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## Hearing on Trade and Globalization
## House Ways and Means Committee
## January 30, 2007

On behalf of Public Citizen's 200,000 members, I thank the Ways and Means Committee for the opportunity to share my organization's views on the current state of trade and globalization policy. Public Citizen is a nonprofit citizen research, lobbying and litigation group based in Washington, D.C. Public Citizen, founded in 1971, accepts no government or corporate funds. Global Trade Watch is the division of Public Citizen founded in 1995 that focuses on government and corporate accountability in the globalization and trade arena.

In announcing this hearing, Chairman Rangel said the hoped to gain "a better understanding of the winners and losers under our current trade policy" and to look for ways that Congress can "be an active partner with the Administration in shaping trade policy to strengthen economic opportunities for American workers, farmers and businesses." Public Citizen applauds the endeavor to make the benefits from trade more widely shared. The search for a trade policy-making process that better reflects the checks and balances America's Founders created regarding trade policy is a necessary first step.

Since Fast Track was first introduced in 1974 by then-President Richard Nixon, many of the worst U.S. trade agreements, including the North American Free Trade Agreement (NAFTA) and the Uruguay Round of the General Agreement on Tariffs and Trade establishing the World Trade Organization (WTO) have been negotiated using Fast Track. **Before Fast Track we had balanced trade and rising living standards; since then the U.S. trade deficit has exploded as imports surged.** In fact, in 1973, the United States had a small trade surplus, as it had in nearly every year since World War II. But in every year under Fast Track save one, the United States has run a trade deficit.

**The average American worker is only making a nickel more per hour in inflation-adjusted terms than in 1973, the year before Nixon's Fast Track was first used to grab Congress' constitutional trade authority.** Better trade policy can do better for America's workers than this pathetic 0.28 percent raise. Were it not for trade agreements that pit U.S. workers in a race-to-the-bottom with poverty-wage workers worldwide, U.S. workers' wages would better track productivity increases, and workers in developing countries could fight to raise their wages also.

We need a new mechanism for negotiating trade agreements that puts a steering wheel – and when necessary, brakes – on our trade negotiators so that Congress and the public are back in the driver's seat. Only by replacing the unbalanced, outdated Fast Track trade authority delegation system can we can chart a new course on trade that can harness trade's benefits for the majority.

How have we gotten into this mess? While the U.S. Constitution gives Congress exclusive authority to "regulate commerce with foreign nations" (Article I-8), Fast Track delegates away to the Executive Branch Congress' constitutional authority to control the contents of U.S. trade agreements, as well as other important powers. This means the branch of government closest to the people has been ejected from the driver's seat of our trade policy.

Fast Track's structural design ensures Congress cannot hold Executive Branch negotiators accountable to meet the negotiating objectives Congress sets in Fast Track legislation. Thus, simply adding new negotiating objectives to the existing Fast Track structure, for instance regarding labor and environmental issues, will not result in trade agreements that reflect Congress' goals and objectives. In fact, the 1988 Fast Track used to negotiate and pass NAFTA and WTO explicitly required that labor rights be included in U.S. trade agreements. President George Herbert Walker Bush and his negotiators simply ignored these objectives, while satisfying the negotiating objectives desired by their business supporters. Under Fast Track, the Bush administration was empowered to sign such agreements despite failing to meet Congress' labor rights objectives and submit them for a no-amendments, expedited vote. Members of Congress were thus forced into a position of having to vote against these entire agreements, having no earlier recourse to ensure the agreements met the objectives necessary to make them supportable.

This is because Fast Track ensures that Congress' role is performed *too late* to do any good: Congress only gets a "yes" or "no" vote on a trade agreement *after* it's been signed and "entered into." That vote also ok's hundreds of changes to wide swaths of U.S. non-trade law to conform our policies to what the "trade" deals require. By eliminating Congress' right to approve an agreement's contents *before* it is signed, Fast Track also allows outrageous provisions to be "super glued" onto actual trade provisions. Did the U.S. Congress really intend to extend U.S. drug patent terms from the pre-WTO 17-year terms to the WTO-required 20-year terms? This requirement was tucked into the WTO's Trade Related Intellectual Property provisions. The University of Minnesota School of Pharmacy found that the WTO's windfall patent extensions cost U.S. consumers at least $6 billion in higher drug prices and increased Medicare and Medicaid costs nearly $1.5 billion just for drugs then under patent.[1] Because under Fast Track, Congress never had the ability to review, much less vote on the WTO text before it was signed, this and numerous other outrageous non-trade policy changes were bundled in with legitimate trade provisions.

