



# Event Transcript

Event Name: Trade and the Race for the White House

Date: March 27, 2008

Location: National Press Club Washington, DC

Opening Remarks: Tom Giovanetti, President, IPI

Panel One: Trade Negotiations, Where We Are Today

Participants:

Susan K. Finston, IPI Adjunct Fellow

Sidney Weintraub, William E. Eimon Chair in Political Economy Center  
for Strategic and International Studies (CSIS)

George A. Pieler, IPI Senior Fellow

Panel Two: Where the Candidates Stand on Trade (**begins on pg 13**)

Participants:

Dr. Doug Holtz-Eakin, Ph.D, Senior Policy Advisor,  
John McCain Campaign

Daniel K. Tarullo, Senior Advisor, Barack Obama Campaign

Gary Gensler, Senior Advisor, Hillary Clinton Presidential Campaign

Merrill Matthews, Ph.D., Resident Scholar, IPI

*Tom Giovanetti:*

Good morning. We appreciate everyone coming this morning to our event on trade and the race to the White House. My name is Tom Giovanetti. I'm the President of the Institute for Policy Innovation. We're happy to host such a large crowd on this event. It's sort of like church on Easter Sunday here this morning, unlike most policy events. So, we've asked for more chairs. We're going to have a very full house. If there happens to be an empty chair in the middle of a row, if people could scoot in, that would be very helpful. Again, that sounds more like something they would say at church than at a policy event, but we're pleased that you're all here.

I should also mention that about a month from today, on April 24<sup>th</sup>, we'll be doing another event on World and Electrical Property Day, which will obviously also cover a number of trade-related topics. There's information about that event in your packet. I hope that many of you will join us on that day as well.

For some time, we've had a general consensus in this country that trade is a good thing for the country. That consensus has been based on a number of assumptions. One is the sort of classical Adam Smith free trade argument about comparative advantage, that different nations have different comparative advantages and as long as each nation is able to exploit its comparative advantage, that results in a net benefit to all countries involved. Another rationale for free trade has been the idea that trade introduces much needed competition between economies and that ongoing competition between economies facilitates a sort of an ongoing process of creative destruction that is necessary to keep economies on their toes and to keep them constantly adapting. At least this has been the consensus for the last couple of decades in this country. Today, though, the consensus seems to be collapsing. And, you'll hear more about that from our first panel.

But, in particular during the presidential campaign, trade became an issue, particularly in Ohio and some of the other states. And, we heard some very interesting comments on the topic of trade. We heard people calling for renegotiating NAFTA. We heard people – one candidate was quoted as saying that she's not quite sure that the comparative advantage theory works anymore in the 21<sup>st</sup> century. So, trade has become not only a compelling issue on its own right, but particularly in light of the presidential election. So, we thought it would be a good idea to host this event where we could hear from the campaigns in more detail, with the heat of the moment passed, with the heat of a primary passed, so we can get a better feel for the philosophy and the approach that the different campaigns will have toward free trade.

Our first panel is comprised of experts on trade, think-tank types, who will talk a little bit about the current situation related to trade and then the worm on the end of the hook that we used to get you all here will be the second panel, which are the campaigns themselves. There will be time for questions and discussion at the end of each panel. So, we hope that will be very vigorous and interesting. And, with that, I'll turn it over to Susan Finston, the senior research fellow with the Institute for Policy Innovation, to lead the first panel. Susan?

#### **(PANEL ONE)**

*Susan Finston:*

I think Tom just promoted me from adjunct to senior, which is very flattering of him. It is interesting. The US is not Switzerland. We don't think of ourselves as a state that depends on trade, you know, for our bread and butter. On the other hand, according to statistics issued by the US Trade Representatives' Office, the data that the US government collects on imports and exports, 40% of our economic growth last year is directly

attributable to trade. Which means that increasingly, it's an important and growing part of our GDP. And, even though it seems frequently like it's the tail and not the dog, when it's now approaching fully 12% of our national product, then of course we understand why it's so important and it's so important to the place of the US in the world and as USTR Ambassador Susan Schwab has said, it's important to US companies who are trying to reach the other 95% of their potential customers who lay beyond the borders of the US. So, we're still not Switzerland, but we're certainly moving in that direction and that's why I think it's so important to know how the candidates for the Office of US President are going to maintain US competitiveness in the global economy. The economy's only becoming more global and it's only going to become more important for the United States.

So, because we have such a varied group coming today and we really appreciate seeing so many old friends and also newcomers to IPI events, we thought it would be helpful to talk very briefly, I promise less than five minutes, on the building blocks of US trade relations and our engagement in the world economy. And, essentially, we have two main ways in which we engage in the world economy. The first is multilateral. And, right now, that's through the World Trade Organization that the US signed onto as a charter member in 1994 and is now up to over 150 member states and that includes really rigorous levels of transparency and engagement in norms of world trade. And, the second is through bilateral and regional free trade agreements. And, I think the logic is something like in the multilateral arena, imagine trying to get 150 of anything to agree on one objective. And, if the US has concerns about labor or environment or other domestic issues and we can talk bilaterally with individual countries or small groups of countries, as is NAFTA with Canada and Mexico, where we share specific domestic concerns on border control or regional security, then maybe we can develop those norms in smaller agreement and in bilateral agreements and then we can ultimately take them to the WTO. And, in fact, that was how NAFTA is so similar to the World Trade Organization norms in a number of areas. We saw that Canada and Mexico agree to enter NAFTA with the US prior to the success in the WTO Uruguay Round that actually started the World Trade Organization and then those norms became foundational in the WTO.

Other successful free trade agreements we've had for a long time include the FTA with Israel and more recently USTR and other US agencies developed a much more rigorous and systematic program, first with Chile and then with Jordan, which has been enormously successful for both Jordan and the US and is also viewed essentially as a security success, because it's led to more stability in that part of the world, and then in Singapore and a slew of other countries.

But, we've gotten hung up now. We've kind of gotten stuck in the mud. You can say that we were overly ambitious. We started talking about free trade agreements with countries where maybe unilateral preferences were more still appropriate. And, you could say, "Why were we talking to South Africa, and the four least developed in Africa, to try to get them to adopt FTA norms?" That didn't work. Maybe it wasn't going to work. Maybe the same is true of countries like Thailand and Malaysia. Maybe they don't want to sign up to those really rigorous things and we really should focus on implementation at the multilateral level of things they've already done.

But, a couple things aren't speculative. The first is that the US no longer has current authority to either initiate, conclude, or legislatively pass free trade agreements. That used to be called Fast Track Authority and it was provided to the Executive Branch to submit agreements for a thumbs up or a thumbs down by Congress. And, that led to, of course, extensive consultations in the negotiating process, so there would be no surprises. And, later, that was turned into something called Trade Preference Authority or

TPA. But, whether you call it Fast Track or TPA, it doesn't exist right now. It has expired. And, there really isn't seem to be any prognosis for having it in place this year unless there's a major breakthrough multilaterally that would lead Congress to believe that they should rush it through. But, I don't think anyone's talking right now about re-passing Fast Track.

And, second, as Tom alluded, there are now fundamental disagreements about the nature of what US trade relations should be, where is the comparative advantage, what kind of agreements should we be pursuing, should we focus on multilateral or bilateral, are we looking at markets that are meaningful? I heard John McCain say yesterday in an important speech, "Why aren't we talking to the European Union about free trade? Why aren't we talking to Japan?" Those are really important markets to us and we have been focusing a lot of bilateral efforts on a lot of smaller markets, which I think have been good building blocks. But, frankly, where there'd be tremendous interest from industry if it were politically and economically feasible, to look at larger markets. And, when we try with Korea, we've also had complaints from a number of policy makers that maybe there isn't enough in it. So, in the one hand, some markets are too small. On the other hand, when you deal with a more important trade partner like Korea, it gets very difficult to reach meaningful agreements.

So, that takes us to where we are. And, I'd like to then hand it over to our first speaker, Dr. Sidney Weintraub, who holds the William Simon Chair in Political Economy, and really is truly one of the leading experts. I mean, frequently, wherever you go they'll say that because that's the guy they happened to get. But, our get is a really great get. And, I feel very, very fortunate that we have Dr. Sidney Weintraub from CSIS to talk about the North America Free Trade Agreement. He has forgotten more about NAFTA than I will ever know. And, so I want to give him his full time to talk about the NAFTA and what it's impact has been on the US, Canada, and Mexico. Thank you very much.

*Sidney Weintraub:*

Thank you very much. They've given me ten minutes. So, I'll either speak fast or just sketch in things that I want to get to. I'm going to note the positions of Senators Obama, Clinton, and McCain. I'll come back to it a little later. I've got a note from what I've seen in their speeches and their talks. They'll come on later and give you all of the refinements and just exactly what it is. So, I'm not going to get too precise, except where I can quote them very exactly as to what they said.

Let me make one other point. They obviously have concluded that public opinion is in favor of more protection. And, the polls show that public opinion is in favor of more protection. As an aside, it probably was when Smoot-Hawley was passed as well, but I'm not sure that politics is really enough. And, that's the point I want to get to.

And, let me make one other point at the beginning. Like most economics, I – there was a poll not too long ago, about 90% of economics favor open markets. Others may not. I do and I fit into the mainstream of my profession in that field. And, two, as a point of omission, I was an early supporter of NAFTA. I actually wrote on North American, US-Mexico free trade, in the early 80's. So, sort of arguing that Mexico was going to have to come to that position at some point despite the distance they were keeping from the US. I'm sure a lot of you don't remember that period, but that's what it was.

To lay out my ideas a lot more fully, once a month I write a commentary on whatever suits my fancy that month. And, this last month, before I was invited to this, I wrote one on dealing with our neighbors. And, I didn't bring enough of them. But, what's in there will help a little bit and I won't have to repeat all the arguments that are in there.

