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Before the House Committee on Foreign Affairs

"Job Creation Made Easy: The Colombia, Panama, and South Korea Free Trade Agreements"

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Good morning, Chairman Ros-Lehtinen and Ranking Member Berman, Members of the Committee. Thank you for the opportunity to testify today on behalf of the twelve and a half million working men and women of the AFL-CIO on the three pending trade agreements with Colombia, Panama, and South Korea.

Job creation is the number one priority for the AFL-CIO right now – and it is likely to remain so for the foreseeable future.

Current unemployment and underemployment rates (over 9 and 16 percent, respectively) represent a tragic waste of human potential, as well as devastating economic inefficiency and lost output for the economy overall. The consequences of high unemployment will scar our country for years to come: Research shows that the lifelong trajectory of earnings and well-being for workers out of work for longer than six months is permanently reduced – as are lifetime earnings for the children of the long-term unemployed.[1] And of course, the impact is far greater in some demographic groups, sectors, and regions.

So it would be welcome news indeed if a simple solution to job creation were available. Increasing net exports – that is, increasing our exports by more than our imports – is one potential avenue for job creation, especially since the United States is currently running enormous chronic trade deficits (our goods and services trade deficit was about $500 billion last year, and it is running about 13 percent higher in the first seven months of this year). Each billion dollars' worth of improvement in our trade balance can potentially generate about 8,000 jobs, according to the Commerce Department, so the potential for closing the trade deficit by increasing exports or reducing imports is substantial.

Many politicians and business organizations have claimed that passing the three pending trade agreements would generate tens of thousands, if not hundreds of thousands, of new jobs. Unfortunately, most of these estimates are based on faulty premises and an ahistorical reading of past trade agreements.

[1] Lawrence Mishel and Heidi Shierholz, "Sustained, High Joblessness Causes Lasting Damage to Wages, Benefits, Income, and Wealth." Economic Policy Institute Briefing Paper #324, August 31, 2011. John Irons, "Economic scarring: The long-term impacts of the recession." EPI, September 30, 2009.

First of all, in terms of basic economic theory, signing a free trade agreement would be expected to increase efficiency, but not in general to generate net new jobs. Nobel laureate Paul Krugman has stated unequivocally that free trade agreements are likely to increase both imports and exports in roughly proportional amounts: "If you want a trade policy that helps employment, it has to be a policy that induces other countries to run bigger deficits or smaller surpluses. A countervailing duty on Chinese exports would be job-creating; a deal with South Korea, not. If you want the Korea deal, fine; but don't claim virtues for it that it doesn't possess."[2]

Second, the U.S. historical experience with so-called free trade agreements has been mixed at best. Politicians and business lobbyists have long touted the tremendous job-generating potential of virtually every trade agreement that has been proposed during the last couple of decades. Trade barriers have come down dramatically, both through multilateral deals, such as the Uruguay Round of the World Trade Organization (WTO), and a series of bilateral and regional deals, as well as a proliferation of unilateral preference programs. During that same period, China joined the WTO, and bilateral U.S.-China trade exploded.

Yet during this same period, we have run consistently high trade deficits; we have lost millions of manufacturing jobs, many of them offshored by our former employers; inequality and poverty have grown; and real wages have stagnated or fallen.

Our current generation of trade agreements has done more to secure rights, protections, and higher profits for multinational corporations than to create good jobs and strong communities for American workers and small businesses. The last thing we should do, as our economy struggles to emerge from a deep recession, is to implement more flawed trade agreements that will jeopardize more U.S. jobs.

The current debate over the pending trade agreements with S. Korea, Colombia, and Panama echoes past debates over NAFTA, CAFTA, and permanent normal trade relations with China, among others. In each case, the estimates of job creation by the U.S. International Trade Commission (ITC) and other academic experts have been wildly inaccurate – often with the wrong sign (i.e. predicting job gain or improvements in the trade balance, when the opposite occurred).

Gary Hufbauer and Jeffrey Schott of the Institute for International Economics, in one of the most widely cited pro-NAFTA studies, predicted the United States would run a trade surplus with Mexico of $7 billion to $9 billion by 1995, possibly rising to $12 billion annually by the following decade. This surplus would "ensure the net creation of about 170,000 jobs in the U.S. economy," they wrote in 1993.[3] The Hufbauer-Schott job estimate was widely cited by the Clinton administration, members of Congress, the business lobby, and most media outlets.

The actual outcome has been exactly the opposite. The small trade surplus the United States ran with Mexico in 1993 shrank in 1994, months after NAFTA's implementation, and then ballooned into a large deficit in succeeding years.

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[2] Paul Krugman, "Trade Does Not Equal Jobs," New York Times blog, Conscience of a Liberal, December 6, 2010.
[3] Gary Hufbauer and Jeffrey Schott, *NAFTA: An Assessment*, 1993, p. 15.

