Senate Democratic Policy Committee Hearing
Friday, November 14, 2003
138 Dirksen Senate Office Building
10:00 a.m. to 12:00 noon
“Are We Exporting American Jobs?”

HEARING TRANSCRIPT

DORGAN: We'll call the hearing to order. My name is Senator Byron Dorgan and this is a Democratic Policy Committee hearing. We'll be joined by my colleagues who are now voting on the floor of the Senate. But in the interest of time we are now starting 40 minutes late and I apologize for that. We've had three successive votes in the Senate, but in the interest of time I do want to begin. The hearing today is on the subject of jobs. Are we exporting American jobs? All of us understand that in recent years we have experienced a rather substantial loss of jobs in this country, just nearly 3 million jobs in the last couple of years. And there is a great deal of concern about an economic recovery that would be a jobless recovery. We've had some good news in the most recent economic reports. However, even that good news about some modest increase in jobs indicates that manufacturing jobs continue to fall. So I think the question for all of us in the Congress, and in the country, is: What kind of policies, what strategies can exist by which we turn this around and begin creating jobs, good jobs, restoring manufacturing jobs in our country? October marked the 39th consecutive month of manufacturing job losses. I mentioned we've lost nearly 3 million private sector jobs in the past two and a half years. In every case, there's a family that received the news from their breadwinner that they lost their job, not because they weren't good workers, but because their jobs have been moved, in most cases.

And let me give you an example of that: Huffy bicycles. A plant in Ohio used to make Huffy bicycles. Eight hundred fifty people were laid off at that plant when they moved Huffy bicycles to China to be produced in China. And when they did, they took the decal of the American flag off the front bumper of that Huffy bicycle and replaced it with a decal showing a globe. People in Ohio made $11 an hour making Huffy bicycles, plus $6 an hour benefits. When those jobs were moved to China, those working on Huffy bicycles made 33 cents an hour and were working 16 hours a day, seven days a week. Well, should workers in Ohio be expected to compete with people who make 33 cents an hour or work seven days a week? I don't think so. And yet our public policy in this country in many ways encourages that very thing. It encourages the movement of those jobs and the export of those jobs from our country. Two months ago, a company in Indianapolis shut down its operations and moved all of its jobs to China.

The company is called Magnequench. It's not a household name, but it was making 80 percent of the rare earth magnets used in the production of smart bombs. About 225 American workers were employed at the plant. They made high-tech products of strategic importance to our country's defense. Those jobs are now gone to China, and for the same reason: You can hire people in that market for pennies on the dollar. Earlier this year, BusinessWeek did a cover story entitled, ``Is Your Job Next?'' And they forecast that over the next 12 years, we would lose over

3.3 million additional jobs to off-shore outsourcing. And these are not manufacturing jobs, but white-collar jobs. And you'll see by that chart, we're talking about computer, office support, sales, architectural, legal. A total of 3.3 million jobs are expected to move off our shore in the next 10 years, 12 years. We've been told for a decade that our country really cannot retain the good blue-collar jobs because we can't compete with low- wage labor.

Now we're told that even if we lose manufacturing jobs, despite the fact the assertion used to be we would retain the white- collar jobs, we are told now that will not be the case. So we're really seeing all of these promises as empty promises and our economy is producing a circumstance where both trade policy and economic policy encourages the movement of jobs from this country to other countries. Why is this important? I don't think you'll long remain a world economic power and I don't think you'll long have a world-class economy, unless you have a center of manufacturing activity retained in that economy, unless you retain jobs and retain skilled workers. And I'm very concerned about what has happened. I'm obviously an opponent of some of the trade policy in this country in which we have allowed other countries to pay pennies on the dollar and wages and pump their effluents and their chemicals into the air and water and have unsafe work places and fire people for trying to organize a labor union, and then believe that somehow that is fair competition with respect to those employed in the American job market. It is not fair competition and we ought to care about it. And public policy in this Congress ought to deal with it. So the purpose of this hearing is to hear a debate about that and discussion about it from a number of witnesses. We're going to have a first panel; it will be very brief. And then a second panel will be: the chief economist for the AFL-CIO, Thea Lea; Martin Regalia, chief economist, U.S. Chamber of Commerce; John MacArthur, publisher of Harper's Magazine; and Charles McMillion, president of MBG Services. The first panel will be: Lydda Eli Gonzalez, a former textile worker for SETISA in Honduras; Martha Iris El Alberto, a former textile worker AAA (ph) factory in Honduras; and Charles Kernighan, National Labor Committee. And let me ask them if they would come forward. I'm going to ask this to be a brief part of the program but I want to have it at the front end of this, because in many ways it's symbolic of a number of the issues that we're going to talk about. If you will take your places at the table. Charles Kernighan, you're over here, and Martha Iris Alberto's in the middle, and Lydda Eli Gonzalez. And I will ask you to summarize. We will have an interpreter with them. And, Mr. Kernighan, you're with the National Labor Committee. Why don't you proceed however you wish to do so?

KERNIGHAN: Thank you, Senator. We'll start with a testimony from Lydda, who worked in the SETISA factory making the Sean John clothing, which is Puffy Combs' clothing line.

DORGAN: Let me also indicate, we invited Puffy Combs, I guess aka Puff Daddy or now P Diddy. We invited him to be present at this hearing.And this hearing is not for the purpose of describing any particular person's clothing factory anywhere, it just happens to be that these young ladies were working in a clothing factory in Honduras that was owned by this gentleman, or at least was producing clothes with this gentleman's label. And we did invite him to be present, in all fairness. Ms. Gonzalez, you may proceed if you wish. I have taken a look at your testimony, so I have been able to read that.

GONZALEZ (THROUGH TRANSLATOR): My name is Lydda Eli Gonzalez. I'm 19 years old. I began to work when I was 11 and I went into the maquila factories when I was 17. I worked for the SETISA factory where we made the Sean John label. It's in the San Miguel Free Trade Zone. It's surrounded by very high walls. It's got a locked metal gate with armed guards in front. The entry time supposedly was at 7 and leaving time was at 4:45, but because of the very high production goals, they always made us stay one or two hours more. We always had to get there at 6:45 and then they'd make us work the overtime hours because of the high production goals, and these overtime hours were not paid. This would especially happen toward the ends of the weeks, Wednesdays, Thursdays, Fridays and Saturdays, because the production goals were so high and they said the exports had to go out. And if we couldn't stay or we didn't want to stay, they'd always threaten us.

They'd punish us, threaten us with firings or pass us to a lower post, where we'd make even less. We were always working under great pressure. The supervisors went around behind us, screaming at us and demanding that we work faster. They'd use very ugly words, call us ugly words, like, ``burro, stupid, work, that's what we pay you for, son of a whore,'' and things that were even worse. The factory is very hot. We're sweating all day. Also, we're working all day on very hard, wooden benches with no backs. At the end of the day, you come out exhausted with pain in your back, in your spine, in your shoulders. There's a lot of dust in the air and we don't have any protection, we're breathing it all day. You go in with your hair black, you come out with it whatever color the shirt is that you're working on. We're not allowed to speak. We don't have a voice in the factory. You're not allowed even to look from one side to the other or to laugh or to get up to drink water. If someone gets up to get a drink of water, you take advantage and ask her to get you water, too. You can't go to the bathroom when you want to.

To be able to go in, you have to present a ticket -- like this. And also, we're searched -- you have to present the ticket to get into the bathroom. Also, we're physically searched on the way in. Apart from that, there's no toilet paper. There's no soap to wash our hands. The bathrooms are very dirty; they smell really bad. New employees, there's a requisite for them. They have to submit to a pregnancy test. If they're pregnant, they're not hired. Or during the trial period, if you get pregnant, then you're fired immediately. As we go into the factory, we're searched, because they say we could bring in lipstick or chewing gum or makeup, and they're afraid we could stain the clothing. Like I said, we're also searched on the way into the bathroom and also as we're leaving the factory, because they say we're thieves and that we might rob the clothing. We don't have the right to health. For the last two years, the company hasn't paid the social security health care fees, and so we don't have access to health care. Of course, this is illegal. And to put an end to the screaming, to the pregnancy tests, to the forced overtime with no pay, we tried to organize a union. They suspected that I belonged to a union group, and for that reason I was fired on August 15th. Surely our names are now in a computer system -- and all the companies have them -- and we appear as special employees. And in that way they make sure that we'll never be able to get a job again. And it's painful to note that with one shirt, which costs $40, you could pay my wage for a week and there'd still be money left over for somebody else's wage.

DORGAN: Ms. Gonzalez, would you show us the shirts that you were working on? Do you have an example? And that's the -- those were the piece goods that you were sewing in the plant, is that correct?