Let me make a few points that make sure you have the facts in mind. Canada is by far

our biggest market in the world. Canada is a big place and I'll come back to that in greater detail. Mexico is our second largest export market in the world. So, we're not dealing with any two countries. We're dealing with the biggest, the first and second largest markets we have. China may be catching up. But, Mexico takes more US imports than China does. And, when they're prosperous, it helps us. They require our prosperity to grow, because both Mexico and Canada export more to the United States than anyplace else in the neighborhood of 75 to 85% of their exports come to the United States. But, we export an awful lot to the two countries, 20+% of our exports go to Canada and I forget the exact amount, 12-13% go to Mexico. They are important, all right. But, when they're prosperous, it makes a big difference. I just made a little calculation when I was doing that paper I'm talking about. Our exports for each Canadian here in 2006 were \$7,500.00. Those are our exports to Canada. And, it's quite a big figure. Our merchandise exports I'm talking about. The merchandise exports to our second largest trading port are Mexico were about \$1,300.00 for each Mexican. In other words, the potential for growing our exports to Mexico, if Mexico succeeds in its development are enormous. You can calculate it depending on how much growth there is. And, it's hard for me to see why anybody who lives in the United States, and knows Mexico's there, and knows what the potential could be would not be in favor of everything they could think of to help Mexico grow. And, the way they grow is not by giving them handouts or anything, but by making it possible for them to grow their export markets. They prosper when we prosper. We prosper when they prosper.

Let me get back to some of the information that the candidates have stated. And, I'll just take one or two points on each of them.

Senator Obama said we've lost a million jobs as a result of NAFTA, to not raise the statement. He can't demonstrate. I can demonstrate how many we may have gained. But, it's not the – I don't look at trade as something for creating jobs. I'll come to that in a moment. I just want to say what it is. We've had between 4 and 5% unemployment ever since NAFTA just about. And, that's more or less his full employment. If it went down below that, the Fed would have stepped in to stop the inflation from coming about. Other words, there's no way we could have brought that, the million jobs, we could have brought the unemployment down to maybe 3%. That wouldn't have – the last one wouldn't be there and it's a fairly silly thing for him to say. And, I didn't otherwise a sensible exposition of positions.

The main point that Hillary Clinton has made that everybody notes is that we ought to examine these agreements, NAFTA, every five years, renegotiate if we can. Just imagine if you're an enterprise dynamic potential US exporter to Mexico, our second largest market, and you know that any planning you do and any investment you make to capture that market is going to be nullified maybe in five years. That would be a stimulus. That would really encourage companies to go ahead and invest. And, that's what she's saying. And, I just don't understand why she's saying it. The low unemployment is really the result of domestic policy. It's macro economic policy that creates jobs. All of those years of large deficits which we've had with Canada and Mexico have been years pretty much of full employment. The two related in the quality of the jobs we have and I think everybody knows, everybody knows that jobs in the export field pay a lot more than jobs in the domestic field. So, in a sense what the protections want to do is protect the lousy jobs instead at the expense of some of the good jobs.

Let me make one other point that people keep making, that manufacturing in the United States is hollowing out. Manufacturing is declining. Well, in point of fact, as the US exchange rate diminishes, that's the most dynamic sector of our economy. Manufacturing exports are growing very, very rapidly. Indeed if you look at the problems we have now in our economy, the one area that's doing well is exports and compensating for a

lot of the declines from the housing and credit markets. In other words, what they're saying is the one thing that's working, well, let's fool with it. And, I don't understand why they would say that. Now, let me ask what would happen if NAFTA was terminated. Well, let me put it differently. If we really try to renegotiate the whole agreement, not only once but every five years, in essence that would terminate NAFTA. We couldn't get what we have now. We couldn't get it through the Congress. We don't know what we'd end. In other words, for most experts in trade and people who know Mexico and Canada very well, a renegotiation as it's been phrased up here is seen as ending NAFTA. And, that's my opinion. And, the Canadians have already indicated if you start down that process, we'll take away our commitment on oil. In NAFTA, Canada made a commitment that was very hard to make, that if there were a shortage of oil, they would share that shortage proportionately with the United States. Canada is our biggest supplier of oil in the world. It ranks number one. At the moment, Mexico ranks number two. We didn't get that much on oil in Mexico. But, we did get that commitment and the Canadian Prime Minister has already said he'd have to think about removing it because it's an unpopular commitment in Canada. Mexico has already had massive protests about imports of corn, beans, other agricultural products. Those of you who know, Mexico City, the big central plaza called the Zocalo, had tens of thousands of people blocking the whole city and the area down in the historic center. So, if we started to renegotiate, Mexico would surely cut off some of our agricultural exports. And, Mexico is a big market for our agricultural producers. And, they would get hurt. They'd get hurt badly.

I guess really, the other big thing that I have to think about, a lot of our production with Mexico is co-produced. Parts of a product are produced in the United States, shipped to Mexico for further activity. Mexico produces parts and ships it up here. The automobile industry is that way throughout North America, where you have this co-production. The co-production depends a good deal on open markets and the lack of barriers between them. I don't know what would happen with that whole process if there weren't a NAFTA and free trade in existence.

I want to make two other points and I'll stop. In my handout, I make the point we are very fortunate in our partners. They're both democracies. They're not aggressive countries. They're not – they don't stimulate violence. The stimulus for violence in Mexico is our drug trade. Our drug trade, Mexico's problems really have to do with us in a way, not with them. I don't know how we're going to deal with that. And, while we complain about neighbors like that is again beyond me. We could have a China and Russia situation or Colombia and Venezuela. We don't. And, we ought to be grateful for that.

Then, and I don't know why we're badmouthing them. And, let me make one final point. If the issue as Senator Obama says, is really strengthening the labor provisions, I don't really believe that's what he deep believes down deep in his heart, if that's the issue, I think you could have a separate negotiation on just that one issue. Clinton did that when he realized that there weren't strong enough labor provisions. They're now in side agreements. When Mexico had problems with poultry imports, we reached an agreement just on poultry. If it's only on labor, my own guess is it could be done. The only caveat is nobody believes that's what he's saying. And, nobody believes Hillary is saying that. If they made that clear and then the Congress were able to assure that would end the problem, I think you could probably do something. But, keep remembering, some of their labor laws are much stronger than ours. So, if we want to complain about their labor practices, which we'd have to demonstrate, they could complain about our labor practices, and indeed our labor practices leave much to be desired. They're a much more unionized country, both of them, than we are, and so it would have to go both ways. Somehow or rather, I doubt that this is the real issue for a lot of reasons. I

think the real issue is keeping out imports and the assumption is we can keep out imports without adversely affecting our exports and I don't know how they get into a world like that. Thank you.

*Susan Finston :*

Thank you very much. That was very helpful. Our last speaker on this introductory panel is George Pieler, who is a leading expert on International Economic Policy. His opinion articles are frequently published in broad publication daily and other news media. And, in past experience, he was Deputy Counsel to US Senate Majority Leader Bob Dole and Tax Counsel to the Finance Committee in the US Senate. So, George will wrap up this panel for us. And, then we'll move into the views of the leading candidates.

*George Pieler:*

Thank you very much, Susan. And, you rightly called this wrap up because you and Sidney have done such a good job, I have not too much to say, but maybe throw out a few little provocations. I think Susan did a fine job of laying out the current state of play in global trade policy and some of the problems we're facing. And, Sidney, that was a very good summary – a case study, I call it – of what NAFTA means for US, Canada, and Mexico and it serves as a prototype what it means for trade policy worldwide.

I think what's interesting in this presidential year is to try to set some terms to debate. We've heard from the campaigns and not just from the campaigns, from opinion commentators and from politicians in Congress and not just in the US, this has become a big issue worldwide. Concerns about outsourcing jobs, insourcing jobs. Supposedly a concern with outsourcing is that we are exporting "jobs that would otherwise result in hires of US citizens or residents in the US." Insourcing jobs that would maybe bring in labor, whether it's highly skilled under the HIB program or elsewhere, that is displacing American citizens and residents who would otherwise take those jobs. Well, wouldn't it be better to talk about insourcing or globally sourcing prosperity worldwide? Because frankly the job market is a global job market. We wouldn't have the words of outsourcing and insourcing in our vocabulary now. And, as Sidney rightly pointed out, joint production across national boundaries may not be the rule yet, but it's certainly as common as domestic-only production. If you buy a product at the supermarket, at WalMart, if you shop at WalMart or anywhere else you go, it's hard to find a single product that is sourced only to one country anymore, relative to what it was 10-20 years ago. Inputs are coming from all over the globe. The cheaper inputs make for a cheaper product, which is good for consumers. Consumers saving money makes them in some sense wealthier.

So, one point which is probably a semantic point where I would disagree with Sidney, as an economist he does say correctly that trade *per se* should not be seen as a vehicle for job creation. But, the more free and open economic strains of all types is, regardless of national boundaries, the more wealth be created for a given level of output. The more wealth we have, the more jobs we can create. And, Sidney may want to argue with me about this to some extent. So, I would say that trade does create jobs. The more free and open we can have the trading system. Consistent with our own concerns about national sovereignty and the concerns of US citizens and US companies. No one is claiming that we should hide America's interest and say, "Well, we're going to sacrifice for the global economy." We pursue free trade in the United States because it's good for the United States and good for the global economy. And, those who disagree at the margin with what some of the impacts of globalization or free trade may be really should be asked to prove their case.

As both Sidney and Susan have mentioned and Tom mentioned very well, for years now, at least since the Kennedy Round Negotiations, we have had a presumption in

American politics, free trade is good but in some cases maybe want to deviate from the principals of free trade. That presumption has not been reversed and I think the way that you can tell that is that no one running for office wants to be called as anti-free trade. No one wants to be called as anti-trade. They want to say, "I am for free trade, but ..." But, the buts become a little weightier than they used to be and that's where the presumption seems to be changing. There's now a presumption on some people's part clearly that free trade is the secondary concern and the regulatory imperative, whether it's labor, environment, intellectual property rights, we have a wide range of domestic concerns that we pursue in free trade negotiations, as do our trading partners.

And, it's important I think to refocus back to what the fundamentals of free trade mean, more jobs, more wealth here and abroad, and over long term we know that free trade is the best way to raise developing nations out of poverty. The World Bank, whether you like them or don't and I'm not wild about them either, but in their statistics gathering and analysis, I think they've demonstrated clearly that free trade over the long term post-war period is the clearest and most direct path to ending poverty or at least raising the living standard of your citizens whether they're here or abroad.