Federalism is also flattened by Fast Track. In a form of international pre-emption, state officials also must conform our local laws to hundreds of pages of non-trade domestic policy restrictions in these "trade" pacts, yet state officials do not even get Congress' cursory role. Fast Track is how we got stuck with NAFTA, WTO and other race-to-the-bottom deals.

Fast Track trashes the "checks and balances" that are essential to our democracy – handcuffing Congress, state officials and the public so we cannot hold U.S. negotiators accountable during trade negotiations while corporate lobbyists call the shots. In one lump sum, Fast Track:

- Delegates away Congress' ability to veto the choice of countries with which to launch negotiations;

- Delegates away Congress' constitutional authority to *set the substantive rules* for international commerce. Congress lists "negotiating objectives," but these are not mandatory or enforceable and Executive Branch negotiators regularly ignore them. In fact, the 1988 Fast Track used for NAFTA and WTO explicitly required that labor rights be included in U.S. trade agreements.

- Fast Track permits the Executive Branch to sign trade agreements *before* Congress votes on them, locking down the text and creating a false sense of crisis regarding congressional wishes to change provisions of a signed agreement.

- Fast Track empowers the Executive Branch to write legislation (Congress' constitutional role), circumvent normal congressional committee review, suspend Senate cloture and other procedures, and have guaranteed "privileged" House and Senate floor votes 90 days after the President usurps one more congressional role by submitting legislation (Congress' role).

- Fast Track rules forbids all amendments and permits only 20 hours of debate on the signed deal and conforming changes to U.S. law.

All of these authorities are transferred to the Executive Branch conditioned only on the requirement the Executive Branch gives Congress 90-day notice of its intent to start negotiations with a country and then another 90-day notice before it signs a completed agreement. Congress has no recourse to revoke its delegation of authority if the Executive Branch ignores the negotiating objectives Congress lists in its Fast Track statutes. The closed rule, expedited procedures for consideration can only be revoked for failure to go through specific notices and formal consultations, while failure to listen is not actionable.

The result has been retrograde trade agreements that are devastating the U.S. middle class while increasing poverty and instability overseas.

**Fast Track's Legacy: U.S. Wages Stagnate as Trade Deficits Soar, Displacing Good U.S. Jobs**

**The average American worker is only making a nickel more per hour in inflation-adjusted terms than in 1973, the year before Nixon's Fast Track was first used to grab Congress' constitutional trade authority.** In 1973, the average U.S. worker made $16.06 hourly in today's dollars. That same worker only makes $16.11 today despite U.S. workers' average productivity nearly doubling since 1973.[2] Better trade policy can do better for America's workers than this pathetic 0.28 percent raise. Were it not for trade agreements that pit U.S. workers in a race-to-the-bottom with poverty-wage workers worldwide, U.S. workers' wages would better track productivity increases, and workers in developing countries could fight to raise their wages also.

**Our Fast Track-enabled trade policy is suppressing U.S. wage levels**. Trade's downward pressure on U.S. wages comes from both the import of cheaper goods made by poorly-paid workers abroad (displacing the market for goods made by better paid U.S. workers) and the threats during wage bargaining of corporations moving overseas. The result is growing inequality with workers losing while the richest few make massive gains.

The pro-Fast Track Peterson Institute for International Economics estimates that about 39 percent of the observed increase in wage inequality is attributable to trade trends.[3] But, such proponents of our current trade rules also cite trade theory to say that even so, U.S. workers win when imports increase because when production is done by low-paid workers overseas, we all can buy cheaper goods. Yet, the non-partisan Center for Economic and Policy Research applied the actual data to the trade theory. They found that when you consider the lower prices of cheaper goods versus the income lost from low-wage competition, U.S. workers without college degrees (the vast majority of us) lost an amount equal to 12.2 percent of their current wages. That is to say, under our current policy the losses in wages from trade outweigh the gains in cheaper prices from trade. For a worker earning $25,000 a year, this loss would be slightly more than $3,000 per year![4] Talk about unfair trade.