GONZALEZ (THROUGH TRANSLATOR): Yes.

DORGAN: Ms. Gonzalez, thank you very much for your testimony. And let me next turn to Martha Alberto and ask for your comments.

ALBERTO (THROUGH TRANSLATOR): My name is Martha Iris Alberto. I'm 29 years old and I'm a single mother with three children. I began to work when I was 7, selling bread in the street. When I was 17, I went into the maquila. I've been working for the AAA company for the last three and a half years. There we produced the labels Nike, Adidas, Hanes, Gildan and Fruit of the Loom. They asked us a production goal of 250 dozen a day. The work shift was from 7 in the morning until 6 in the afternoon, from Monday to Thursday, but I had to go on Fridays and Saturdays too, because it was too hard to make the production goal in just those four days. We had a break at 9 in the morning, but we couldn't take it because we had to keep working. We were supposed to get half an hour for lunch, but we couldn't take that either; we just grabbed 10 minutes. The supervisors would be walking around behind us always pressuring and also reviewing the garments. For just one stitch wrong, we'd have to undo it and then do it again. And so a lot of the time, we were just fixing, repairing the rejects. And so we'd only earn 576 lempiras a week, which is about $33. In my case, I never had time to be with my children, because I'd leave the house at 5 in the morning and I wouldn't get home until 7:30 at night. And my tiredness would be stronger than my hunger and I'd get home to go to sleep. Now I'm fired for having wanted to defend our rights.

They started paying us through this ticket, but every time we stuck it in, they'd deduct 6 lempiras, that's about 34 cents. But we were in no condition to lose those 6 lempiras, because we'd miss it to be able to buy a pound of beans. We organized a work stoppage, a two-day work stoppage. We succeeded in talking with the owner, and he promised to start paying us in cash, also to talk with the supervisors to tell them to treat us differently. And he also promised not to take reprisals against us. And it was a success, because we succeeded in getting them to pay us in cash. But the next week, they were firing 40 of us who had gone up to speak with him. Now, none of us can find work because we appear as special employees in their computer system. We're fighting for reinstatement, because we need those jobs. The only thing we want is for them to respect our rights, that we should be allowed to return with our union and that we have a chance to make a decent wage. I live in some very terrible living conditions. I rent a very small room. I pay 500 lempiras a month, that's about $28. We don't have a bathroom with hot water, like here. We have a wash sink out in the open air, and we have to grab water in a bowl and bathe ourselves that way. And our children have to wash in that same way.

We have to share that sink with three other families. We use it to wash our clothes, wash our dishes, wash ourselves. We have a bathroom. It's like a latrine. We have to share that also with three other households. Our children don't get a toy, not for Christmas, not for Children's Day, not for their birthdays -- not even a good meal at Christmas time. We sometimes can't even buy them a book that they need to go to school. For me, it's very hard when my child comes to me and says, ``I need this book for school," and I say, ``Wait, let me see if I can borrow to be able to buy it for you." All this that I'm doing, I do it especially for my children. My greatest desire is that my children should get to study and that they should have a different life. Thank you.

DORGAN: Ms. Alberto, thank you very much. Mr. Kernighan, would you like to summarize, just for a moment.

KERNIGHAN: Certainly, thank you. Ninety-six percent of all the apparel we purchase in the United States now is imported, and over 50 percent of manufactured goods. Much of it made under conditions like this. And I think one of the most disturbing parts of this testimony is the picture doesn't fit. They tell them in the global economy if they work hard, they're going to make it. Well, Martha works from 7 o'clock in the morning until 6 o'clock at night, six days a week. She works hard. She makes 230 T-shirts a day. She gets paid just 5 cents, or 6 cents for every $20 T-shirt she makes. So she works hard. She gets up at 5 o'clock. She comes home at 7:30. And yet, she lives in a one-room hovel. She took us to her house. There's one bed where she sleeps with her youngest child. There's another mattress against the wall, which they put on the ground at night, and that's where everyone else sleeps. They have one lightbulb hanging down, a bare light bulb. The bathroom's a hole in the ground. It's an outhouse or latrine that several families share. And the sink that she's mentioning is out in front of the house, exposed to the rain and the sun. And three families use that sink. You wash your clothes there, you wash your dishes there, you drink your water there and you wash yourself there, with no privacy. They just take a cup and throw water on their heads, and they have to bathe with their clothing on. So she works hard, but she lives in abject poverty and misery. Now it's not like they don't have courage, and it's not that they're not brave, and it's not that they don't want their rights.

She shut the entire factory down, her and her coworkers, for two days in a peaceful sit-down action, because the owner wanted them to go to the bank to take their payout. But that's when she was referring to that bank card; when you put the card in, the bank charged you six limperas, or 34 cents. They couldn't lose that 34 cents, it meant life or death to them. That's a bag of beans. So they were able to shut the entire factory down for two full days. So they have courage, they can organize. But after they had that successful action, they were fired and blacklisted. And this is going on all across Central America and the Caribbean. If you look at the trade with Honduras, for example, it's a tiny country, 6.5 million people. They're the third-largest exporter in the world of apparel to the United States. So the trade is working. In fact, in the last 12 months it's up 18.5 percent. $2.6 billion a year of apparel is coming from Honduras. So it's working, the trade is working. The people that are left behind are of course the workers. Since the Wendy Diaz picture over there, the second picture -- the other one. Wendy Diaz, this was back in 1995-96, she sewed clothing for Kathie Lee Gifford. This was a 13-year-old kid. That was 1995. The wages in Honduras have not improved between 1995 and 2003 because there's been a 222 percent compounded inflation rate in Honduras. So the workers have been left behind in wages and in their rights. And just one final point: In Honduras, it's even getting worse, and across Central America. The factory owners are actually saying to these workers -- this is a direct quote -- ``You're going to have to charge your batteries because you're going to have to work longer, you're going to have to work harder, you're going to have to produce more and you're going to get paid less because there's 1,000 workers in China lined up and ready to take each and every one of your jobs, and they work for less money than you do." And, of course, we're looking into Flextronics in China making cell phones for Motorola, and the workers are indeed forced to work 13 hours a day for 21 cents an hour. We're looking into 4,400 factories that Wal-Mart has in one province in China alone; 4,400 factories which are hidden. Wal-Mart refuses to give the name or address of those factories. But we're searching a few of them, and we're finding out that it would be very common to be forced to work 16 hours a day, 16 cents as a base wage, and you'd get seven-days-a-week work week, you're lucky if you get 12 days off a year, and of course you have zero rights. This race to the bottom has hit Honduras now, which is one of the poorest countries in Latin America. So Honduras now, they're saying Martha's living standard is too good. They can't have that one room any more because they're in this race to the bottom. The Sean Coombs T-shirt over there, 21 workers must make 1,200 T- shirts a day. That means, essentially, each worker's making 57 T- shirts a day, 6.5 T-shirts an hour, 286 T-shirts a week. And yet, that one T-shirt is more than they earn. That's $40, they earn $33. Probably because of your intervention we're going to have a meeting with Sean Coombs next Friday. And we're going to ask him what would happen if he would pay these women a subsistence-level wage, in other words, raise the wages by approximately 66 percent. If he did that, it would add 10 cents to the cost of the garment.

So rather than being 15 cents of direct labor, there would be 25 cents of labor. Of course, that's just a little more than 6/10th of one percent. They could afford to treat these women as human beings. They could afford to pay decent wages. And it gets even worse. To end with, because they came here and spoke out in the United States, they're being referred to as traitors and terrorists. The owners of the factory in Honduras are attacking them, saying that they are traitors to their countries and terrorists. So they cannot speak out. They're trapped.

DORGAN: Mr. Kernighan, thank you very much, and thanks for your work. The reason this is important is this is part of the global economy. And to understand what are the circumstances of production in a global economy, what are the circumstances of competition, it is very important for us to try to think through job strategies here at home. Let me say to you, Ms. Gonzalez, and also to you, Ms. Alberto, I appreciate very much your coming here today and telling us your story. I would ask just one question. Mr. Kernighan indicates that there is reason to be concerned about what you have done, in Honduras, concern for yourself and your families. Do you feel afraid because you have spoken out and you've taken action to try to improve your life and the lives of your fellow workers?

GONZALEZ (THROUGH TRANSLATOR): Well, when we came here to the United States to speak the truth, in Honduras they labeled us as terrorists of the maquila, liars, traitors, having sold out our country. And so, we understand that we could be at risk, there could be some danger.

But still, we have to return to Honduras, we have to continue what we're doing, because there're thousands and thousands of workers in Honduras who are working in the same conditions.

DORGAN: Ms. Alberto?