A few years later, Hufbauer told the *Wall Street Journal*, “The lesson for me is to stay away from job forecasting.”[4] Julius Katz, former deputy U.S. trade representative under the first Bush Administration and one of NAFTA.s chief negotiators, admitted the Bush Administration used “totally phony [job] numbers, only because NAFTA’s opponents were claiming that NAFTA would be a job loser.”[5]

The ITC also has a terrible record with respect to predicting job outcomes associated with trade deals. On NAFTA, an ITC study by Brown, Deardorff and Stern predicted that the two sectors with the largest income gain from NAFTA (a proxy for jobs in that particular model) would be apparel and consumer electronics. The rationale was that U.S. tariffs were much lower than Mexican tariffs in those sectors, so removing the tariffs would lead to more U.S. net exports to Mexico. As it turned out, apparel and electronics were the two sectors with the largest and fastest job losses.

What the ITC missed in that particular instance was the dynamic of investment patterns that had the potential to overwhelm small tariff changes. U.S. companies had no intention of exporting more apparel and electronics products to Mexico, even with lower tariffs. But they were interested in moving factories. The model also missed the peso devaluation, which was easy to foresee. It is not clear that the ITC has been able to incorporate any of these changes into its current economic forecasting models.

The ITC was just as far off the mark with respect to China’s entry into the WTO. The ITC predicted in 1999 that after WTO accession, the U.S. trade deficit with China would grow very slightly – by $586 million, but that our overall trade imbalance would improve somewhat. Instead, our trade deficit with China grew from about $84 billion prior to WTO accession to about $273 billion last year. And of course, our overall trade deficit grew as well.

Of course, the world is a complicated place, and trade flows and job creation are impacted by many more factors than trade agreements – like relative growth and inflation and productivity rates, and investment strategy, and currency movements. But that is our point precisely.

As the Congress prepares to take an important vote on the trade agreements with South Korea, Colombia, and Panama, it is crucial that we all understand just how little we know about the likely job impacts of these deals. We certainly should not treat the economic models as providing factual predictions of a relatively certain future outcome. The track record of these models does not generate any confidence, and should be treated with healthy skepticism, not reverence.

In the case of South Korea, it is our judgment that the proposed FTA puts at risk tens of thousands of U.S. jobs, mainly in the manufacturing sector. The trade agreement lowers trade barriers in both countries, but in our view, Korean companies and the Korean government are more likely to take advantage of the lower tariffs to increase Korean market share in the United States than are U.S. companies to do the same in Korea. Our negotiators have never been able to successfully address the myriad of non-tariff barriers blocking U.S. access to the Korean domestic market, and it is not

[4] “Free Trade is Headed for More Debate,” *WSJ*, 4/17/95.
[5] “NAFTA is Key to Mexico’s Rescue of Peso,” *WSJ*, 1/4/95.

clear that this agreement changes that basic reality. Furthermore, our negotiators did not build in any safeguards with respect to currency manipulation, even though this has been a problem in U.S.-Korean trade in the past. And the agreement contains unacceptably weak rule of origin provisions and does too little to protect core workers' rights in both countries.

We certainly appreciate the improvements in auto market access that the Obama Administration was able to secure in the recent renegotiation, but there are many other industrial sectors that are not impacted by these changes.

The Colombia and Panama agreements raise other serious issues, namely with respect to grave human rights violations and violence in Colombia, and workers' rights and tax haven issues in Panama. The likely net job impact of these two agreements is quite small in any case.

The AFL-CIO respectfully disagrees that the three pending trade agreements will generate net new jobs in the United States, and we strongly oppose the ratification of all three of them.

However, we do believe that reforming our trade policy in other ways could potentially contribute positively to job creation, both in the short and long run.

Going forward, we hope that Congress and the Administration will take a close look at the trade agreement "template" and revise the content of future trade agreements to strengthen labor and environmental protections; and reform the investment, services, government procurement, and intellectual property provisions. We need to take more care with the rule of origin to ensure that the benefits of the trade deals go directly to the partners in the deal, not third countries. We also need a different set of criteria in choosing trade agreement partners.

The single most important job-supporting trade measure that the Congress and the Administration can take is to address the Chinese government's manipulation of its currency. We support the bipartisan Currency Exchange Rate Oversight Reform Act of 2011, recently introduced by Senators Sherrod Brown (D-OH), Charles Schumer (D-NY), Lindsey Graham (R-SC), Olympia Snowe (R-ME), Debbie Stabenow (D-MI), Jeff Sessions (R-AL), Robert Casey (D-PA), and Richard Burr (R-NC). This bill will ensure that the United States government has the legal tools it needs to counter illegal and job-destroying currency misalignment. Leveling the playing field by enforcing our trade laws is a quick bipartisan remedy that will create jobs at no cost to taxpayers.

We support efforts to promote and support both domestic manufacturing and exports, along the lines of the bill that Congressman Berman has put forward. Much more needs to be done, though, to reform our tax policy to remove incentives to offshore production, and to better enforce our trade laws to protect domestic workers and businesses against unfair trade practices.

And if the United States is going to succeed in global markets in the 21st century, we cannot continue to scrimp on infrastructure, training, and education. We need to get beyond the short-sighted obsession with the budget deficit and invest in our future, if we want to be successful in global markets going forward.

I thank you for your attention, and I look forward to your questions.

United States House of Representatives
Committee on Foreign Affairs

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Thea Lee	AFL-CIO
3. Date of Committee hearing:	
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4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	**5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?**
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Thea Lee	

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