$430 million	0.8%
Saudi Arabia	$31.1 billion	$48 million	0.2%

[International Trade Commission dataweb]

Despite their regressive effects, most U.S. tariffs seem to have little relevance to employment. Between 1974 and 2005, clothes were protected not only by tariffs but by a unique 'quota' system capping imports by country. When this system went into effect in

1974, about 1.2 million Americans worked at clothing jobs. By the time it was abolished in 2005, only 270,000 were left.[6] Shoes are even more striking, with $2 billion in tariffs raised on products – like cheap sneakers, where tariffs range from 37.5% to 60% and are higher than tariffs on any other manufactured good – not made in the U.S. for decades.

3. The Greater Middle East

Finally, trade policy has largely missed the greater Middle East – the region stretching from Morocco to Central Asia, with about 600 million people across about 25 majority-Muslim states. China's widely debated boom in trade has been matched by an almost invisible collapse in Muslim-world trade. Between 1980 and 2000, the region's share of world trade and investment fell by fully 75%, from 13% to 4% of world exports, and from 4.8% to 1.6% of foreign direct investment. Meanwhile, the region's population was booming, with the total population of Middle East and Muslim South Asia rising by 250 million. The International Labor Organization regularly now finds this region with the highest unemployment rate in the world.

Here we have, on a smaller scale, a replication of the economic patterns – closed markets, natural resource dependence – of the world of the 1930s. It may be a coincidence that wars and political extremism have faded from Central America and Southeast Asia, but have persisted and spread in the greater Middle East. But it is likely that economic stress and falling living standards contribute to a climate of anger, frustration, and openness to radicalism.

The explanation for this is complex, as is any cure. The economic crisis principally reflects conditions and choices in the greater Middle East region as opposed to policies in other regions. Until quite recently, few of the region's major economies were WTO members – in 2004, 11 of the 22 Arab League members remained outside the group – and its major economies were variously walled off by high tariffs and import bans, or isolated from one another by sanctions and boycotts.

The cause of the Muslim world's economic decline rests largely in policies pursued within the region. These must accordingly change if the region is to recover, and it is encouraging that the underlying structure is beginning to change. Three Arab states have joined the WTO since 2000, and three more along with Afghanistan, Azerbaijan and three Central Asian republics are applying for membership. Both Pakistan and Egypt have been revising economic policy to encourage investment and integration with the world economy. An imaginative U.S. and European trade policy can help by removing tariffs on light-industry goods and farm products from these countries, as has been done for Africa and much of Latin America.

ASSESSMENT 3: U.S. COMPETITIVENESS AND THE SOCIAL CONTRACT

Third, an ambitious and energetic trade policy needs to be matched by policies in international finance, domestic competitiveness, adjustment and safety nets that allow Americans to remain confident about their ability to succeed in a rapidly changing world.

In all these areas the U.S. is falling badly short. Let me focus, in my conclusion, on two areas: national competitiveness and the eroding social contract.

U.S. Competitiveness

The opening of the world economy has brought Americans export opportunities and wider choice of the world's goods and services. It has also encouraged the emergence of new competitors. This is not a novelty of the 21^{st} century: John F. Kennedy's trade program and domestic economic policy in the early 1960s was in part a response to the formation of the European Community, and Clinton's to the strength of Japan thirty years later. But the size and rapid emergence of China and India is understandably a reason for concern to many Americans. Anxieties, about the ability of the U.S. to remain the world's leading economy and the ability of workers to succeed in a more demanding world, are not only easy to understand but often well-founded.

We should, of course, start from an accurate diagnosis of the problem. As we have noted, the US is not losing jobs in the aggregate. Nor is American factory industry contracting or fleeing to poorer countries. The Bureau of Economic Analysis finds U.S. manufacturing's real-dollar share of the US economy roughly constant over the past twenty years.[7] The U.S.' share of global manufacturing industry remains stable as well. Direct investment patterns are roughly balanced, with American manufacturers investing less in foreign plants and acquisitions than foreign manufacturers invested here in both 2005 and 2006.[8] Foreign direct investment in US-based scientific, technical and professional services and information industries likewise outpaced the foreign investments of American companies in these fields.

But anxiety about American prospects in the new century are justified nonetheless. We do enter a period of transition and structural change with considerable strengths. America's open society, world-class university system, high quality of life, strong intellectual property laws and other national assets are powerful advantages in global competition. But our new competitors have great strengths as well, in low costs, financial resources, and wealthy and well-educated diasporas around the world – and the US has weaknesses that are widely recognized but still unsolved.

One example is the return of structural fiscal deficits, which has joined with high energy costs and inflexible currency rates in China and other developing countries to create a trade and current-account imbalance with little historic precedent. Another are shortcomings in the human-resource and science policies important to our leadership in technology and innovation. These include low graduation rates in science and engineering, restrictions on the ability of innovative companies to recruit the best international talent, and long-term declines in federal commitment to basic research in chemistry, physics, computers and other hard sciences. None of these problems are insoluble, but none are likely to solve themselves.