ALBERTO (THROUGH TRANSLATOR): Well, sure, a person feels some fear because of what they're saying. But I trust in God. and also with the help of God and with your help, everything will come out great.

DORGAN: Let me thank both of you for your courage, and thank you for speaking out, because it will improve the lives of others. And my hope for you and for your families and for your future is that things will improve. And we wish God's blessings on both of you. And I thank you very much for coming to the committee today. Thank you very much. You're excused. Let me next call the chief economist for the AFL-CIO, Thea Lea; chief economist, U.S. Chamber of Commerce, Martin Regalia -- I hope I pronounced that correctly, Martin; John MacArthur, publisher, Harper's Magazine; and Charles McMillion, president, MBG Services. If you would come forward please and take your seats, I would appreciate it. We will have an opportunity for questions and the opportunity to have a pretty wide, open discussion, but for purposes of an opening statement I would appreciate it if you would limit it to five minutes. And we'll begin with Thea Lea, the chief economist for the AFL- CIO. Thea, would you proceed?

LEA: Good morning, Senator Dorgan. And thank you so much for organizing this hearing on this extremely important topic. And I bring both the regrets and apologies from Secretary-Treasurer Richard Trumka, who was very, very sorry he wasn't able to be here this morning. Free trade has been sold to the American public and American workers as a cure for all that ails us. Proponents of free trade argue that these agreements are going to create high-paying export- related jobs here in the United States, magically bring prosperity to developing countries and spur economic growth and political stability worldwide. And yet the outcome has been quite different. If we start at home, the Economic Policy Institute has estimated we've lost over 3 million jobs since 1994 due to the growing trade deficits after NAFTA and the WTO were put in place. And if we look in the developing countries, we see a very mixed record. There has been growth in investment and trade flows, as Charlie Kernighan was saying. But we haven't seen across the board improved wages and working conditions for the typical worker or small farmer.

And we've seen, actually, slower global economic growth over the last couple of decades, compared to the period between 1960 and 1980. So as we've had increased trade and capital liberalization, we've actually seen slower growth overall, not faster. And we would argue that the current set of trade rules that we've put in place here in the United States have been written by and for multinational corporations, where workers, family farmers, average citizens, both in the United States and around the world, have been the losers. And we see the growing inequality between and within countries as a result of these policies. Last month, as you've noted earlier, marked the 39th straight month in which the United States lost manufacturing jobs. And even the uptick in overall jobs in the last quarter consisted mainly of low-paying service sector jobs, 40 percent of which were in temp and retail -- hardly living wages. Economists have identified outsourcing and exploding trade deficits as one key cause of the jobless recovery. And yet, the Bush administration is aggressively negotiating new flawed trade agreements that will destroy even more jobs. The massive and growing U.S. trade deficit results from national economic policies that have utterly failed in almost every dimension. U.S. trade and tax policies encourage and reward companies that move jobs overseas to take advantage of workers who are denied their basic human rights, as we heard so poignantly a few minutes ago. The overvalued dollar puts domestic producers at an impossible disadvantage. And unfair trade practices by other countries keep our goods out of overseas markets. We've created for ourselves an impossible downward and self- defeating cycle in the U.S. economy where even as economic growth begins with the economic recovery, the high import propensity of the U.S. economy means that even as economic recovery gets under way, a large proportion of every dollar spent by consumers goes to purchase imports, undermining the economy's ability to generate good jobs at home. And according to The Economist magazine, in a really interesting article back in September, American consumers' indebtedness is currently growing twice as fast as their incomes. The Economist argues that the whole global economy cannot continue to rely on the U.S. economy as the single engine of global economic growth -- that that's a recipe for disaster both for us and for the global economy. And if we look at the trade figures, I think we see some startling weaknesses. First, the total U.S. exports actually fell for two years in a row in 2001 and 2002. And I think this gives the lie to the idea that somehow all these trade agreements have been successful in opening markets for American products. The other pieces that we thought were remarkable was that we see our trade surplus and services starting to shrink, not grow. So we're not going to make up for our loss in manufacturing competitiveness by increased surplus in services. In advanced technology products, we used to have a $4.5 billion surplus in the year 2001. By 2002, that was a deficit of $17 billion.

And looking at the first eight months of data for 2003, that deficit's already at 15 billion, about twice where it was last year at this time, which is, I think, pretty remarkable and pretty scary. And as you noted earlier, the recent trend of outsourcing of white-collar and information-technology jobs is clearly accelerating. And one of the areas that we've been concerned about is to see that state and local governments are beginning to outsource some of their administrative jobs. Whether it is unemployment insurance or welfare administration or parking ticket processing, these jobs are starting to go overseas. So we're actually taking our own tax dollars, and we are moving jobs off-shore. And when we talk about some legislative solutions that might address that problem, we're told that these may, in fact, violate our obligations under NAFTA and the WTO. So, this is one of the areas we want to flag. Certainly, as the administration goes and negotiates many new FTAs and writes in similar provisions, we want to make sure that we, at least, have the ability to ensure that our own tax dollars are used to create decent jobs here at home, in our own communities. The free trade agreements are sold to us as market-opening agreements that are going to expand U.S. export opportunities. And yet we've seen that much more often they have facilitated the shift of U.S. investment offshore. And if you look at the agreements -- and I think Mr. MacArthur's testimony will go into more detail on this -- they're written to facilitate the shift of investment offshore. And much of this investment has gone into production for export back to the United States, which boosts U.S. imports and displaces, rather than creates, U.S. jobs. And the net impact has been a negative swing in our trade balance with every single country with which we have negotiated a free trade agreement to date. And I think that's rather remarkable, especially when I look at the USTR press releases about the new free trade agreements that they're negotiating with Australia and Southern Africa and Central America and the free-trade area of the Americas. And, again, they're trying to sell the new agreements to us as ones that will open markets for U.S. exports. And yet it has never worked to date, and they still continue to push those. So if the goal of the free trade agreements is truly to open foreign markets to American exports, and not to reward and encourage companies that shift more jobs overseas, it should be pretty clear that the strategy is not working. And before Congress approves any new bilateral free trade agreements based on this model, it's imperative that we take some time to figure out why the current policy has not worked. And let me just end by saying that we do look at the rules embodied in the trade agreements. And we've said that if we can't protect workers' rights and human rights and environmental protection within the context of the trading agreements that we've put in place, then we're going to simply exacerbate this problem of corporate mobility, corporate flexibility, and workers and communities and the environment getting the short end of the stick. So, we need to do this differently than we've done it in the past. And if we don't -- if we don't dramatically reform the trade agreements that we've put in place, then the current jobless recovery will probably turn into a great depression.

Thank you.

DORGAN: Ms. Lea, thank you very much. We appreciate your being here. And, Martin -- is it Regalia? Am I pronouncing that correctly?

REGALIA: Yes, sir. That's correct.

DORGAN: Martin Regalia, the chief economist for the U.S. Chamber of Commerce, thank you for being here. Why don't you proceed?

REGALIA: Thank you very much, Senator. My name is Martin Regalia. I am the vice president and chief economist for tax policy and economic policy, and chief economist at the U.S. Chamber of Commerce. And we're happy to be here today to issue our statement on the U.S. economy, jobless recovery and the state of the manufacturing sector. Although the U.S. economy has emerged from the recent recession -- and did so in November of 2001 -- real economic growth remained lackluster for about six quarters, less than 3 percent, significantly less than our potential. Beginning in the second quarter of this year, however, the economy has begun to accelerate, and in the third quarter of this year turned in a quite remarkable growth rate of 7.2 percent. With inventories low and with the likelihood that the dollar will depreciate further, the expectations of somewhat lower oil prices and the emergence of a stronger-than-expected growth abroad, we think that the prospects for U.S. economic growth are quite good. One area of the economy, however, that has not performed well has been the labor sector. According to the establishment data, the economy lost 3 million jobs -- private-sector jobs that is -- since the end of 2000. And about 919,000 of those have come since the end of the recession, the technical end of the recession in November of 2001. These statistics have led a number of economists to compare this particular cycle to the one in '91 and label them both as jobless recoveries. Fortunately, the labor market picture appears to be brightening. In the month of October, we created about 116,000 net new private- sector jobs, and over the last three months a little over 250,000 net new private-sector jobs. Now, according to the household data, which is another measure of employment in this country, the picture is somewhat brighter, and we've created about 394,000 new jobs over the entire time period from the end of 2000 to the present. And we are now employing more people in the United States than ever before. Another factor that is pointed up often, when we compare and look at the recent recoveries to prior recoveries, is the duration of unemployment. And the duration in the last two cycles, again, has been substantively different. It's been longer lived, more people have been out of work for longer periods of time. Now, the differences between this recession and the last recession have caused a number of economists to try and study this issue to determine what's causing it.