**Before Fast Track we had balanced trade and rising living standards; since then the U.S. trade deficit has exploded as imports surged.** In fact, in 1973, the United States had a slight trade surplus, as it had in nearly every year since World War II. But in every year since 1974 save one, the United States has run a trade deficit. Since Fast Track paved the way for NAFTA and the WTO, the U.S. trade deficit surged from under $100 billion to $800 billion or six percent of national income.[5] This is a trade deficit widely agreed to be unsustainable, exposing the U.S. and global economy to risk of crisis, shock and instability.

Unbelievably, the United States is also becoming a net *food* importer. While American farmers were told by NAFTA-WTO supporters that they will be "breadbasket to the world," the amount of food imports beat out exports in August 2006.[6] Meanwhile, hundreds of thousands of U.S. farms are shuttered due to careless trade pacts.

**Over 3 million American manufacturing jobs – 1 in out of every 6 manufacturing jobs – have been lost during the Fast Track era.** The U.S. manufacturing sector has long been a source of innovation, productivity growth and good jobs – especially for the nearly 70 percent of Americans without a college degree.[7] But by the end of 2006, the United States had only 14 million manufacturing jobs left – nearly 3 million down from our pre-NAFTA-WTO level.[8]

**Job off-shoring is moving rapidly up the income and skills ladder.** Economy.Com estimates that nearly 1 million U.S. jobs have been lost to off-shoring since early 2001 alone, with 1 in 6 of those in Information Technology, engineering, financial services and other business services.[9] The Progressive Policy Institute, a think-tank associated with the pro-NAFTA-WTO faction of the Democratic Party, found that 12 million information-based U.S. jobs – 54 percent paying better than the median wage – are highly susceptible to off-shoring.[10] Independent academic studies put the number of jobs susceptible to off-shoring much higher. Alan S. Blinder, a former Fed vice-chairman, Princeton economics professor and NAFTA-WTO supporter, says that 28 to 42 million service sector jobs (or about 2 to 3 times the total number of current U.S. manufacturing jobs) could be off-shored in the foreseeable future.[11] Yet, if we even implemented the same policies Europe now uses that halt off-shoring of such jobs if our private health and financial data might be compromised, we could have the lower off-shoring rates of also wealthy Europe.

## Fast Track's Legacy: Increased Income Inequality in the U.S. and worldwide

**U.S. economic inequality is at astronomical levels not seen since the Robber Baron era.** The richest 10 percent of Americans are taking nearly half of the economic pie, while an even more elite group – the top one percent of the income distribution – is taking nearly a sixth of the pie.[12] As noted, nearly all economists agree that our trade policy has partially driven this widening inequality.

**American families are now less able to improve their own lot, as trade policy shifts during the Fast Track era have had a direct impact on American workers' ability to bargain for higher real wages.** How could it come to pass that American workers' wages stayed flat while our productivity doubled? Where did all those gains go? In the past, American workers represented by unions were able to share in these gains. But since the Fast Track-enabled NAFTA and WTO went into effect, as many as 62 percent of U.S. union drives face employer threats to relocate abroad, according to U.S. government-commissioned studies. The "trade" agreements include special "foreign investor" privileges for corporations that move out of the United States and indeed, the factory shut-down rate following successful union certifications tripled since NAFTA went into effect.[13] The Fast Track-hatched trade agreements' attack on America's working families' ability to lift themselves up has led increasing numbers to turn against *any* active expansion of international trade.[14]

**The worldwide gulf between rich and poor has also widened since Fast Track**. At the time that Congress approved implementing legislation to join NAFTA and the WTO, we heard a lot of hype about how these Fast Tracked trade agreements would reduce poverty in the developing countries. Yet, the reality is that the corporate globalization era policies enabled by Fast Track have increased income inequality between developed and developing countries. Income inequality has also increased between rich and poor within many nations under these retrograde trade agreements. According to one United Nations study, the richest 5 percent of the world's people receive 114 times the income of the poorest 5 percent, and the richest 1 percent receives as much as the poorest 57 percent.[15] According to another, "in almost all developing countries that have undertaken rapid trade liberalization, wage inequality has increased, most often in the context of declining industrial employment of unskilled workers and large absolute falls in their real wages, on the order of 20-30 percent in Latin American countries."[16] This trend is widening over time. In 1960, the 20 richest nations earned per capita incomes 16 times greater than non-oil producing, less developed countries. By 1999, the richest countries earned incomes 35 times higher, signifying a doubling of the income inequality.[17]