New Social Contract

A still larger issue – probably the fundamental question in sustaining public support for open-market policies – is the need to reshape America's 'social contract' for a 21st-century economy. The very success of American businesses in meeting a challenge from low-income countries illustrates how important this is. Between 2001 and mid-2003, with the U.S. in recession, American factories shed 3 million workers. Since then, despite their steady growth, they have hired none back. A shift of 3 million men and women from factory work to other jobs would be traumatic at any time. It is even more so with the Internet creating a global services industry as it drives down the price of international telephone calls and data transfers.

This experience, of course, is not unique to America. All countries must grapple with the rise of new economic powers and the intrusions of the Internet. But the stress may be more acute here than in it is in other wealthy economies. This is because the postwar American safety net was unusual among big countries: in Europe and Japan government is the principal guarantor of health benefits and pensions, while in the U.S. large businesses served as the principal providers, with government stepping in principally to support the poor, the elderly and the disabled.

The consequence today is that as businesses adapt to low-cost competition, most workers in Japan and Europe need not fear that loss of health insurance or pension guarantees will come with a layoff. By contrast, Americans have no national health care system and no pension guarantees beyond Social Security, and businesses are visibly retreating from their postwar roles as providers of health coverage and pensions. Threats to the ability to pay high mortgage payments and college tuition during periods of job dislocation add further dimensions of insecurity.

Thus, even with unemployment rates low by historical standards, and several years of economic growth, the American public is not wrong to be anxious. A rational individual may well believe that open-market policies are good for the nation, but also that the personal cost of job loss is unacceptably high. These concerns are reasonable and need to be met through a comprehensive rethinking of adjustment and safety nets that goes well beyond earlier upgrades to the Trade Adjustment Assistance program. Ultimately this should mix government programs, tax incentives for businesses, tax credits and vouchers for individuals, direct spending, and new roles for unions to ensure that layoffs no longer mean lost health insurance and pensions, threats to college tuition and mortgage payments, and in the broad sense financial catastrophe.

CONCLUSION

This leaves us a bit removed from "free trade" or "U.S. trade policy" *per se*. To return to the Subcommittee's original question, one might make three points.

First, trade policy has brought the United States and the world a long way toward the realization of Roosevelt's hope of a strong "economic basis for the secure and peaceful world we all desire."

Second, it can do more – to create export opportunities by reducing trade barriers; to help the poor by reforming outdated and regressive policies at home, and to strengthen hopes for peace by supporting reform and growth in the Muslim world.

And third, to yield its full benefits, it must be accompanied by new and ambitious reforms at home, which blend open markets with the domestic and financial policies that promote growth and give workers the tools they need to succeed in an ever-more demanding world.

Once again, I am grateful to the Subcommittee for inviting me to testify, and look forward to your questions.

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[1] The eight GATT agreements are the Geneva I Round in 1947, the Annecy Round in 1949, the Torquay Round in 1951, the Geneva II Round in 1956, the Dillon Round in 1961, the Kennedy Round in 1967, the Tokyo Round in 1979 and the Uruguay Round in 1994. The four WTO agreements are the WTO's Information Technology Agreement in 1997, the Financial Services Agreement in 1998, the Basic Telecommunications Agreement in 1998, and a "duty-free cyberspace" principle in 1999.

[2] Bureau of Economic Analysis for GDP, Census Bureau and Almanac of Statistical Abstracts for goods and services imports; Bureau of Labor Statistics for private-sector employment.

[3] Human Security Report 2005, http://www.humansecurityreport.info/HSR2005/Part1.pdf

[4] ILO, "The End of Child Labour: Within Reach," April 2006, Part I, page 8. This suggests that the total number of child workers in the world fell by 28 million between 2000 and 2004, with the most rapid drops among the youngest workers and among child workers in hazardous jobs; especially rapid drop in Latin America, where Brazil, Mexico, Chile and other countries have implemented innovative plans based upon stipends for low-income families trying to keep children in school.. The report is available on-line at http://www.ilo.org/public/english/standards/ipec/about/globalreport/2006/download/2006_globalreport_en.pdf

[5] According to the Bureau of Labor Statistics' most recent *Consumer Expenditure Survey*, single-parent families spend about three times as much of their income on life necessities as wealthy families. See BLS, "Consumer Expenditures in 2005," at http://stats.bls.gov/cex/csxann05.pdf

[6] See Bureau of Labor Statistics, Employment Hours and Earnings surveys, at http://stats.bls.gov/ces/home.htm

[7] See Bureau of Economic Analysis, tables for "Real Value-Added By Industry," at http://www.bea.gov/industry/gpotables/gpo_list.cfm?anon=807&registered=0

[8] The figures for 2006 are $67 billion in foreign manufacturing investment in the US, and $56 billion in U.S. investment abroad. Data are available at http://www.bea.gov/international/index.htm