And I would call your attention really to two studies that I think are very illuminating, one of them by economists at the Kansas City Fed, another one by economists at the New York Fed. Schreft and Aarti, who are at the Kansas City Fed, published an article called ``A Closer Look at the Jobless Recovery." And they look at a number of factors. And the factors that they find to be of importance, first and foremost, GDP growth. When you go into a recession that is relatively mild -- and I would point out that the last two recessions were two of the more milder ones on record -- you don't build up a lot of the pent-up demands. You come out of the recession somewhat more slowly. Growth in the last two recessions have been decidedly subpar. That is below the estimates of potential. And as a result, when you're growing less than potential, you don't create jobs. They also pointed out that there were different employment practices in the last two recessions, the so-called just-in-time employment, where businesses have used more part-time labor, temps and more overtime labor later into the economic cycle, in part, because the uncertainty in these cycles is greater -- again, attributed to the fact that we were growing below potential. So people did not want to make permanent investments at a time when the economy was creating as much uncertainty. Political uncertainty, as well, contributed to this. If you look at Groshen and Potter, the two economists from the New York Fed, they actually compared the different industries that saw job growth and job declines. And they found that there were certain structural shifts in the last two recessions: Where a certain industry suffered significant losses, other industries saw gains. But it takes more time for people to retool when they lose a job and then are not rehired back into that same job in the same industry. They found that these type of job or industry declines and ascensions that occurred in the last two recessions oftentimes were associated with the fact that the economy had booms prior to that. And certain industries, boomed and then busted, while others did not. So they also look at the fact that economic policies, fiscal policies and monetary policies in the last two recessions, were somewhat more successful at mitigating the cyclic impacts and therefore accentuated the structural impact. And they also found that there were shifts in job practices to these just-in-time employment practices.

What I should point out about both these studies is that the effects, the negative effects, the longer duration, the weaker employment later into the cycle, were temporary. And the '99- '01 recession was followed by an enormous job creation period in the latter part of the '90s, and we're starting to see job acceleration on about the same schedule this time around. I also would want to point out that when we look at the entire economy and focus on a sector like jobs, we must remember that other things are happening elsewhere, and we actually have an economy this time around that is far superior to the economies coming out of many prior recessions. We have stronger growth in real income, real disposable income, real per capita income. Part of this is due to the productivity growth that has given rise to higher wage growth and part of it's due to the fact that we've had a succession of tax cuts that have boosted disposable income. When we look at the unemployment rate, we see an unemployment rate that is currently 6 percent down from a peak of 6.4 percent, the lowest peak in a recession in recent memory. So we have an economy that has suffered a change in the job structure and in the way we see job creation and job loss. And we see a longer cycle, a cycle that lasts somewhat longer into the recovery, but one that recovers, nonetheless, and creates significant amounts of new jobs. When we look at the manufacturing sector, we see somewhat different policies. We see more of a structural shift here. While the manufacturing sector has grown over the last 50 years -- in fact, it's doubled in output over the last 20 years -- it's done so without creating a significant amount of jobs. Productivity growth has been relatively strong throughout this entire period. And as a result, the share of the economy -- the share of U.S. GDP that is attributable to manufacturing and the share of employment that's attributable to manufacturing -- has really been eroding since about the 1950s. So it's been a trend that has occurred for quite some time -- positive growth, not growth as fast as the rest of the service economy, and growth that because of the rise in productivity hasn't given rise to commensurate growth in the labor that's employed in those activities. In addition, manufacturing is a highly cyclical industry. The last recession, this one that was over in 2001, was a recession that saw no declines in consumption, significant declines in investment. This type of recession is especially hard on manufacturing. And as a result, we've seen significant job losses of a cyclical basis in the manufacturing sector. Good news, bad news: The good news is the manufacturing sector is growing again. The bad news is it's not growing a lot faster than productivity growth, which means the reabsorption of that labor is going to be very slow, at best, and I would doubt if we would ever see the peaks that we saw in the late '70s and early '80s. It's going to take some time. The question is, you know, what's caused this downward trend. Some of it is, in fact, just normal economics, the aging process of an economy. Manufacturing creates a lot of very good, high-paying jobs. Those high-paying jobs give rise to demand for things like labor and services, which, in turn, cause that particular sector to grow less strongly.

I would point out a couple of things. I think the decline in manufacturing is problematic. And I think we can associate at least some of that decline with a number of policies -- anti-growth policies. We have a regulatory process in this country that imposes $850 billion of costs a year. Our tort system imposes $233 billion in costs. We have an archaic, Byzantine tax code that taxes savings and investment multiple times, does not allow for a complete cost recovery. And as we're often told, capital goes where it's wanted and stays where it's well treated. And it's been going elsewhere in the world, rather than the United States. We have -- an energy policy -- energy is the lifeblood of manufacturing. We have no national energy policy. We have health care costs that are running well in advance of other countries in the world. And we have a situation here where many of the costs that are imposed on businesses from the desire to seek homeland security, adding again costs that do not appear elsewhere. When we look at the decline in manufacturing, and we try to associate it with a specific cause or a specific country, such as trade with China, I think we have to remember that trade with China is a very, very recent phenomena. The decline in manufacturing has occurred over four decades. I think it's kind of shortsighted to look just at that and say, that's the proximate cause of a four-decade decline. Thank you very much.

DORGAN: Mr. Regalia, thank you very much. Next we'll hear from John MacArthur from Harper's Magazine.

MACARTHUR: Thank you, Senator Dorgan. I should say that I'm here as the author of a book called ``The Selling of Free Trade,'' about NAFTA, not as the publisher of Harper's Magazine. But thanks for inviting me to talk about so-called free trade and its impact on U.S. manufacturing, employment and wages. I always make a point of saying ``so-called,'' because what we have in NAFTA and the euphemistically named agreement called Permanent Normal Trade Relations with China, actually has very little to do with free trade theory as conceived by its originators and promoters, principally the 19th century British economist and stock speculator David Ricardo and his ideological heir Richard Cobden of Manchester manufacturing and political fame. Now, I could have a lot of fun today by ridiculing Ricardo's fantasy scenario, the perfectly balanced economic nirvana that he called comparative advantage. And I could also have a lot of fun by ridiculing some of Ricardo and Cobden's modern day disciples, Thomas Friedman and Paul Krugman of The New York Times, Fred Hyatt of The Washington Post, and Robert Bartley of the Wall Street Journal. And along those lines, I do feel obliged to mention, at least, my idea that the quasi-religious devotion to so-called free trade found on the editorial page of the nation's most important newspapers most closely resembles to my mind the tone of the most fervent adherents of Marxist theory. It is no secret among reliable economic historians that Karl Marx was heavily influenced by Ricardo, particularly in his analysis of class conflict. Perhaps you'll ask me to elaborate on that later.

But a far more important task, which isn't any fun at all, is to give you some sense of what NAFTA and PNTR really constitute in the workplace, as opposed to the classroom or on the op-ed pages. And I think the best of looking at these two agreements -- and, to some extent, this theoretical regulating mechanism known as the General Agreement On Tariffs And Trade and the World Trade Organization -- is through the very understandable and untheoretical vantage point of U.S. labor law and U.S. criminal law. NAFTA and PNTR, it is true, have been called ``investment agreements,'' that is, agreements to promote American investment in Mexico and China. In NAFTA, this takes the very specific form, in Part V, Chapter 11, Section A, Articles 1105 and 1110, as expropriation insurance designed to protect the American or Canadian investor against expropriation by the Mexican government. This was felt to be necessary at the time of the NAFTA negotiations, in part because of Mexican political instability and in part because of the Mexican expropriation of U.S. oil assets in 1938. In the case of PNTR with China, the expropriation insurance is unspecific, but real, nevertheless. PNTR was said to be a prerequisite for China joining the WTO and membership in the WTO would obviously discourage China from ever again expropriating foreign assets, as it did in 1949. But the notion of NAFTA and PNTR as investment insurance doesn't nearly do justice to the hard technical and political work done during the first Bush and Clinton administrations to get these agreements approved by Congress. The other, more interesting, way to look at NAFTA and PNTR is as labor racketeering agreements designed to fix the price of labor at a very low level.