So, let me conclude by just throwing out a few markers which you may want to consider as you hear from the very able representatives of the political campaigns. One is an easy one that Susan threw out, presidential negotiating authority. Do you or do you not support the power of the President to fast track negotiate trade agreements so that we can expand trade both here and abroad? Simple question, should have a direct answer.

The second is the Colombia Free Trade Agreement. Last December, Congress passed the Peru Free Trade Agreement after some hemming and hawing and last minute negotiations over the fine print of what we were conceding to Peru. At that time, there was a wide consensus in the press that well, this is the end of the line for now, with a democratic Congress and a weak President, we won't have anymore free trade agreements. The administration has laid down the challenge. Whether they can bring it through or not, I don't know. For the Columbia Free Trade Agreement, similar terms to the Peru Free Trade Agreement. Good for the US. Good for Colombia. Colombia is a key player in concerns about terrorism in South America and a good ally of the United States. Will you support the Colombia Free Trade Agreement is a fair question for all the candidates. And, not, will you support it if, then, or depending on what's changed. Do you support the idea of the agreement and will you then work to make it work somehow given whatever your political concerns may be?

Finally, I'll throw out what some might see an oddball question, but I don't think so. Ethanol and biofuels. We supposedly, the free world and the developing world, have been negotiating the Doha Round of negotiations for huge reductions or at least substantial reductions in agricultural subsidies. Those negotiations have been on the rocks for some time. At the same time, not just the US, but lately very heavily in the US, we've been adding on a plethora of new subsidies for ethanol, other types of biofuels, but ethanol's the one people focus on because corn and grain production obviously the shift into producing for biofuels has been a major factor in driving up world food prices, which is not good for poor people let's face it. And, now the world food program is begging for resources to pay the higher food prices that are caused in part by the biofuels production. Subsidies and tariffs in the area of biofuels production, are you for those or against those? Because those are going to be – that's a difficult question. But, if you really believe in free trade, you should be willing to restrain in a growth area like biofuels and ethanol, as well as in other types of agriculture that we traditionally view as subsidized agriculture production.

So, I'll finish there and then the candidates will have better things to say, I'm sure.



Thank you, Susan.

*Susan Finston:*

Thank you, George. We do have a few minutes for questions and answers. I want to take George's lead though and just add one other thing. I mentioned when I was speaking the Jordan FTA, which at the time was the first developing country to enter into that level of rigueur in an FTA. And, people were really looking at it to see, "Can a developing country make this work?" And, it turned out to be the leverage point for Jordan to reach much higher levels of growth, job creation, exporting to Europe and the US, and it was one of the reasons why I think the US very wisely started the Middle East Free Trade Agreement process, which is supposed to end in 2013 and was actually cited in the 9/11 Report as a national security objective for the reasons that Sidney Weintraub mentioned, that their growth, stability, and prosperity through our opening of markets should be an important objective for the US. So, just to add to George's points, don't we look at Colombia and MEFTA and the other countries also through our broader objectives in policy that we want to provide the best chances for stability and to create more good neighbors and good markets, as opposed to have to send our most treasured assets, our young people to foreign wars because we don't have those kinds of relationships. And, I do think that's something else in the MEFTA that can't be overlooked when you see the role of trade in global stability.

But, now I think we ended actually a few minutes ahead and we can take some questions. Erin, are you going to take the microphone around?

*Question:*

Hi, for Mr. Weintraub, it's Bob Davis with the Wall Street Journal. I think the broad assumption with Obama and Clinton is that they're basically just pandering and will reverse their position once they get into the White House about NAFTA. That's sort of what Clinton did when he negotiated those side deals, which I think you probably agree didn't amount to very much. Do you think that that's what's going to happen? Or, has the country changed in some way where it's tougher to do that sort of thing?

*Sidney Weintraub:*

I think, deep down I think that will happen. Not immediately. I think it will happen because once they realize what's involved in their own positions and what it could cost the United States, I think they would change their position. But, they couldn't do it very easily, couldn't do it very quickly. They've dug themselves in too deeply. In the case of Senator Clinton, I think it would take a few years before she came there. She'd have to go through her reexamination of NAFTA first and that I think would be her excuse and that would take a year or so. I'm hoping that she, that whoever gets in logically. I think he can get out a little easier, 'cause he hasn't dug himself in quite that deeply. Talking about labor standards and they can discuss labor standards and the other countries I think would be willing to discuss that. However, I would not – I really don't want to vote for a candidate if the issue is trade who takes the position on the understanding they're going to change that position. There's something about that that's not very savory. So, while I agree with you, I'm not sure it's a very wise decision.

*Moderator:*

In the back. And, if you could introduce yourself before you ask your question.

*Question:*

Hi, I'm Jerry Zeremski from the Buffalo News and I have a question for Professor Weintraub as well. I'm wondering what your thoughts would be on why NAFTA seems to be the trade bogeyman in this campaign rather than free trade with China and most favored nation status with China, given the patterns of job losses in recent years?

*Sidney Weintraub:*

I think you need a little bit of history. Let me give you – I've thought about that point as well. When NAFTA was – NAFTA when it was first approved in late 1993 was a very close vote. And, Clinton – this is Bill Clinton – in order to get it approved, had to overcome some very strong opposition at that time from the labor movement, the AFL-

CIO, and they didn't want to say they opposed trade. Essentially, the argument was Mexico is a low wage country. In certain areas, they can be just as efficient as the United States and with wages in manufacturing in Mexico, in manufacturing they're about 10% of what US wages are, they'd be able to outcompete us and therefore what we need are rules covering labor and labor treatment and labor standards. They couldn't say we need rules on minimum wages, because if you're a poor country, this is what you can afford to pay, that's what you pay. Maybe it got transmuted into labor, labor standards. And, that position remains where this was now 12 years later and I – 1994, more than that, later, that position remains and it's got itself entrenched. So, people still go to that. I don't know how much we changed labor conditions in some of these countries by these provisions, but that's embedded now and it's been talked about for 12, 13, 14 years.

In the case of China, the issue has become less labor conditions, although labor is cheaper in China than it is in Mexico even, particularly for manufactured parts. The big issue has been the exchange rate. And, it's a different kind of issue. So, therefore, there's a limit to how many issues you can put as the foremost issues that you have. And, I think that's part of it.

*Moderator:* OK. Please go ahead.

*Question:* Patrick Malloy, just a concerned citizen. If free trade as advocated here has been so good for the American people and the American economy, why is it that public opinion polls show that in both parties there's increasing concerns, skepticism, and moving away from free trade. Are the people not understanding how good it is for them or what? What is going on here, in your view?

*George Pieler:* A few comments on that. I think there are many issues that are polled in public opinion polls where people hear things, are concerned that even though they're doing fine, their neighbors, friends, relatives may not be doing fine and so outsourcing that concern to foreign competition is partly an easy answer. I'm not saying there aren't cases where that's absolutely true, where you can make one connection between allowing imports in outsourcing labor to the loss of a job in a community. But, nationally, it's still clearly to the benefit of the United States as a nation and to its people in general. Translating that down to the individual household obviously is a different matter. So, I think the rise of concern has been there's been an awful lot of concern about globalization in general in the media, for good reasons over the past 10 years or more now, that there are prices associated with rapid economic change. There always are. There always have been. And, it's partly an educational matter. And, it's partly a matter of reinforcing to the extent necessary our own support mechanisms on employment insurance, trade adjustment assistance, and other things we have to ease the transition where the economy is changing locally. And, on the – I think it ties to the gentleman from Buffalo's concern. We had a series of rust belt crime areas, where this is a big concern that I think Western New York State has not been doing that well economically, but Texas has been and you didn't hear these NAFTA claims during the primary. You heard them and the candidates made that point that they were saying different things in different states. So, it's partly – and there may be local governance issues. I'm not accusing Ohio, Michigan or New York of having bad government. But, if they're not doing as well as the rest of the country, there may be a local government's reason for that too. So, there are all sorts of factors. But, I think the drift is, as you say, in public opinion is not the direction – but I think it's correctable and should be corrected in the interest of the nation.

*Sidney Weintraub:* Let me add -

*Susan Finston:* If I could just -

*Sidney Weintraub:* Let me add one thing.

*Susan Finston:* Go ahead.

*Sidney Weintraub:* I just want to add one sentence to what he said. Everybody doesn't win from trade. No one has ever said that. There are problems. And, in general, you can deal with problems by cutting off imports much more sharply, even though the majority of the country is benefiting from the combination of greater exports and cheaper imports. Then the solution only is some kind of adjustment assistance to deal with the losers. Our system of adjustment assistance is not all that generous compared to that of other countries, such as Europe, which is greater. And, one of the things holding up the Colombia agreement, I think, is the lack of an agreement in the congress on adjustment assistance in connection with the Columbia agreement. So, that the – in a sense, we're not talking about everybody winning. We're talking about the country as a whole winning, the majority winning, and the majority that win pay compensation through the tax structure to the losers.

*Susan Finston:* If I could just add to that. I think it's important to recognize that there are some really substantial areas of the country that aren't doing well economically right now. I'm from Michigan. Michigan has the highest unemployment rate in the state, I'm sorry, in the country. The highest employment rate of a state in the country, but the reality is the industry that's failing in Michigan has been one of the most protected industries that we've had. And, so the reality isn't that Michigan is doing worse because of global competition. I think it's doing worse because it relied for prosperity on an industry that couldn't compete globally for many years. And, some are now questioning, will it be able to compete globally? And, of course, that's the car industry. It's been in decline since my childhood, since the 1973 OPEC embargo. They came to Washington time after time and got concessions on everything from fuel economy to what were called very nicely voluntary restrictions – which were quotas – and over time instead of becoming more competitive, just like happened in Brazil with import substitution, just like happened in India with import substitution, the economy has gone down in Michigan. We have a state government that I think is still in denial about it. And, I used to be on the board of the Ford School of Public Policy. And, I think that one of the reasons why I'm no longer on that board is I used to go back and say, "How long will the university be a pre-eminent institution in a failing state?" And, so, I think it's important that enabling environments matter, that states – Michigan was the number one entrepreneurial state 100 years ago. We got GM. We got Kellogg's. We got leading pharmaceutical industries that are now multinational companies. One by one they are leaving the state of Michigan and even foreign automotive makers, I think VW was one of the recent announcements, they're leaving the state of Michigan because it's not an enabling environment. It's not because of global competition. In fact, the car industry was one of the most protected. So, yes, they're doing the worst in the country, but I think they are a loser right now, they could be a winner. They were a winner 100 years ago. And, you really have to create enabling environments. And, trade assistance is fine. But, you can't just take a subsidy year after year, which is what I think the auto industry did, and not make changes and look inside. And, I think they're trying to do that now, but really it's more than 30 years overdue.