## Fast Track's Legacy: Stagnant Growth, Poverty and Hunger in Poor Countries

**Progress on growth and social development in poor countries has slowed during the Fast Track era.** Increasing economic growth rates mean a faster expanding economic pie. With more pie to go around, the middle class and the poor have an opportunity to gain without having to "take" from the rich – often a violent and disruptive process. But the growth rates of developing nations slowed dramatically in the Fast Track period. For low- and middle-income nations, per capita growth between 1980 and 2000 fell to half that experienced between 1960 and 1980! The slowdown in Latin America was particularly harmful. Their income per person grew by 75 percent in the 1960-80 period, before the International Monetary Fund began imposing the same package of economic, investment, and trade policies found in NAFTA and the WTO. Since adopting the policies, per capita income growth plunged to 6 percent in the 1980-2000 period. Even when taking into account the longer 1980-2005 period, there is no single 25-year window in the history of the continent that was worse in terms of rate of income gains. In other world regions, growth also slowed dramatically, while in Sub-Saharan Africa, income per person actually shrank 15 percent after the nations adopted the policy package also required under the WTO and NAFTA![18] Improvement measured by human indicators – in particular life expectancy, child mortality, and schooling outcomes – also slowed for nearly all countries in the Fast Track period as compared with 1960-80.[19]

**Poverty, hunger and displacement are on the rise.** The share of the population living on less than $2 a day in Latin America and the Caribbean rose following the implementation of the Fast Track-enabled NAFTA and WTO, while the share of people living on $1 a day (the World Bank's definition of extreme poverty) in the world's poorest regions, including Sub-Saharan Africa and the Middle East, has increased during the same period.[20] According to the Food and Agriculture Organization, "Since the [1990] baseline period, progress [toward reducing hunger] has slowed significantly in Asia and stalled completely worldwide."[21] From Mexico[22] to China[23] and beyond, the displaced rural poor in the Fast Track era have had little choice but to immigrate or join swelling urban workforces where the oversupply of labor suppresses wages, exacerbating the politically and socially destabilizing crisis of chronic under- and unemployment in the developing world's cities that fuel instability. Many who have not fled rural areas are no longer with us. According to the Indian government, tens of thousands of farmers bankrupted by trade policies commit suicide, leaving their children and families without alternate means of support.[24]

**Developing countries that did not adopt the package fared better.** In sharp contrast, nations like China, India, Malaysia, Vietnam, Chile – and Argentina since 2002 – which chose their own economic mechanisms and policies through which to integrate into the world economy, had more economic success. These countries had some of the highest growth rates in the developing world over the past two decades – despite ignoring the directives of the WTO, IMF or World Bank.[25] It is often claimed that the successful growth record of countries like Chile was based on the pursuit of NAFTA-WTO-like policies. Nothing could be farther from the truth: Chile's sustained rapid economic growth was based on the liberal use of export promotion policies and subsidies that are now considered WTO-illegal.[26]

## Conclusion: Replace the Past Track with a good process to get good trade agreements

Fast Track was designed 30 years ago as a way to deal with traditional tariff and quota-focused trade deals. Today's "trade" agreements affect a broad range of domestic non-trade issues like local prevailing wage laws, Buy-America procurement policy, anti-off-shoring measures, food safety, land use and zoning, the environment and even local tax laws. Congress, state officials and the public need a new modern procedure for developing U.S. trade policy that is appropriate to the reality of 21st century globalization agreements.

Critical to such a new system is restoring Congress ability to control the contents of U.S. trade agreements, as well as empowering Congress to decide with which countries it is in our national interest to negotiate new agreements. Because the Constitution grants the Executive Branch the exclusive authority to negotiate on behalf of the United States with foreign sovereigns, a system of cooperation between the Congress and Executive Branch is needed. However, in contrast to Fast Track, which by its very structural design sidelines Congress, a new trade negotiating mechanism must provide early and regular opportunities for Congress to hold negotiators accountable to the substantive objectives Congress sets.

This is needed to ensure future pacts contain terms beneficial to most Americans. With a new forward-looking trade negotiating process, we can ensure U.S. trade expansion policy meets the needs of America's working families, farmers and small businesses.

## ENDNOTES


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