In the classic labor racketeering scheme, a Mafia- controlled union conspires with management to keep wages at a level acceptably low to management and to keep rival unions, that might bargain more aggressively for its members, from attempting to organize the company. Management rewards the union leadership with kickbacks. The union leadership rewards management with labor peace. In NAFTA and PNTR, the equation changes somewhat, with governments conspiring with unions and management to fix the labor market. With NAFTA, the Mexican government -- in collusion with the U.S. government -- guarantees a wage level, still, after all these years, about $1 an hour take-home pay, low enough to satisfy Delphi Automotive or Honeywell or Eastman Kodak. The union involved is the CTM, Mexico's biggest national labor union, and historically a government subsidiary. The CTM was for many years essentially owned by the Institutional Revolutionary Party, the PRI. And since the ascension of Vicente Fox and the PAN, it has simply shifted its political alliance to accommodate the realities of power. In the plants that they pretend to represent, the CTM bosses are paid off in cash and political patronage, either by the government or the company or both. In the rare instance where a rival union -- which really means a disgruntled group of politically weak and poorly financed employees, like our friends the Hondurans -- challenges the CTM, heads are broken by CTM thugs and government cops. If a union election, or what we might call here a decertification takes place, there's no secret ballot. Now, if the maquiladora worker -- because we're talking principally about maquiladora factory workers -- is unhappy, ambitious and desperate enough, he may attempt to jump the border to work illegally for $3 an hour in the U.S. But at the border, he will likely meet the law enforcement representatives of the other party in the labor racketeering scheme, the U.S. Border Patrol. Their job is to hurl the Mexican factory worker back into the Mexican labor market, where he or she can work for $1 an hour and belong to the CTM, or not. If not, they can go home to the farm and work for $3 a day or they can join the drug business. In China, just substitute the labor section of the local Communist Party for the union, and you once again have a very clear form of labor price fixing. Strikes are rare in Mexico, but they are essentially non-existent in China, as is collective bargaining. No small irony then -- and no coincidence -- that the maquiladora boom in Mexico ended with the passage of PNTR. I urge all of you to get a copy of Ciemex-Wefa's -- that's C-I-E-M-E-X hyphen W-E-F-A -- latest issue of their Maquiladora Industry Outlook, in which the excellent John Christman explains just how bad things have gotten along the border since the passage of PNTR: massive layoffs -- 230,000 workers; plant closings -- 484 as of the last count; and downward pressure on wages.

Some of those plants shut down because of the U.S. recession, but many have simply moved to China. If an American company wants to choose between labor racketeers, China is clearly the place to go because the labor is even cheaper than Mexico -- anywhere from free to 50 cents an hour. And the house union, that is, the Communist Party, is even tougher and meaner, shall we say more totalitarian, than the CTM or the federales. Except in the occasional instance of a high-tech company that prefers NAFTA's very strong and excellent intellectual property protections to China's wide-open, knock-off culture, choosing China is a no-brainer. Now what does this do to the American worker and American labor unions? It crushes them. They can't compete against $1 an hour and less. They can't or won't attempt cross-border organizing. They can't unionize factories in the U.S. any more because management will move the plant. They can't invoke the Wagner Act, because it doesn't apply outside this country. It's a bitter irony that the terribly exploited Mexican workers, who I know very well from up-close reporting, are now suffering the same intimidation that American workers have been suffering since the passage of NAFTA. Before PNTR, I would have said that Mexico was becoming essentially a labor colony of the United States, where workers are trapped in something like 19th century industrial servitude. With PNTR meaning direct competition from China, Mexico is becoming an economic basket case with very few alternatives besides exporting their poor people to the United States. I don't know where it will end, but I can tell you that both the liberal David Ricardo and the radical Karl Marx would probably have predicted a very alienated working class. Mr. Christman, in his latest report, actually refers to the growing number of companies in competition with Mexico, quote, ``that offer a lower price per minute of labor,'' unquote, not per hour anymore, per minute. Now, I have lots of facts and figures at hand, but I don't want to be redundant with the other witnesses. However, I will leave you with one very significant number that you can place besides your collected works of David Ricardo and Thomas Friedman. NAFTA's promoters from George Bush, senior, to the quasi-criminal fugitive Carlos Salinas, to Bill Clinton and Al Gore, all promised that NAFTA was a win-win for both American and Mexican workers.

I find this less than believable, having interviewed so many of the losers on the U.S. and Mexican sides of the border, workers who either lost their jobs at places like Swingline Staplers in New York or who find themselves ruthlessly exploited at Swingline Staplers in Nogales, Mexico. But the NAFTA promoters said to be patient. They said eventually Mexico's fortunes would rise with the magic of comparative advantage and industrial exports and consequent development of its own industrial infrastructure, -- something like what happened in Detroit in the 1920s. But I have to tell you in the year 2002, according to the best estimates of Ciemex-Wefa, the contribution of Mexican-produced industrial inputs -- that's raw materials, components, everything the Mexicans contribute except for labor -- to total maquiladora production amounted to about 0.8 percent -- that's eight-tenths of 1 percent, the same as it's been for several years and lower than it was before NAFTA. In other words, NAFTA has merely worsened the lot of Americans workers while consolidating Mexico's subaltern status as a low-cost export platform for American business. The only real Mexican added value in the maquiladora is cheap labor. NAFTA wasn't win-win, it was lose-lose. Why is anyone surprised? It was always about cheap labor, corporate profits and the political ambitions of Carlos Salinas, George Bush and Bill Clinton. Thank you very much.

DORGAN: Mr. MacArthur, thank you very much. Next we will hear from Charles McMillion, MBG services. Mr. McMillion?

MCMILLION: Mr. Chairman, thank you very much. It's good to see you again. Thank you for holding this hearing. I'm very happy to be here today, although I wish I didn't have to follow the powerful narrative of Mr. MacArthur. I was asked to come to talk about the current economic recovery and economic conditions. After two years, this is not only a uniquely jobless recovery, but a recovery that is also uniquely stagnant in industrial output, very weak in business investment, in wage growth, in savings, and it's facing unprecedented displacement from net imported goods. For traded industries, our economy is not using productivity growth to do more with less, it's doing less with less, and shifting us into lower wage, less productive, but non-globally traded industries like health care, construction and budget-strapped local governments. You know, Mr. Chairman, you've been very patient this morning. You have my testimony. You can read it, if you'd like. Let me walk you and the rest of the panel and others through the graphics at the back of my testimony. I've long learned that it's better to -- when you're talking about tedious economic things -- to do it with pictures, and so these are my pictures.

The first graphic shows that this is -- by far -- the weakest recovery that we have on record today for manufacturing output. Manufacturing output has grown virtually not at all since the recovery began -- official recovery began in November '01. Of course, manufacturing output is down 2.5 percent during this current administration. But even in the two years of recovery, manufacturing output has barely grown at all. We got new data today that in October manufacturing output ticked up one tenth of 1 percent. This really unprecedented and really speaks to the problem, which is not a productivity problem, of the jobless recovery. If you'll go to the second graphic, it shows that, for the entire private sector, the hours worked during this recovery are still below -- 23 months after the recovery began -- still below where they were when this recovery started. As you mentioned, I think, in your opening remarks, Mr. Chairman, the economy is still almost a million jobs shy of where we were when this recovery began -- a million private-sector jobs shy of where we were when this recovery began. But I think it's very important to understand that in hours worked we're even lower as a percentage than we are in jobs, because normally during a recovery, employers may not add jobs, but they pile on new hours to the people they have before they gain confidence and employ new people. In this recovery, they've actually been cutting the hours of the people they have, which is, again, unique. Even in the '91, '92 recovery, which was also quite weak, although they had significant job growth by this time, they had added very significantly to the hours worked.

And of course, in all previous recoveries, by this point, two years into a recovery, we had very strong growth in hours worked. And in the equivalent of today's labor market, 6 or 7 million new jobs over the first two years of recovery. So this is really quite unique. And let me say also, because it was brought up again a few minutes ago, is that, yes, we now have had three consecutive months of job growth in this economy. We need to remember that a year ago we had four consecutive months of job growth, also right after the tax cut of the summer of '02, and now we have -- after the summer of '03 we have a little better job growth. Last year, it was all lost in December, and then of course even more as '03 went along. But we had four months -- consecutive months of job growth last year. So far this year, we have three months. Let's see how it plays out. I want to go then to the loss in hours worked for manufacturing workers. This, you see -- and this is the next chart -- is really just absolutely unprecedented. Again, even in the '91, '92 recovery, we had some added hours worked. We did have a few fewer -- after two years a few fewer manufacturing jobs, but more hours worked in total in manufacturing. This one continues to fall, and continues to fall even today. And the contrast with past recoveries really could not be stronger. Then -- and I see my time is out, but let me just go quickly. I think this is really quite important. Consumers are adding on debt, of course, with the tax cuts and the fiscal policy that we've been following the last few years. Gross U.S. savings is now at its lowest level since 1945. I would take issue with one of the comments made earlier about strong income growth -- we don't have strong income growth over the last -- during this recovery or over the last few years. We have strong disposable income growth, because of the tax cuts. But income growth is not strong. Wage growth is actually in real terms negative, not by the hour, but by the week and year, over the last -- during the recovery and over the last two or three years. But I think it's very important that even with a remarkably stimulative fiscal policy, even with consumers spending down virtually all of their earnings -- household savings rates are very near the lowest they've been since the 1930s, they're about 3 percent -- still, we have virtually no domestic production growth in industry. And the reason, as you've indicated again in your opening remarks, or a big part of that reason, is because consumers and businesses and government is buying more and more of its purchases, spending its money more and more on imported goods. I just have a chart here that shows -- you know, normally when we go through business cycles, when we have a recession, we either have a surplus in our trade account or it goes to very, very low. This last recession, uniquely, we continue to have 4.5 percent or something like that drag of trade on the overall economy.