*Question:* Could you comment on the impact of exchange rates on our attitudes towards free trade and how long does it take for this to work? When my prices are high, I want protection from my competitors. When my prices are low, then I would like the competitors to open their markets. Aren't they – with the dollar where it's going and the declines of the last couple of years, aren't we going to need more and more – aren't we going to see more and more advantages for free trade that we didn't see when our dollar was high

priced? Your automobile industry ran into trouble when the Yen was 360 to the dollar. You couldn't compete. It didn't matter what you did.

*Susan Finston:*

Well, I think - George is -

*Sidney Weintraub:*

Let me just make one comment on the auto industry. They also ran into trouble by sticking with the health care system in which they bore the expense, the industry, which is - we're the only industrial country in the world that has a health care system that's based that way. They're now shedding it. But, it took - it's taken them about 40 years, even though the argument has been made to them over and over again. It costs you \$1,000.00 more to produce a car just for health care. If the health care were divided across the country.

As to your other question, sure the exchange rates matter. They matter a good deal. And, one of the reasons that manufactured exports are doing very well right now is that the dollar is weak. And, the dollar is weak, I think, because the powers that be want it to be weak. But, they can't fully control how weak it will get. It can get weak enough so that it will destroy us a lot. The Japanese have always, always tried to keep their, the Yen weak. It's not at the moment and the Japanese are complaining. The Chinese are doing it. But, your point is surely correct, yes. I agree.

*George Pieler:*

Can I add one small point to that before? I do think increasingly as economy is more tightly integrated, trying to use explicitly currency manipulation as a tool of economic policy is not an effective strategy. We should be focusing on economic fundamentals in each country and let the exchange rate settle where it's appropriate.

There are many extreme cases where we can do that effectively, but it's increasingly not true because we are also importing so many of the inputs for our products, which become higher priced with the dollar as well, that it can become a losing proposition over time. So, let's try to make sure we have low inflation and stable growth in this country and the exchange rate should follow from that, I think.

*Susan Finston:*

We have time for one or two more questions. There's a gentleman over there. Oh, this is the last question. OK. That means that the representatives of the candidates have now arrived.

*Question:*

My name is \_\_\_\_\_. I'll do this whole trade beef. But, I'm curious, how does automation play into the role of jobs? I mean, over 20 years, how many jobs have been lost just because of automation? And, our democrats are fine for something, but actually would be happening anyway.

*Susan Finston:*

You know, I love that question because we don't sell a heck of a lot of buggy whips anymore. And, when you look 100 or 200 years ago at the various baskets and everyone says, "Oh, we're really going to be in the soup because we don't make shoes anymore or we don't make textiles anymore." After the passage of the Bayh-Dole Act, and the other technology transfer legislation in the US in 1980, we just saw an explosion of new technologies moving from academia to the marketplace. And, this is a favorite subject of mine. So, I'll be careful not to go onto a tangent. But, the reality is just as in the late 19<sup>th</sup> century when the Patent Trade Commissioner famously said, "It doesn't matter about patents anymore. Everything important has already been invented." We really have no idea 20 years from now what will be the important technology that we're in the lead on. And, what we're marketing and what we're selling just as we didn't know 20 years ago what we would be doing with biotechnology, nanotechnology and other new forms of technology that are just now being commercialized. So, what's really important is to get the enabling environment right, to get the framework right, so

that we're encouraging science, education, market pricing and strong protection, effective protection for innovation, with of course commensurate protection for anti-trust and all that. But, to get those things right. And, that's really the danger in our discussion of trade policy or any other innovation policies. Are we going to step off of a treadmill that's really taking us in a very good direction and move into the wrong direction because of rhetoric during the campaign season. George, did you want to add to that?

*George Pieler:*

Well, I haven't heard the word "automation" in quite a while. It's the sort of thing we heard in the 60's, but as a term, I mean, clearly higher technology will destroy some jobs in the short term and create them in the long term. So, we have a space-time continuum problem. But, again, it's the same issue really. What degree of adjustment assistance from government do we need to help people accommodate to evolving technologies? And, we have a somewhat clumsy system for doing that. The private sector in it's training and apprentice systems does a better job than government does though.

*Susan Finston:*

Thank you. And, thank you everyone for the discussion. It was very helpful and now we're going to move to the second panel.

## SECOND PANEL

*Merrill Matthews:*

I am Merrill Matthews with the Institute for Policy Innovation. Thank you for attending this, what I think will be a very interesting program on discussion of trade.

I will just jump right in to the candidates. Incidentally, you have the bios in your packet there. We also have some more chairs that are gonna be bringing – they were wrapping up another conference across the way in there, and so they're going to be bringing some more chairs over here. You should see those coming in, for those of you standing, in just a few minutes.

We'll jump right into this. The program is to let each of the candidates' representatives speak for 10 or 12 minutes about the respective candidate's position on trade.

Then we're gonna give them a few minutes to discuss inter-candidate whether they have any issues they want to pick with one of the other, or if there's some inconsistencies or something, and then we'll throw it open to questions from you, the audience.

Our first presenter, and we did this just – we decided we'd do this based on who confirmed in the order of confirmation, so we'll start with Dr. Doug Holtz-Eaken. Dr. Holtz-Eaken was – came to Washington to be the Chief Economist on the Council's – the President's Council of Economic Advisors.

He served there for 18 months, went to the Congressional Budget Office for a few years, and then left there to go to the Council on Foreign Relations. He is an economist by training. He is now with the McCain campaign, has been for a little over a year now, and was the Paul Volcker Chair on International Economics at the Council on Foreign Relations.

And with that, we'll go to Dr. Holtz-Eaken. You want to step up here, or you want to stay there?

*Doug Holtz-Eaken:*

Where do you want me?

*Merrill Matthews:*

Why don't you come here.

*Doug Holtz-Eaken:* Alright, alright, alright.

*Merrill Matthews:* Cameras are set there.

*Doug Holtz-Eaken:* Well, thank you for the chance to be here today on behalf of Senator McCain. And I don't know about this, if you can verify I accepted first, but anyway –

*(Laughter)*

*Doug Holtz-Eaken:* This is an important issue for the country. It will be an issue that I hope is widely discussed in the election. The Senator believes that it's one that it's central for us to talk about in the usual fashion of Senator McCain, which is not for the purposes of the near term politics, but for the purposes of identifying the principles by which we should do business and explain them to the American people so that they have a firm foundation in making their decisions in November.

Senator McCain's a student of history, and it is his reading of history that every country that falls prey to the siren song of protectionism hurts itself more in the end than it can possibly calculate, and he is determined to resist all calls for protectionism in the United States.

The simple fact is that 95% of the world's consumers lie outside these borders and that it is imperative for the future prosperity of the United States to build upon past successes and give our children, the workers of the future, access to those markets and make sure that they have the opportunity to have a standard of living that exceeds the one that we've inherited.

So trade is part of the general fulfillment of the American dream, passing along a better world than the one you inherited, and it is his commitment that we meet that obligation.

Now it's important to recognize that in looking forward and taking advantage of the dynamic U.S. economy, trade is not done in isolation.

Trade is not an issue that you can pull out and examine independent of your goals in foreign policy and international affairs, your objectives in domestic policy on education, health care, and a variety of other pressing issues, and to attempt to do so is to make a mistake in both framing the issues and to make a mistake in teaching the American people.

Demonizing trade agreements is a bad economic policy, it's bad foreign policy. The recent attempts to point to NAFTA as the source of grave difficulties in the U.S. manufacturing sector is at odds with any reputable study of the impact of that trade agreement on the United States, Canada, and Mexico.

It sends the wrong signal to the No. 1 and No. 2 trading partners in the United States, and makes our difficulties in establishing the U.S.' presence on the globe even harder. We have a lot of work to do.

Senator McCain spent yesterday talking about his vision of foreign policy, talking about a United States that is engaged around the globe in a proactive and friendly fashion, a United States that listens and reflects on the wishes of other countries.

Unilateral attempts to reopen good-faith agreements are at odds with that vision, and he's not going to pursue that.

The notion that somehow trade lies at the root of any sort of labor market difficulties is also at odds with the evidence.

Most credible studies suggest that most displacement in the U.S. economy is due to technological change, sectors of the economy being overcome by advances, new products, and our goal should be to have labor market policies in the United States which allow people to survive those transitions and prosper in the future.

It is analytically incorrect and sends the wrong message to the American people if we on the one hand say, "Look, your industry has now been overtaken by a new, innovative industry, and we love innovation in the United States, that's a great thing, good luck," and on the other hand say, "Oh, you're out of work because we signed a trade agreement that was part of a multilateral effort to lower barriers to trade and raise the standards of living in the world.

"The United States gains an estimate by the Peterson Institute is a trillion dollars a year from the efforts to lower barriers to trade. So if that happens, we'll give you one of a half dozen ineffectual training programs and turn you loose."

The Senator's belief is that we need to modernize the entire system of unemployment insurance and training so that we have a cohesive approach which, first of all, does not put people on unemployment insurance, quickly moves them to a new job where they have the skills.

Secondly, in those training programs, focuses attention on the workers, gives them the ability to go especially to community colleges, which have a great track record of tailoring training programs to the local business climate, use those programs effectively, and use them independent of the source of displacement, be it trade, technological advance, or anything else.

So let's look at trade, recognize it has brought us great gains. A trillion dollars a year is an enormous benefit to the American people, something that no government program will ever be able to match.

There's another half a trillion dollars sitting out there that has potential gains from additional lowering of the barriers to trade. Let's take advantage of that, be honest with the American people that as we do so, not every single American will benefit automatically. That's a fact, but the overall gains will be there.