And of course now it's the biggest that it's ever been by far, more than twice the drag -- trade is more than twice the drag on our economy as it was even during those bad old competitiveness days of the mid-1980s. I'm aging myself. And then, finally, just to pick up on something that Mr. MacArthur said earlier, it really is remarkable how wrong those who projected the benefits of NAFTA for us have been. Mr. Chairman, I know you know that Gary Hufbauer was really the advocate that was used by the Clinton administration, now being used also to sell China trade. And his statements on trade and jobs just really could not have been more wrong, both in direction and magnitude. I might just pick up, also, that this is not to say that it's been terrific for Mexico. Wages in the last decade of NAFTA have fallen in Mexico by 16 percent. Nutrition, education, health care and everything you can think of that should be up in Mexico is down. And most importantly, because of NAFTA and trade agreements like NAFTA, Mexico is perhaps even worse than Honduras, completely helpless, in trying to compete against China, which is really the future. So, let me close, again, by thanking you for having the hearing, and just saying that I think we are in a new era, a new post-Cold War information age era. We need very different U.S. global economic policies to address this new era. Thank you, sir.

DORGAN: Mr. McMillion, thank you very much. Let me ask a series of questions dealing, first, with the proposition that the export of American jobs by plant closings in this country that moved jobs to other countries affects our job base and our manufacturing sector. There are some who say this is really nonsense; it's sort of anecdotal insignificance, and you raise Huffy bicycles or some other company, but in the large scheme of things, this is not a very big deal.

Does anybody on the panel know of any repository of information that is collected in this country where one can find the examples of the companies that have closed plants here specifically for the purpose of opening those same plants elsewhere where labor costs are lower? Is there any repository of information about that in this country that you're aware of?

LEA: Well, unfortunately, Senator, there is no single comprehensive repositories. There ought to be. And we've often said to the government, we'd like to see this data collected, but it isn't done. Up until last year, the NAFTA Transitional Adjustment Assistance program did track the jobs that were lost to production shift to Mexico and Canada and to imports, and it put the jobs into categories. And they've, as you know, certified over half a million U.S. jobs lost since NAFTA was put into place. And those numbers are in fact incredibly useful because they show by state and congressional district, by factory and so on which jobs have been lost and why. Those numbers are no longer available to us. The last fast track bill combined the NAFTA TA program with TAA and stopped breaking out the impact of NAFTA, and they're not going to break out when jobs are lost to production shift. So that's a very serious lack of data. But we end up simply doing it by looking at the overall trade numbers and taking the anecdotal information and the TA information. But we wish we had a better source.

DORGAN: Mr. Regalia, does the NAFTA TA information lead you to conclude that we have lost jobs as a result of NAFTA?

REGALIA: No. I think the labor markets in the United States and in the world are fairly dynamic, and when I look at the data -- and I don't know where you got your data, I got mine from the U.S. government, which sometimes does give me pause -- but the fact of the matter is real wages are rising. And the other fact of the matter is, is that the unemployment rate right now is 6.0 percent. So if we're talking about losing significant amounts of jobs, I think we really have to ask ourselves what unemployment rate is it that we can maintain in this country over a long period of time. If it's 4 percent, then you can talk about jobs being lost. If it's 5 or 5.5 percent, which most economists estimate to be the frictional level of unemployment or what's called the full level of unemployment, then I don't know where you get these other jobs. You get different types of jobs. You get jobs that -- some jobs that move abroad, some jobs that are created here. But we're not living in an economy today, even after a recession, that is showing an extremely high unemployment rate. We have a number of people -- there is 9 million people in the country unemployed, and that's certainly too many. But how many of that 9 million in an economy as big as ours with 150 million or so in the labor force -- how many are always going to be unemployed at a frictional level?

I just don't see where you get all these workers you're talking about we're losing. Yes, there's some job outsourcing going on. There's some job insourcing going on. We heard the same arguments in the early '90s. I remember the Newsweek articles where they talked about ``Chainsaw'' Al Dunlap and corporate killers and the like. And then I look at what happened in the latter part of the '90s, when those type of restructurings and efficiency gave us enormous growth rates. So, you know, there are very, very -- the labor markets in this particular cycle and in the '91 cycle have exhibited some extraordinarily different behavior than what we saw in the average postwar cycle. And it gives us longer periods of very weak job growth. I think that's a fact. But to sit there and try to attribute that to NAFTA, which occurred in 1994, when, in fact, the '91 recession was over for three years at that time is just something that I'm not willing to do.

DORGAN: Mr. Regalia, you answered a question I didn't ask. But the question I asked specifically was, using the NAFTA...

REGALIA: I don't have that NAFTA data. I don't know where it was constructed, and I don't have that at my disposal, so I can't answer your question, Senator.

LEA: The NAFTA-TAA numbers are available from the Labor Department. They've collected them. And the other data is, of course, is the trade balance between the United States, Mexico and Canada. And as Mr. McMillion pointed out, the projection was that the U.S. would run its trade surplus with Mexico through the mid-2000s. And yet, in fact, we had a trade deficit of $9 billion with Mexico and Canada in 1993, and by 2002, that was a trade deficit of $87 billion -- almost a tenfold increase. And so, if you're using the same methodology that Hufbauer and Schott used to predict that NAFTA would create 200,000 jobs, you're looking at .75 million lost jobs.

DORGAN: The reason I asked the question, it seems to me if we're doing new trade agreements -- and I met with the trade ambassador yesterday, Mr. Zoellick, he's off -- I mean, he's breathless. He's off moving. He wants new trade agreements. It seems to be a logical question for us to ask: How would you determine whether a trade agreement is successful? I assume you'd want, at the very least, for a trade agreement to be mutually beneficial to the parties engaged in the agreements. But presumably, you would especially want that trade agreement on behalf of this country to be beneficial to our country. So, Mr. McMillion, how would we evaluate the success or failure of a trade agreement? Other than the fact that negotiators reached an agreement, how do you determine whether it's successful?

MCMILLION: Well, Mr. Chairman, there are many ways to evaluate whether it's successful. The graphic that I showed from Dr. Hufbauer was the one that was most used in selling NAFTA. It's very similar to the arguments that were used in selling PNTR and our other trade agreements. The argument is that this trade agreement will increase domestic production, that is that if we have a deficit with that country that we're negotiating with, the trade agreement will help us to reduce it, because our exports will grow more than our imports. And that's -- the bottom line is to look at what is the effect of these trade agreements on domestic production. I might remind really everyone that our economy, GDP, by definition is goods and services produced in the United States.

And if the idea is to grow this economy, that's what we're talking about -- to increase production in the United States. So that's why when Dr. Hufbauer and many others, many others -- certainly the Chamber -- were arguing 10 years ago that NAFTA would increase U.S. domestic production because we would have a surplus -- actually, we already had a surplus -- would have an even bigger surplus, and we'd have a surplus as far as the eye could see, rising as far as the eye could see, with Mexico, because we're so much more productive. But, in fact, of course, this year we're likely to have a $45 billion deficit.

DORGAN: I'm going to ask Mr. MacArthur about labor issues, but first I want to ask a general question. Paul Craig Roberts, an economist with the Reagan administration, has written a piece, recently -- and I don't want to misinterpret it -- but I think loosely what he said was we are having, or will have, or perhaps will soon have a recovery that is a jobless recovery. It isn't a jobless recovery in terms of whether it creates jobs; it does create jobs. But it will create jobs outside of our country. In other words, could an American economy provide recovery for itself, or could we experience an economic recovery in which jobs are created, but not jobs onshore instead of jobs offshore? And if so, how is that done?

MCMILLION: Mr. Chairman, I think that the likelihood is -- and this is, you know, really the point I think that Ms. Lea and Mr. MacArthur are making, as I am -- is that trade is shifting our jobs from high- productivity, high-wage jobs that provide benefits that people can raise families on, and they're moving them to labor- intensive jobs in the service sector, where the wages are lower, productivity is lower, they provide many fewer services, many fewer benefits, if any benefits at all, and that, we believe, is bad for the economy. It is not that these jobs just vanish. But what trade does, that it doesn't create or lose jobs so much as moves jobs around.

And what it's doing very, very clearly -- and we all use government data I think -- what is occurring very, very clearly is that we are moving jobs from the high-productivity areas that face international competition to the low-productivity, low-wage jobs that don't face international competition. It's as simple as that.

DORGAN: Mr. MacArthur, what do you assess to be the future of the young women who have come here from Honduras, for the conditions of manufacturing in Honduras and Mexico and China, for that matter? You talk about this representing just an assessment of profits on a global basis, and you know that in Congress we have had some significant battles to try to put standards dealing with labor in trade agreements and we've faced dramatic opposition to that. But I think the testimony today describes once again why that is critically important to do. But how do you assess the future of all this? And what can we do to alter the future, in your judgment, in a positive way?

MACARTHUR: Well, I think it's pretty hopeless for them under the current political situation, or dynamic, as people like to say. I promised myself I would be as thorough and as honest as I could be today. And I will say one thing in favor of industrialization, since you asked me this, in the Third World, in Mexico and Central America, is that there is clearly a correlation between industrialization and a lower birth rate. And to the extent that women -- and this is not something that I like to -- that I'm promoting -- are forced into factory work, they're able to bear fewer children. And socially, there is tremendous stress being put on the traditional Latin American family, because if you look at the statistics, even though it's beginning to shift, a solid majority of workers in maquiladoras are women. I think in Mexico it's still about 57 percent. And this is completely shifting the traditional gender roles in who's the head of the household. It's breaking up families. It is lowering the birth rate, but it's also breaking up families and causing, I guess what you'd call domestic alienation, not just class and economic alienation. And this is one of the things that doesn't get talked about enough. A very brilliant British writer, John Gray, has addressed this, I think in an interesting way. But the point that he makes is that once you impose so-called free trade or industrialization or modernization -- of course, it's not -- again, it's not free trade, but it's our version of it -- on these countries, you wreck whole segments of the culture, you turn the whole place upside down.

In Mexico, what's happening is, because of factors that are not entirely within the control of economists, workers are being forced off the land. It's partly now being accelerated by the lowering of tariffs on corn, because, obviously, a little Mexican corn farmer can't compete with a Nebraska corn farmer. And they are forced to go north, to try their luck in the maquilas along the border, which, at least, pay $1 an hour. Those people can never go back. These are farmers suddenly going into factories. They can't go back to their old way of life. This is Gray's point, is that the -- it's causing a cultural revolution in these countries, a social revolution. It's not just raw -- you can't just look at it in terms of raw economic exploitation. I'd have to ask the ladies what their situation is, but it's clearly changed everything in the areas where they're building factories, and not in a good way.

DORGAN: Mr. Regalia, in this country, we have manufacturers who risk their capital and time and energies to put together a manufacturing plant to produce widgets or bicycles or shoes, for that matter. And then in the global economy, they are competing with others in other parts of the world. And the Ricardo doctrine of comparative advantage is one that deals with natural resources and other things. It doesn't deal with politics. Politics in a country in which you say, ``Our workers will not be able to organize," or politics in a country which says, ``You can have an unsafe plant" -- there's no requirement with respect to plant safety or child labor and so on -- those are political -- those are political dimensions, not with respect to the comparative advantage described by Ricardo. But you heard the testimony by the women this morning, rather, from Honduras. Are there circumstances in which the U.S. Chamber, representing producers here in this country who have to compete -- are there circumstances in which you believe there should be labor provisions in free trade agreements? And, if not, why not?

REGALIA: Well, in the first place, we have a separate group that handles international policies, so I'm not going to speak to the chamber's policy beyond which I was asked to when I was invited to this hearing. And that is to say, first and foremost, with regard to your statement on comparative advantage, we must remember Ricardo's statement was about comparative advantage and not absolute advantage. I'd be happy to explain the difference, if you would give me the 15 minutes or so, would require. Number two, when you look at trade agreements around the world, I think that the negotiated trade agreements that we have seen, the chamber has been in favor of these agreements because we believe that it raises the overall level of economic activity in both countries. In the United States, the growth rates in the economy that we have seen over the last few years are -- and really, over the last decade, have been extremely good.

We have seen more people being employed -- in different jobs, sometimes -- but more people being employed, more output being created, a higher standard of living being reached, and we believe that trade has contributed to this type of overall growth. I'm not going to sit here and say that every single industry has been helped by trade, because the fact that labor costs in certain types of assembly jobs are much cheaper dominate in some cases the labor costs here, and, therefore, makes those plants abroad more competitive. I would point out that if we're concerned about manufacturing in this country, that there are some things that we can probably affect more easily than we can in changes in laws in other countries, and they are changes in our own laws. And as I listed before, we have regulatory costs that are not founded in sound science. We have tort costs that are totally non- productive. We have a tax code that taxes U.S. companies different than their foreign competitors and therefore makes it more advantageous to be a non-U.S. company than it is a U.S. company operating in the same countries. We have health care cost that are rising, where they are not in other countries. And if we could effect some changes in these, we might be able to level the playing field for our manufacturers so that they can be even more competitive, and perhaps, if not reverse, at least retard some of the erosion we've seen in manufacturing job growth. I think that productivity is a two-edged sword. Our rapid productivity growth, both in the manufacturing sector -- and I would point out in the other sector as well -- the service sector, in fact, has seen many instances where productivity growth has been truly astounding -- financial services, for one, the information technology area, for another, which is not just in the manufacture of chips, but in the use of those computers, again, demonstrates that the U.S. economy can be competitive, if given half a chance. I think we can override some of the raw labor costs differentials between us and other areas around the world. But it makes it more difficult to do that when we level our manufacturing industry with all these other costs that we do have under our control.

DORGAN: I wish you'd explain why the U.S. Chamber of Commerce changed its position on so-called free trade 10 years ago, because this wasn't always the Chamber of Commerce's position. This is partly the result of Wal-Mart becoming the largest corporation in the United States. There're now 700 Wal-Mart stores in Mexico, and they have about 50 percent of the retail market share in Mexico now. So I wonder sometimes what the Chamber of Commerce is -- who they're speaking for.

REGALIA: We speak for 3 million businesses, they're nationwide, of every size, sector and region.

DORGAN: But this wasn't always your position. The Clinton administration had to talk, cajole the Chamber of Commerce into supporting NAFTA, they weren't so keen on it 10, 11 years ago. (CROSSTALK)

REGALIA: I really don't believe that is a fact.

DORGAN: Yes, that is a fact.

REGALIA: I don't believe that is a fact.

DORGAN: I have the letters and so on.

REGALIA: I'm sure that you have proof of that, but I don't believe that is a fact. As to the chamber's positions, our positions do evolve from time to time. I believe that the chamber's position on trade is that trade should be fair, that we have just recently released a study on China and the WTO in which we encouraged China to adhere to all the provisions. We believe that in a free trade/fair trade environment that adhering to some of the provisions is not appropriate. And if that's a change in our position, then I'm sure it's a change for the better.

DORGAN: Ms. Lea?

LEA: I wanted to actually clarify one thing about the chamber's position, which is on the question of labor rights and environmental standards in trade agreements. With respect to the Jordan agreement, I happened to be at the Senate Finance hearing where John Sweeney, president of the AFL-CIO, and Tom Donohue both testified, and I vividly remember Tom Donohue pounding his fist on the table and saying he would put the resources of the chamber to oppose the Jordan Free Trade Agreement, which took trade barriers to zero between the two countries, if the labor and environmental provisions were not stripped out of it. And I thought that was a remarkable moment, because we're always pigeonholed, labor being protectionist and business being free trade, but in this case, for the chamber to say that they would oppose a free trade agreement because it came with obligations to enforce domestic labor laws and live up to the international obligations that countries had was pretty extraordinary. And we actually see that there are some businesses now, more enlightened businesses, some of the companies that are producing in the United States, that have been more interested in saying that, ``Sure, if we're going to abide by labor standards, we want our competitors to do so as well.'' Levi Strauss and some of the companies have been a little bit more supportive of this issue. And I think that's very -- we certainly expect to see American businesses that are producing in the United States stand with us on this question and say they also don't believe it's right to compete in the global economy by violating worker's human rights, and that we ought to have international enforceable rules on that front. Otherwise, you know, both the governments of Third World countries and the companies find themselves in an impossible situation where they're just trying to get ahead, and they're trying to compete. And if we don't put rules in place that limit that kind of behavior, then we'll see what happened. And I guess I would just say one more thing about some of the points that Mr. Regalia made, that there are two different ways that the United States can choose to compete in the global economy. We can take our standards, our wages down to those of the Third World, and that seems to be the direction that we're going. We can deregulate our economy wholesale, and so on. Or we can try to figure out what it would take to lift Third World wages and standards up to our levels, and by protecting workers' rights, by strengthening democracy, by ensuring a more equitable distribution of income.