Let's use the training programs effectively to make sure that those who have to switch jobs have the advantage of a greater future.

The last thing he's thought a lot about and wants to really focus on is some of the mechanics of the labor standards and environmental standards, which have become the subject of so much attention.

And Senator McCain's a straight-talk guy, so let's not use those genuine concerns – I mean, there are real, genuine issues in both the environment and labor, but let's not use those as a way to simply block progress on trade.

Let's be serious about the environmental issues. Senator McCain has a deep and has a long record of concern with the environment. He has proposed in two congresses a cap-and-trade climate bill. He understands it's important to have China and India in those kinds of mechanisms.

We can't let simple talking about environmental standards stop trade agreements. We have to engage on environmental issues broadly as a global community and make progress on them. We can't let this be an impediment to trade by itself. We have to make some progress.

On labor, I think the record is very clear that you can write something down on a trade agreement, but that's very different from improving the standards for laborers around the globe. The best thing you can do for them is engage, make sure that you acquire the gains from trade, there are resources in the countries to improve the standard of living and the standards for labor.

By engaging you can monitor and see if conditions are actually improving. There's a world of difference between a paper agreement and a commitment to improving the livelihood of workers around the globe.

And trade, which brings with it openness to aid flows, private sector capital flows, is the most effective way to improve those labor standards – far more effective than writing down labor standards on a piece of paper, which other countries may, in fact, find to be intrusive.

Moving forward, what the Senator wants to stress is that we have opportunities in the future that are commensurate with opportunities in the past. We should not take a time out, do a U-turn on the traditional U.S. leadership in lowering global barriers to trade.

This represents the best of American opportunities. We can take advantage of them, we can train our workers, we can educate our kids, and we can compete with anyone in the world, and we will have gains in doing so. We will unify our position with our allies around the globe.

He wants to do that, and he would argue, and he is committed that whoever the next President may be, they should have trade promotion authority so they have an effective way to negotiate good agreements and move the ball forward and not stop the progress we have on global trade.

So I thank you for the chance to be here today. The Senator, as usual, has a straightforward and simple message, which is this is an opportunity, Americans face their opportunities even when they involve some effort. He'll make the effort, and we can move forward on opening markets around the world. Thank you.

*(Applause)*

*Merrill Matthews:*

Thank you, Doug.

Our next speaker is Dan Tarullo. Dan is a Senior Advisor to the Barack Obama Presidential Campaign and a professor of law at Georgetown University Law Center.

He was in the Clinton administration from 1993 to 1998 in several positions, Assistant Secretary of State for Economic and Business Affairs, Deputy Assistant to the President for Economic Policy, and Assistant to the President at the International Economic Policy Forum, and he also was the President's special representative to the G7/G8 group of international allied nations.

And with that, Dan.

*Dan Tarullo:*

Thank you. So first, it's easy for me to talk about Barack Obama's trade policy because



ever since I first met him, his policy precepts and starting positions have been the same. The first is that he does believe in trade.

He does believe in trade as an important component of a market-based economy that can produce economic growth in a strong, sustained, and shared fashion.

But the second precept, which he's had, again, since I met him, and this is before the Presidential Campaign we're talking about, has been that the trade policies pursued by the United States have not been policies that achieve that end of strong, sustainable, and shared growth for the American people.

So what he wants to do is to shift trade policy and to shift it in accordance with the way in which he approaches these trade issues. Because the first thing I think one needs to understand is that the issue of trade or not is not a binary issue, it's not as simple as people indicate.

You know how long those trade agreements are, right? You know how many things are in them. You know how many lobbyists spend a lot of time at 17<sup>th</sup> and G Streets, between 17<sup>th</sup> and F and 17<sup>th</sup> and G, and you know how much time people spend in Geneva looking for the things that they want in the trade agreements.

So for Obama, the issue is not trade or no trade, the issue is what are the principles and approaches we're gonna take, and whose interests are being served by trade policy as a whole? So he wants to look to see, and he does look to see whether trade agreements are benefiting the American people as a whole.

He does look to see whether labor and environmental provisions are being included in trade agreements, because they both help to achieve minimum standards of labor protections and environmental protections around the world, and they also go some part of the way towards reassuring people here and around the world that they're not going to be pushed aside, that the interests of ordinary working people are not taken into account at all as trade and globalization proceed.

He also looks to the role that government is expected to play, and this is something people don't talk about a lot of the time. What are the trade provisions doing? Who is putting things in there?

To the degree that trade agreements are serving as an impediment to reasonable regulation in the public interest by all parties to trade agreements, there's a problem, and I leave it to you to divine how some of those provisions got in there in the first place.

So, again, for Obama, yes, trade, open markets, globalization. But you need to look to what's actually in those agreements, what their effects are on people.

Okay, so let me get back to the sustainability issue now. You've gotta have trade policies – all your policies need to be sustainable, including trade policies. And what is a sustainable trade policy? It's gotta be sustainable internationally, it's gotta be sustainable domestically.

Now one of the most important things that is now an impediment to international sustainability for trade and more liberalized trade are the large global imbalances that have developed, which, of course, have as big or bigger an effect on trade as many, if not most, trade agreements.

So when you have persistent manipulation of a currency by a major actor in the world, it

is creating distortions in markets generally, currencies are not adjusting to take account of the performance of national economies, and thus, it necessarily informs how one thinks about trade.

The second issue is, again, what is going to be in the agreements in order to make them sustainable, because sustainability includes different kinds of economies coming together.

You can't just go in to any negotiation or agreement and say, "Here's our approach." Just put it right down on paper, the sort of "cookie cutter" approach.

There are different countries which pose different issues for the United States. Some of them will involve the issues of subsidization, which affects the way in which products are produced in the other countries and end up competing here.

Some of them will be peculiar kinds of market access barriers. There are some countries in the world where you can put a thing on a piece of paper, enact it into law, and it will be more or less complied with.

There are other countries in the world – and this is not a value judgment, it's just an observation – there are other countries in the world where, let's face it, the law and regulations on paper are less a part of the potent tradition of the countries governance than our bureaucratic mechanisms for deciding who can do what under what circumstances.

So obviously, one needs to approach the countries differently as you do trade policy.

A third thing that needs to happen to make these things sustainable is the process has gotta change. I mean, I've already alluded to this. You can't have a process in which there are some people who have access, some private actors, who have access to the negotiators and, indeed, favored access to the negotiators and the negotiating aims.

And others – and the others, of course, includes the interests of most Americans – have no access. The only thing they hear is at the end, when the announcement is made and here's the fait accompli.

So the process needs to change as well. Everybody needs to be doing this together. There needs to be an opportunity for everybody to have their say.

So these – as I say, these are principles – approaches that you can look at what he was saying three years ago, or indeed, even before he got in the Senate, look and see what he was saying when he came into the Senate, look and see what he was saying last year, look and see what he's saying now.

It's the same set of approaches and the same set of principles. And again, it's not an issue of trade or no trade. It's an issue of what kind of trade and what kind of trade policies. And I should say, Senator Obama obviously and does believe that trade is one piece of economic policy.

And when you – just as when you think about trade policy, you need to think about countries' foreign exchange policies, so of course you need to think about health care, and education, and training, and innovation for investment. That goes without saying.

But doing all of that is not a substitute – I keep hittin' that mike – is not a substitute for focusing on what's in the agreements and how we're going to take those agreements,

make sure that they give American companies and workers the export opportunities that they're negotiating for, make sure we've taken account of the particular challenges posed by negotiating partners, make sure that they're agreements that are protecting labor and environmental standards.

So let me close with a couple of words on NAFTA, since Doug has already raised the issue and I have a feeling some of you may have asked about the issue.

This is, again, it's – we have a paper trail of continuity on this one. Okay? Going back to when he was still in the Illinois legislature, to when he came to the United States Senate, the position he took on CAFTA by reference to NAFTA.

You can read *The Audacity of Hope*, and you can have Barack Obama's first-person account of how he analyzed the issue, then and now, and you can look at what he's actually proposed.

And what has he actually proposed? He has proposed, as he once put it, that he would get in touch with the Prime Minister of Canada, the President of Mexico, and say we need to add binding labor and environmental standards into this agreement.

This is something that would be good for American workers and the American environment, would be good for the Canadian workers and the Canadian environment, it would be good for Mexican workers, and the Mexican environment.

This is not an earth-shattering sort of effort to or effect of fundamentally saying, "Gee, you know, we're just trying to do away with everything." It is – there's such a logic to it, particularly in light of this asymmetry that just jumps out at voters across the country.

You know, you think that voters don't understand? Voters understand. I talked to voters in Iowa who understood that NAFTA has three kinds of tiers of rights and obligations.

Foreign investors are favored. They have special rights. They can take actions in an international arbitration context directly against host governments, and those actions are – those outcomes are enforceable in national court systems.

The governments themselves have state-to-state dispute settlement similar to, although not identical to, the WTO.

And then we have labor and the environment shunted off into side agreements with no enforcement, no actual enforcement, and certainly not the same kind of enforcement mechanisms. People knew that. They knew what and how the trade agreement, the NAFTA, had ended up.

So as I say, Obama's position, going back to those – the time when he was first looking at NAFTA, before the Senate, in the Senate, and now, is you need to change that to put in the binding labor and environmental provisions. It is a logical thing to do, it's a sensible thing to do, and it's the right thing to do for workers in the environment within all three countries, in all of North America.

Thank you.

*(Applause)*

*Merrill Matthews:*

Thank you, Dan, and now let's move to Gary Gensler. Gary Gensler is a Senior Advi-

sor to the Hillary Clinton Presidential Campaign. He has previous service in the Clinton administration, first as Assistant Secretary, and then Under Secretary of Treasury, with responsibilities in policies in the areas of U.S. financial markets, debt management, financial services, and community development.

Prior to moving into public service, he was with Goldman Sachs for 18 years, 9 of which he was a partner. Gary?

*Gary Gensler:*

Thank you very much. I'm proud to be here representing Senator Clinton today. It's always good to be on panels with Doug and Dan. Dan, who I have served with years ago in the Clinton administration as well.

I think I'm gonna speak to three things. One, just how Senator Clinton sees trade fitting into overall economic policy, and I know this is about trade today, but as Dan even mentioned, I think Doug did, it really has to fit into the overall framework; two, some specifics on her policy on trade; and then three, just highlight some things that she'll be saying, I think, a little later today in North Carolina related to jobs and training assistance.

Senator Clinton really looks at trade just as one piece of an overall economic policy, and it's important if we're gonna get this right, to think of it that way. She, in everything I've ever discussed with her, thinks about it really in the lens of middle-income Americans and what's happening to middle-income Americans.

And when she's on the campaign trail and she listens to voters, that's what she hears, but I think it is also about her own personal heritage and something she feels isn't working right in America today.

Even though we've had this great growth, we've seen incomes for the typical American family lag, and that's in the face of high health care cost increases, energy cost increases, and the like.

And so her overall economic agenda addresses those things that we know about health care, getting universal health care, making our country more competitive internationally.

She believes we have to do that, but also to be more competitive internationally – a very vigorous and vibrant innovation agenda, doubling resources for NIH, and so forth, very vigorous agenda in terms of adding to our education.

So if we're gonna compete in a global economy, which she's very much an internationalist, very much thinks that we're part of a global economy, we have to address health care, we have to be more innovative, we have to let science count, this administration sometimes doesn't do that, and we really have to promote education – all the way from early childhood up to the adult education.

There's also – she has robust job growth initiatives. The imbalances that Dan referred to we're all familiar with, but these large global imbalances are not just pointing at the Chinese, which certainly they've manipulated their currency, and we have to address, but we have to address our own savings rate.

So that's why she has very real motivation. She uses the tax policy to address it, but to promote more savings in America, but also a governmental level to have fiscal discipline and make sure that we get our books more in order.

*(Sound of dishes falling)* I hope everybody's all right out there.

*(Laughter)*

*Gary Gensler:*

And then lastly, in terms of the imbalances, a real focus on energy policy. And I know in the earlier panel there was a question by somebody on this, but a big part of our trade imbalances does relate to energy.

Her program is a very aggressive goal to lower by two-thirds our oil imports by 2020. This is not only important for the environment and an aggressive cap-and-trade program, but also very important for our imbalances.

So trade really fits into all of that, and there's been much to discuss about this, but where Senator Clinton has been and is, and has also been consistent is that she believes in trade, but she thinks it should be fair trade and pro-American trade.

And we've had an administration that in seven years has brought the number of trade enforcement actions that the prior administration, probably under Dan's tutelage in his job, brought in any one year.

So we have a series of trade agreements, but are they really being enforced, and are they working for the American worker? There's been much said in an earlier panel, so let me address some of the points where Senator Clinton is on trade.

She does believe that we should assess our trade agreements on some regular basis. This doesn't mean getting out of them as somebody suggested on the earlier panel, it just means taking a look. Not having heads look in other directions, but saying, "Are these trade agreements working for America," once every five years.

In that same light, she believes in taking office that it would be appropriate to take a broad assessment of all of our trade agreements at that point in time.

It's been called a "time out," but I think it would be consistent with all of the candidate's views that they have to assess where we are, I would hope that it would be consistent. But in Senator Clinton's perspective, she thinks that we should do that, look at all of the agreements.

In terms of NAFTA, she feels strongly that there should be some changes to that, and she has a very specific plan. One is to sit down with the Canadians and the Mexicans and try to get the labor and environmental standards embedded into the core agreement.

And when we talk about labor and environmental standards, we know what a package of labor and environmental standards were acceptable to Senator Clinton in the Peru agreement.

We know that those are not really reaching that far, and she's very hopeful that both the Mexicans and Canadians would want to comply with the major International Labor Organization agreements.

You know there's five, I'm not going to get into the details, but there's five specific agreements, and some of these are things that both the Mexicans and the Canadians already comply with. So why not put it into the agreement, why not make it part of the core part here?

Same with the environmental standards. Bringing up to standard that they're enforce-

able, similar to the core commercial arrangements.

Secondly, the investment standards. I think Dan mentioned this in one regard, but to change NAFTA's investment provisions that grant special rights for foreign companies to in essence go, in an extraterritorial way, go to the tribunals rather than relying on the courts.

Thirdly, the enforcement provisions themselves strengthening those enforcement mechanisms.

And then fourthly, just to review NAFTA regularly, which is consistent with her views that we should really make sure that these things are working for the American workers.

The rest of her trade agenda that she's announced is that we have to strengthen enforcement. She thinks there should be a Senate-confirmed person who's a trade enforcement officer, who's just looking to make sure that we really enforce these agreements, that we should double the staff.

There's only 20 people actually in the staff, as we understand it, right now over at USTR. USTR is not a big agency, it's about 200 people, I think, and only 20 of 'em look at enforcement. So double that and just make sure that we're really enforcing the agreements that we currently have for the benefit of America, the workers, the industry here.

And then in terms of trade assistance, that we should expand the current trade assistance program, really just goes narrowly to those who are displaced because of imports and manufacturing, or if a plant relocates to a country where we have a Fair Trade Agreement right now.

And that that should be expanded to cover services, and it should even be expanded to cover if a plant dislocated if we had a problem – lost a plant to China or India. Right now, that's not covered, so it's a narrow program that she strongly believes should be covered.

Now I mentioned the third thing I was gonna say is a little bit about later today – it seems that today is the day of dueling economic speeches, Dan, on the Democratic side.

*Dan Tarullo:*

That's why we wanted nine –

*Gary Gensler:*

Yeah, yeah, it's good, it's good, it's good. *(Laughter)* But just briefly that – and I'm sorry about these reading glasses here – but beyond what I've talked about here, she also feels there's a real skill shortage, and that we've got to address this.

So she's rolling out a program of ten billion dollars over five years that would say that for any worker that lost their job for any reason, not specifically to imports, not specifically to a plant location, but really looking at job training more broadly, that if you've been in your job for three years, you've lost that, you have access to a basic set of job training benefits.

Secondly, also being proactive helping to train, and she's got a Worker Pell Grant program that would be broader than just going back to college, but also going into training.

So I've covered a lot of topics, but broadly speaking, Senator Clinton is for fair trade, trade that works for Americans.

She thinks it's gotta fit into an overall economic approach that includes us facing up to our own challenges as a nation to be more competitive around health care, around education, innovation; obviously face our own imbalances around energy, and some of our own personal savings and national savings.

But on trade specifically, that we should really embed in these agreements fair labor and environmental standards and upgrade our enforcement, and at the same time help workers who are dislocated.

So with that, I think I'm gonna turn it back to our moderator.

*(Applause)*

*Merrill Matthews:* Thank you, Gary.

Now before we go to questions from you, let's at least throw it open to the panelists to see if they have any questions of one of the other panelists. There may be something there. Any questions of somebody else on the panel?

*Male:* Nah, we've been through this, let's go to your audience.

*Merrill Matthews:* Okay, alright, we'll go to the audience. So, raise your hand, identify yourself please, and we've got a microphone coming around – there it is back there. Alright, starting back there.

*Question:* I'm Sylvia Smith with the Fort Wayne *Journal Gazette*. Mr. Gensler, I wonder if you could – maybe this is just a matter of semantics, but you mentioned that Senator Clinton supports free trade and pro-American trade.

*Gary Gensler:* Yeah, I think I said fair trade –

*Question:* Fair trade and pro-American trade. If it's fair, it would seem to me it would be fair to all the participants, so how are you both fair and pro one country?

*Gary Gensler:* Hmm.

*Question:* Give me an example of how that would work.

*Gary Gensler:* *(Laughter)* Well, she would be the American President, so I mean we are looking out for American workers, the American economy, American commerce. In terms of fair, it's fair in that we're really going to enforce these agreements.

She – I want to address one other thing – she also understands and I think she said in the most recent debate that even in her home state of New York she understands that some New Yorkers haven't been benefited, even from NAFTA, and some have lost their jobs.

So there are, as the line goes, some winners and losers. Her specific quote you can find, I'm sure, elsewhere. But to be fair trade, it really has to be something that's gonna help America, and she sees it through the lens, as I said earlier, of middle-income Americans, and not just help out a few along the way.

*Merrill Matthews:* Other questions? Right here.

*Question:* In the –

*Merrill Matthews:* Introduce yourself first.

*Question:* Oh, my name is Zishan Jiwani, I'm with The Financial Services Roundtable. Could each of you speak on the current trade agreements that are in place, especially South Korea, since South Korea would be one of the largest trade agreements since NAFTA?

Could you speak on that, and what each of your administrations would do, what it would require for you to pass that agreement? Thank you.

*Dan Tarullo:* Go ahead, Gary.

*Gary Gensler:* I guess I was asked to go first by Dan, and I think where you'll see the distinctions here really are probably between the two Democratic candidates and Doug more than between the two of us.

But Senator Clinton has been public in terms of her approach. She has stated that on South Korea she is not – does not believe that agreement is the best for America, particularly because of the standards that are lacking in a sense on the automobile industry.

We also have, as you know, some open issues with the Koreans in terms of beef. She is not in support of the Columbia FTA because of that country's long history, and still quite unfortunately, very recent history in terms of terrorism towards union workers. I think the record is clear measured in the close to several thousand people who have lost their lives for their union associations.

And then with regard to Panama, I guess, is the other Fair Trade Agreement outstanding, she has not been supportive, particularly as the head of the National Assembly is a – I guess a fugitive from our laws.

I don't know if there was others on the list, but, Dan?

*Dan Tarullo:* So Gary's right. The bottom line for Senators Barack Obama and Hillary Clinton are the same on those outstanding agreements, and I might just recapitulate his own take on each of them.

With respect to Korea, there are a number of issues, but that's really one of the best examples of the failure of our negotiators in a trade negotiation to take account of the particular kinds of market access issues and barriers that were posed by the other country.

And I don't – the way in which the Korean government operates, the way in which its governmental system is organized is that there's a lot of bureaucratic discretion in the administration of their economy, which is perfect – that's their choice to make – but the net result is that without addressing those sorts of particular issues, you are not going to ensure real market access for American manufactured goods, in particular, including autos, but also other manufactured goods as well.