And that seems to us a much more attractive proposition both for the Third World and for the United States. And the question you asked earlier about Paul Craig Roberts and what the goals of U.S. policy should be, I think it's really important that we have clarity, that the U.S. Congress has clarity on what our objectives are, that we can do one of two things: One is increase the so-called competitiveness of American multinational companies and their profitability as they operate all over the world, and the other is to ensure that we create good jobs here at home and that we're raising the incomes and living standards of our own workers. And the free trade argument has really obscured that these are two different things, and not the same thing, because they've been sort of packaged up and sold to us as a single thing. And I just thing it's really important that you raise that issue.

DORGAN: Ms. Lea, this discussion is about jobs, which, inevitably, migrates to trade. You just talked about American multinational companies, and it is interesting to me and a source of some concern to me, that there are increasingly more companies these days who don't see themselves as American companies. They obviously operate under the umbrella of the protection of the U.S. military and all of the laws of this country. But increasingly, they see themselves as global enterprises, wishing to reincorporate wherever they might get the lowest tax rate, and decide that they want to go through a corporate inversion and incorporate in the Bahamas. I think they could then be protected by the Bahamian navy, which has, I think, 20 people. All of that bothers me a lot, because I believe that we have fought for years for a number of things in this country: A marketplace that will allow corporations to do well and make profits and create jobs, that's an important part of this economy, but in addition to that, the standards for our environment, the standards for our workers in which we talk about fair wages and environmental protection and safe workplaces. And if we can pole vault over all of that and say, ``Well, we're not Americans anymore, we're global enterprises, and we'd just like to go find 33-cent-an-hour labor and increase our profits, I'm concerned about that because I think that it does diminish the ability for us to have a vibrant manufacturing sector. And, frankly, I do not believe in the long term, we will long remain a world economic power if we have a diminished manufacturing sector. So that's why I'm concerned about this issue of jobs. And I would say, Mr. Regalia, I appreciate very much your appearing. The Chamber of Commerce is I think an excellent organization. You've got members who feel just as I do, who produce only in this country, and say to me, ``What on Earth is going on that requires me to have to compete against somebody who's going to pay 12 cents an hour? I mean, I can't compete that way and it's unfair to me." So, I mean, you know, you got a lot of interest in this country. But I would say this -- at the end of the day, the only question is whether a set of economic policies, including trade policies, represent our interest, our best interest, in improving the standard and scale of living in this country.

If it doesn't do that, then it fails in my judgment. So we need to think through here in the Congress our strategies with respect to jobs and economic expansion, especially as it relates to both businesses, because they are job creators, and workers -- who are not just tools, they are an integral part of the business that allows it to succeed -- in which both of them can be successful and see an increased standard of living, increased profits, increased wages. I'd be happy to entertain any last thoughts any of you have.

(UNKNOWN): I was going to -- if I could just ask, because I think it would be a useful thing for all of us to think about, I was going to ask somebody how really knows what he's talking about whether there is any theory as to job exporting, because we're exporting these manufacturing jobs just for cheap labor -- that's the only reason we're doing it. There is no technological or entrepreneurial advantage, necessarily, to operating in Mexico or China. And the question that always I ask of businessmen, because I do understand the labor equation very well, is whether or not this is a drag on innovation in this country, where, in a sense, if labor costs were high here, or higher, it would force American companies to innovate, to invest more in research and development? Is that a factor?

MCMILLION: Well, excellent question, and I think that's true. You know, we used to say innovate, emigrate, or evaporate. And it was sort of a choice. And people could either innovate, or they could emigrate, or of course, they could evaporate. And so, very often the companies that were, frankly, second-rate companies would go to low- wage export platforms rather than innovating. So I do think that it inhibits innovation. And it's one of the really key things that has changed. You know, when I was growing up, when I was learning, when I was teaching, trade was a very powerful, progressive force. But it really has changed. It's just not the same as it was even in the '60s and '70s. Now I'd like to ask a question, maybe of Mr. Regalia. You know, I don't think anybody else raised the question about relative versus absolute comparative advantage, but since you have, I guess my question is: What difference does that make in a global economy with so much excess capacity? And let me make it more specific -- we could ask it about the U.S., or we could ask it about Honduras, but I happen to know more about Mexico. Mexico has a deficit with China in everything including, by the way, corn and tobacco, in everything but beer, perfume and hides.

So, I guess the question is: What relative comparative advantage versus 700 million farmers in China or however many industrial workers in China -- what relative comparative advantage do you see for Honduras and Mexico?

REGALIA: Thank you very much. First of all, the comparative advantage means that within that country, the country uses its relative advantage vis-a-vis its other assets in the country to produce and then trade. And they don't have to have an absolute advantage in anything in order to benefit from trade. Now you may disagree with that theory, but that is the comparative advantage theory as David Ricardo wrote it and laid it down. And you have all talked about absolute advantage in Mexico over the U.S. or in Mexico over some other point. The point of trade and Ricardo's theory, not to get into teaching this -- which I used to -- is that if you do not have an absolute advantage in anything, but have a comparative advantage in one activity, you are better off placing your resources in that activity and then trading to reach an overall higher level of satisfaction. Now, that requires a ton of different competitive aspects in order to be true, but that is the theory of the comparative advantage. Mr. MacArthur misstated it, and you have misstated it.

MCMILLION: No, no. If you...

REGALIA: Now...

MCMILLION: No, no, no. If you...

REGALIA: Mr. Chairman, I want to thank you for inviting us to be here today. It's a very important topic. I do want to thank you because the last time I appeared before your committee ...

MACARTHUR: To follow the logic of what you just said, sir, it's an argument for raising the birth rate in Mexico; that we should have more -- since their comparative advantage is cheap labor, people should be having more babies, because...

REGALIA: No, it doesn't argue that at all...

MACARTHUR: ... that's the logic. That's the logic...

(CROSSTALK) REGALIA: And that is not the logic. I would be happy to explain to you...

MACARTHUR: ... because that's the only comparative advantage they have -- cheap labor.

REGALIA: ... I would be happy to explain it to you or to your professors where you got your Ph.D in economics. I want to thank you, Senator, for inviting me. The last time I appeared before your group it was 5 to 1. This time, it's 3 to 1. At some point in the future, I sincerely hope I'll be able to appear before you on a 1-to-1 panel and discuss issues such as this again, because I do think they're very important -- the issues of trade and U.S. growth of course are extremely important. And I certainly hope that -- as I started off my remarks today -- that the economy does continue to accelerate, that we do see the type of job growth after this economic slowdown that we did after the '90 and '91 period. And if we do, I'm sure we'll have the opportunity to discuss these issues again. Thank you very much.

DORGAN: Mr. Regalia, first of all, thank you for accepting our invitation to come. And we all share the hope that this economy expands, that our workers are able to earn more and that our businesses are able to profit more; we all agree with that. I must tell you, however, that when I read of companies that close their doors in search of 33-cent labor on other parts of the globe, I wonder how successful we will be, because I worry that this is a race to the bottom, especially with respect to the manufacturing sector. But I will invite you again, and perhaps, next time, it'll be two or one, or I'll invite some of your colleagues, as well.

REGALIA: Thank you, sir.

DORGAN: And I'll invite some of your colleagues in the chamber who perhaps have a different view of trade, as well. But let me say this. Today, I think this has been a really interesting and useful discussion. I was supposed to with my colleague, Senator Kyl, give a presentation to the interns on Capitol Hill at 12 o'clock, so I'm running a little bit late, but it's actually in 106, just down the hallway in this very building. But I did want to continue this discussion so that we could have a full and interesting discussion. And I very much appreciate all four of you testifying, with different perspectives on, I think, a really important issue. Jobs are important, really important, with respect to this country's future. And I want to say to our witnesses from Honduras that I wish you well. I thank you very much for coming to our country to tell your story. And I believe the only way things will change with respect to your working conditions, if there are people like you -- courageous enough to stand up and speak out. I know it takes great courage to do that, but I think those who follow you in your country will benefit from the work you do. Anyway, thank you very much. And this hearing is adjourned.