With respect to Columbia, Gary absolutely – Gary is correct, and Senator Obama has had the same response. It would make a mockery of the labor standards that are in the – supposed to be in our bilateral trade agreements.

If the circumstances on the ground in a country with which we're supposed to sign an agreement are that the penalty for being a labor organizer is death, and that is the report of human rights groups, it's the report of people who have studied what is going on there, so he can't support that agreement.



And as Gary says, on Panama, we have an issue in which the President in the National Assembly is wanted for the murder of an American member of the American Armed Services, and this is – they’re gonna go to their National Assembly and have the head of the National Assembly oversee the passage of a trade agreement at the same time that he’s wanted in the United States.

So with respect to those three, that’s – those are his positions and the reasons for his positions. The contrast with Peru, where he very quickly came out in support of the Peruvian agreement, and in circumstances in which he looked to the impact on both economies, the benefits, the potential costs.

He looked to the fact that the Rangel/Levin negotiations with their counterparts in the House and also in the administration had produced a good set of binding labor and environmental standards and very quickly came out in support of it.

*Doug Holtz-Eaken:*

Senator McCain supports passage of all three FTAs that are under discussion. At the top level, it would be a tremendous event, unfortunate event, for three international agreements that were negotiated in good faith under TPA to be not passed by this Congress and send the message that it would be undesirable.

I think if you look at Columbia, you get a flavor of just how important moving forward is. Columbia is a good ally, it is a potentially strong democracy in South America, it has helped us in fighting against narcoterrorists.

On the mechanics of it, a lot of Columbian goods – essentially all of the Columbian goods have access to U.S. markets. This would help us have access to Columbian markets.

It would stabilize the democracy, and hopefully repeat the experience in Mexico, which has a stronger democracy now than it did before NAFTA, which weathered international financial turbulence in the late 90s because it has a Good Housekeeping Seal of Approval out of NAFTA.

We can do a lot through agreements of this type, and the Senator believes we should make every effort to do so.

*Merrill Matthews:*

Good, more questions? Yes?

*Question:*

I am Vinod Busjeet from the Embassy of Mauritius. It’s a question for all the panelists. Is your candidate for or against the continuation of farm subsidies, and if yes, how do you explain to the cotton farmer in Africa that it is free trade or fair trade?

*Doug Holtz-Eaken:*

Go from this end first this time? Senator McCain is a straightforward man, who in the state of Iowa, with his presidential campaign on the line, explained that he is a good fiscal conservative who does not believe in subsidies, whether they be for ethanol in Iowa, or cotton in Arizona, and he is opposed to barriers to trade, whether they be Brazilian ethanol, again in Iowa, or any other trade.

He is committed to the elimination of these kinds of practices. The American farmer is a tremendously productive farmer. We can reform our agricultural programs to meet the genuine income support needs of American families without the destructive influence on international trade that comes from agricultural subsidies, and he’s committed to doing it.

*Dan Tarullo:* Senator Obama focused on the distribution and effects of our agricultural programs in the United States, concerned with who the beneficiaries are and that family farmers are, in fact, benefiting. As to the rest, I mean, we are in the middle of an international negotiation, which is presumably what and where all the farm subsidy issues are being taken up, perhaps not with great prospects of success right at the moment, but there is a negotiation going on where all of these subsidies are on the table.

*Gary Gensler:* I would say that Senator Clinton has been supportive of capping farm subsidies, and particularly individuals, so that it's not the big agribusiness, or the big factory farms that get them. That's been difficult even with this administration, to see that this is really – should be more about family farming.

It also goes to – your question goes to sort of a philosophic question about trade agreements themselves. Of course some economists might say, "Well, we should have no subsidies, no tariffs, it would be stronger," and so forth.

But this is a negotiation. I mean, this is back to maybe this woman's question over there. I mean, why pro-American? I mean, pro-American if we're in the midst of a negotiation, America should get something, whatever it does, in the midst of this Doha round, which is not likely to happen under this President, so if it continues on under President Clinton, things would be on the table and looked at.

But it's really gotta be something for America to get out of that, too.

*Merrill Matthews:* Another question from – yes?

*Question:* Hector Sanchez, Global Exchange. I think the clearest example of the failure of NAFTA is migration, and one of the main promises of NAFTA was that because all of the great jobs that NAFTA was gonna produce in Mexico, migration was gonna reduce.

The reality is that after NAFTA, during the first decade migration increased 65%, and today Mexico is the No. 1 country with economic displaced people in the world.

Why haven't the candidates put NAFTA policies and migration together and recognized that unless more and better economic policies are negotiated with Mexico, there is no real solution for migration?

*Gary Gensler:* Well I just think that – I'm sorry I didn't get the gentleman's name – but the –

*Hector Sanchez:* Hector Sanchez.

*Gary Gensler:* Hector? Hector has identified one thing that certainly all the candidates probably have seen, I personally saw in Iowa and New Hampshire, that the issues of immigration, if I might use the word instead of migration, but issues of immigration and trade do in many voters mind get overlapped in the confluence of these issues, and so forth.

Senator Clinton does have a very real view, articulated about the need for immigration reform, and I don't think today's the forum to go through each of the pieces of that, but she thinks we have to address this.

We have to find a way that we both enforce our laws and make sure that our borders are more secure, but at the same time find a path for the individuals – it's various estimates of eleven or twelve million individuals who are here in this country, often very much contributing to our economy, and find a path for them as well.

So I agree with your issue, and I know that the Senator very much understands in our internal conversations how these two issues are very, very linked, but we don't package 'em up, so to speak, in one speech, and maybe that was your comment.

*Dan Tarullo:*

This is – I mean, Senator Obama has made clear from the outset what his approach on immigration and immigration law reform ought to be. It should be familiar by now.

It is obviously the case that NAFTA promised way more than it delivered, and this is, again, an observation that people have made that wages have actually gone down in inflation-adjusted terms during the period it's in place.

So the mutual effects of policies on one another and impacts on one another can be apparent, but in terms of NAFTA itself, Senator Obama's position is that the appropriate thing to do there is to include the labor and environmental standards and to change the agreement in that way.

And as I said earlier, it's a logical, discreet approach to rectifying what I was alluding to earlier, which is the imbalance, or the asymmetry in the way that the agreement's structured.

*Doug Holtz-Eaken:*

I'm willing to conjecture that no candidate is more sensitive to the issue of migration across the U.S. southern border than is Senator McCain, and one of the lessons that he has drawn from this experience during the campaign is that the American people really have lost trust that their government is acting in their interests, and feel deeply that they were told something in 1986, and the government didn't follow through.

It is the reason he has been leading the effort to eliminate earmarks in the budget – there's an answer here, by the way, I'm getting there –

*(Laughter)*

*Doug Holtz-Eaken:*

To eliminate earmarks in the budget because it breeds a distrust about the role of special interests in Washington, and we're pleased that Senator Obama has joined Senator McCain in actually disclosing his earmarks and having a conversion to be on the right side of this issue. That's important.

*Male:*

*(Laughter)*

*Doug Holtz-Eaken:*

That was a partisan shot.

*(Laughter)*

*Male:*

You get one a session, Doug.

*Doug Holtz-Eaken:*

One a session?

*Male:*

Yeah.

*Doug Holtz-Eaken:*

Well, I'm waiting for Gary's candidate to join, that's a second partisan shot, I'm over my limit.

*(Laughter)*

*Gary Gensler:*

That's alright, that's alright, I felt it.

*Doug Holtz-Eaken:*

So on the immigration issue in the United States, it has now simply become part of this phenomenon that I think Dan touched on, which is the American people have to believe the government's acting in their interest when it conducts policy, and that includes trade agreements.

So I think that is important, and one of the things you cannot do if you want to retain the trust of people, is oversell any specific agreement.

NAFTA in and of itself cannot deliver prosperity to Mexico, it cannot in and of itself decimate the United States in the way that some of the demagoguery would suggest. It's just not that large and powerful.

It must be complemented with domestic policies in either country in order for it to be effective in achieving the overall economic promise of gains from trade, the international promise of closer relations between the countries, and the ability to build on that and do better in the future by retaining the trust of populations in both governments.

So I think singling out NAFTA in that way is a bit too much, and actually hurts us going forward.

*Merrill Matthews:*

Other questions? Yes?

*Question:*

Hi, Bob Davis with *The Wall Street Journal*. Just to be clear here, both – this is addressed to the Democratic candidates – both Democratic candidates have gone far beyond what you've said. They both have said that they will withdraw under – they will withdraw. They have threatened to withdraw. They haven't just danced around the issue as the two of you have.

Now you talked about labor – putting in labor and environmental enforcement into the agreements as opposed to having them as side agreements.

Is there any evidence that you can site that agreements with labor and environmental provisions embedded make any difference in terms of the consequences for either U.S. labor or foreign labor?

Cause there're plenty of agreements, plenty of U.S. trade agreements that have those provisions. As you know, the generalized system of preference is – for years they've had provisions like that.

And secondly, you talked about the investment provisions, which were inserted at the insistence of the U.S. because Mexico has a corrupt legal system. So are you saying that the U.S. should abandon those, or should push for the elimination of those provisions, which would then open U.S. companies to having to go through Mexican courts?

*Dan Tarullo:*

So I think Gary's going to answer on the investment, cause that's on Senator Clinton's agenda. Actually, Bob, there are no extant trade agreements except now with Peru in which you've got the labor and environmental provisions embedded in them.

I think you're alluding to U.S. laws such as GSP in which as a condition for unilateral granting of trade preferences for imports from various developing countries, the United States asks for a series of conditions to be met, anti-terrorism, and one of them is labor standards.

And I can tell you, at least from my experience in the government, that on a number of occasions when we were approached or petitioned formally by groups that were con-

cerned about labor rights abroad, identifying specific problems in specific countries, that we were able to get some change, get some action, and then they were not compelled to withdraw/withhold the GSP benefits.

Now that is not – it's not the same as a trade agreement. As I said, we really don't have experience with trade agreements because the administration didn't want to put these provisions into trade agreements, but what we do have is that sense that there can be movement and progress.

And I think it's important to note that as with all provisions in trade agreements, you're not enacting – you're not entering into the agreement, and this is any international agreement, with the expectation that you're going to be continually litigating.

You need to be prepared to use the dispute settlement mechanisms that exist. Each party needs to know that those mechanisms are there if they don't comply, but by placing binding legal obligations in a bilateral original trade agreement, you're creating an expectation of compliance just as you're creating an expectation of compliance for the commercial provisions in the agreement.

And when that expectation is not met, it's incumbent upon the other party, in this case the United States, to enforce the trade agreement, whether the issue is a denial of national treatment in the other country, or a violation of one of the core labor standards.

And Gary, you should probably address the investment thing.

*Gary Gensler:*

Well, I will, but I first want to, Bob, address the first point you made because when you're given 12 minutes to summarize a lot of things, you can pick your words, so I want to just make sure I clearly address what you said.

Senator Clinton has been very clear, and she's serious about this, and so that I don't mince any words, I'll just quote what she said. She said that she (quote), "I will say we will opt out of NAFTA unless we renegotiate it."

Those are the words she used, so you don't need a surrogate, those are her words.

Alright? So – and she's very serious about it, she's been serious since that in our – you know, internally. She believes, and she's quite confident as President that she'll be able to do that.

The labor standards, the ILO, International Labor Organization, standards and the five key agreements, and the multilateral environmental agreements, those that were sort of embedded into the Peru agreement, if I could use my words now, are not that far a stretch when you're thinking about these great nations, Mexico and Canada, to get to.

She believes that you can do that. And it is important to have them in there, to your second part of your question, not only for the reasons Dan said, but also for the confidence of American workers. I mean, part of what people have been asking about is, "Why is this important?"

It does come up. I mean, workers bring this up all across the campaign trail, and it was in Iowa and New Hampshire. I was hearing it in Iowa months ago, so I don't think it was just a recent Ohio revelation at all. I mean, it might have gotten more media attention at that point in time, but Senator Clinton was hearing it much earlier.

In terms of the investment standards, it hasn't really worked that well, particularly under this administration. You've got to take all of, I think, what Senator Clinton's saying

together – really believes you have to have more enforcement.

In this administration, there really hasn't been much enforcement, so we haven't really gone to the tribunal system under NAFTA, so there hasn't been an either/or – either tribunal or the Mexican courts.

And the way that the investment standards have been used by other countries' companies has sort of avoided going into our court systems and where our laws can be applied, so she does feel that we've gotta – when we sit down and try to renegotiate and try to address and get to a better place than where we are.

*Merrill Matthews:* Erin, let's come to this gentleman and –

*Question:* I mean both of you mentioned – Dan, you mentioned it earlier, the question that American workers care about this sort of thing, care about having the labor and environmental standards part of the deal, which I'm sure they do.

But that also leads to the assumption that basically what's going on here is an appeal to American workers, not really an appeal to – an effort to appease American workers, but not really a serious effort to get these provisions in there, and that ultimately, in the end, it'll just fade away.

*Male:* No, no, I don't think that's –

*Male:* Where does this come from? You just made that up.

*Question:* It comes from the Clinton administration doing the same thing. That's where it comes from.

*Gary Gensler:* The Clinton administration put in side agreements.

*Male:* Right, but the Clinton administration talked tough on trade and then acted as a free trader. That's the assumption that many people have about either Obama or Clinton.

*Merrill Matthews:* Okay, we'll move to the next one.

*Gary Gensler:* Yeah, I just say that what happens, what in our great nation happens is that candidates present themselves to the public, and they listen. And Senator Clinton has met with thousands and thousands of people in small settings, and hundreds of thousands in big settings, and she's really heard that these are real issues.

So it's not – these were your words to say, “appease,” it's – I mean, she believes as President she's accountable to the American public, and that's who she would go to work for every day. So –

*Merrill Matthews:* Yes, sir?

*Question:* Thanks, Keith Koffler with *Congress Daily*. I'm wondering that given that Senators Clinton and Obama have said that they would withdraw from NAFTA if they couldn't renegotiate it, have your campaigns done an analysis of what the effect on the economy would be of withdrawing from NAFTA?

*Dan Tarullo:* As I said earlier, I think that the logic of it, the discreet character of it, the ability to say, “Yeah, we're focusing on labor and environment,” which were the two things that were shunted into secondary status, tertiary, maybe, status in the original agreement does

have a logic to it.

It is achievable. That is what we're going to achieve, and that is the assumption I think under which we're all proceeding.

*Question:* But what if you don't? If you have to withdraw from NAFTA – I mean, it's a rather dramatic move – could be positive or negative. Have you analyzed what the result would be if you did that?

*Dan Tarullo:* Well, I think we know where we want to end up, and I think we know why there's a good reason to believe that that's where we will end up.

*Question:* Could you answer the same question? Have you done any analysis of what the effect would be?

*Gary Gensler:* I think Senator Clinton's answer in her own words, she believes as President – she has confidence that she'd be able to renegotiate.

*Question:* So you just hope it won't happen?

*Gary Gensler:* Those are your words.

*Question:* I'm trying to interpret yours.

*Merrill Matthews:* You want to go back up? Okay. One more over here and then we'll take a couple from the side.

*Question:* Sam Gilston with *Washington Tariff and Trade Letter*. Follow-up on Bob and Keith, there's often a lot of buzz words in Washington, and the two that seem to be hot right now are labor and environment in trade agreements.

But given that half of our trade deficit is in oil, and the other half is mostly with industrialized countries like Europe, Japan, and Canada, what specific benefits to American workers, the American economy, would you have if you actually did achieve getting labor and environment into trade agreements?

*Dan Tarullo:* Well I – let me take the first cut at that – because I think to a considerable extent, the emphasis on this has been coming from the questions from the floor. When – if you recall what I said in my introductory remarks, Senator Obama is interested in reorienting trade policy in such a way that it promotes the ultimate aim of strong, sustained, and shared growth.

And that's why I talked about the actual effects of the agreements and the provisions within the agreements. There are opportunities there, and there are also problems that have gone unaddressed, whether they be forms of subsidization, whether it be the larger backdrop issue of currency problems and currency manipulation.

So labor and the environment is a core piece of what ought to be done, but labor and environment doesn't tell us what's in the rest of the agreement. It doesn't tell us what the actual effects, either on the capacity of governments to regulate, or on the capacity of our exporters to get into other markets, is actually going to be.

So I – if one were just sitting here and listening, you might think it was all about labor and the environment, but I would respectfully suggest that's in part because of the nature of the questions, and not, certainly, the contours of Obama's own trade policy.

*Gary Gensler:* Yeah, I would just, again, I think there's probably more differences between the two Democratic candidates and the Republican candidate, but I would just echo that with the example of the answer to the South Korea Fair Trade Agreement had to deal with mostly auto and some issues would be –

So – I mean, clearly it's an important plank of Senator Clinton's that she believes going forward we should have these as part of our agreements, but it's just part of the agreements.

*Merrill Matthews:* Let's come back over here. Aaron?

*Question:* Eric Kulisch, *American Shipper* magazine. I was just curious with the recent letting of the contract for the Air Force tanker deal with Boeing and the European Aeronautics and Space Company were awarded. That seemed to come into play as a part of this trade competition and defense procurement debate, and there's been some talk from the Democratic candidates that there might be some problems with this agreement.

Is there some process – is there something wrong with a good – something at odds between good government contracting and letting a major defense contract to our strongest European allies?

*Dan Tarullo:* Well, I think right now – you kind of alluded to this – but there is an appeal going on right now, and I think a lot of members of Congress, certainly including Senator Obama, want to know exactly what and how – what factors and how the decision was made.

But I think it would be premature other than to say that he has an interest in it, and he wants to know what happened and wants to make sure this was done in the right way to make any comments on the merits cause we just – we don't have all the facts yet.

*Merrill Matthews:* Doug, anything to add?

*Doug Holtz-Eaken:* Well, the candidates themselves I don't think have a response to this, but the DNC has regularly railed against Senator McCain for somehow pushing this deal to a European company in a way that I think is quite shocking.

I mean, Senator McCain uncovered a corrupt deal where the heads of Boeing lost their jobs, the defense procurement leader went to jail, and that led to this contract in what we hope was a fair and open process, the review is under way. Certainly, we want to have that.

But to suggest in any way that this means Senator McCain is not interested in the welfare of American workers has really, I think, been way over the line.

*Merrill Matthews:* One final question. Aaron?

*Male:* We're done.

*Question:* Hello, Carolyn Avery with IAS Group. I have two questions for Mr. Tarullo. First, your campaign colleague, Austin Goldsby, has said that he doesn't think that it would be a good idea to shift towards consumption taxes. So if there's a better way to fix our trade imbalance than shifting towards consumption tax, what would that be?

And the second question is, does Obama have a national competitiveness strategy, and



if so, what are the key elements?

*Dan Tarullo:*

Well, let's see, with respect to the first, a sustainable, sensible set of fiscal policies, including tax policy and spending policies, that is a route to a sustainable set of external policies as well.

And in all – yes, we have lots of proposals to strengthen the operation of the American economy, to increase productivity, to enhance innovation, to support manufacturing, but in, whatever it is, 11:59 and 30 seconds, I really can't get into detailing all of those.

But I welcome, or I urge you to go onto [www.BarackObama.com](http://www.BarackObama.com), click on issues, click on economy, and you'll see 'em all laid out.

*Gary Gensler:*

And feel free to do the same at [www.HillaryClinton.com](http://www.HillaryClinton.com), issues, economy.

*(Laughter)*

*Male:*

McCain has \_\_\_\_\_ turns.

*Merrill Matthews:*

Ending with the essence of American capitalism, which is an advertisement –

*Doug Holtz-Eaken:*

Don't I get my ad?

*(Laughter)*

*Merrill Matthews:*

Would you please join me in thanking the panelists.

*(Applause)*

*Merrill Matthews:*

We know there were many more questions. I don't know if the representatives will be able to make themselves available for a few minutes afterward, but we thank you for coming.

As I said at the beginning, please don't forget about our World IP Day event on April 24. You can actually RSVP at one of the tables in the back. Thank you very much.

*[End of Audio]*