



Fiscal Policy BULLETIN

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Perspectives on Employment and Free Trade

On September 24, 1993, the Honorable Lee H. Hamilton, U.S. Representative from the 9th District of Indiana and Chairman of the House of Representatives Committee on Foreign Affairs, addressed the annual meeting of the Indiana Fiscal Policy Institute. His comments are as follows:

Too Few Good Jobs

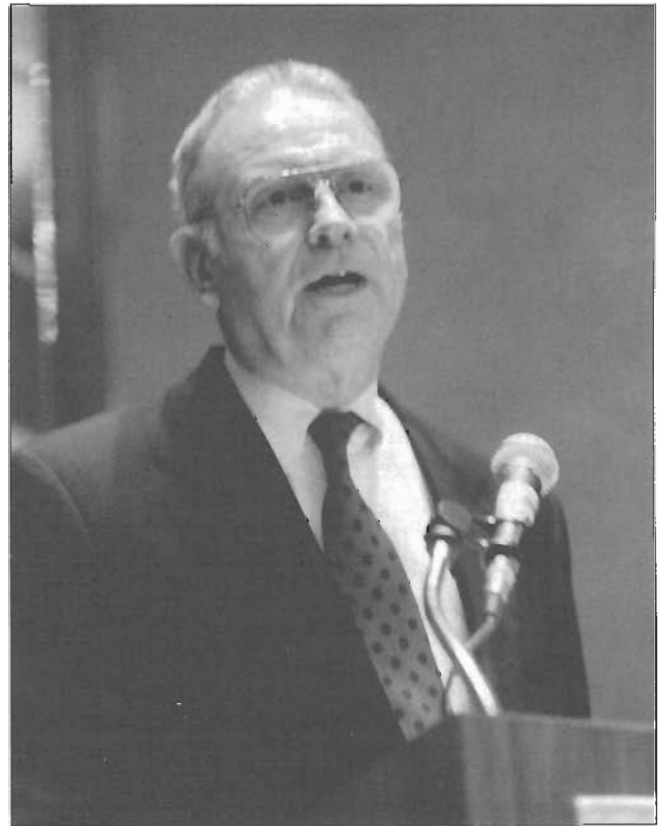
Let me begin with what I think is the number one economic problem — not expressed as an economist would express it, but as a politician who listens to a lot of people. I stood on the street corner of a small Indiana town a couple of weeks ago and I was talking with a gentleman who perhaps didn't have as much education as many of us in this room, but who nonetheless had a lot of insights and he said, "Lee, there are just too few good jobs to go around." And I said to myself, "He hit it right on the head. There *are* too few good jobs to go around." If you want to understand why the anxiety level of the worker is so high today, that's the key to it. I have noticed a steady erosion in the security of average Americans, and that has led to a lot of quiet anxiety. So, I want to make a few comments about good paying jobs in a competitive economy.

On the positive side, we can say that this country has had a remark-

able record in creating jobs. We are the envy of the world in the manner in which we have created jobs. Almost twenty million jobs were created in the 1970s; almost eighteen million jobs were created in the 1980s. And, we have more people today working than ever before.

Now, there are some current concerns about the quality of those jobs. One of the things we hear frequently today is that employers are hiring part-time workers not full-time workers, and I suppose all of us can point to some anecdotes that support that. The number of part-time jobs is indeed growing, yet the percentage of the working age population with a full-time job is higher now than it's ever been before. So I think we can say that employers on balance are not eliminating full-time jobs and replacing them with part-time jobs.

A more serious concern with regard to jobs relates to wages. It is very enlightening to look at this one statistic: Between 1948 and 1973, the average worker in this country



Lee H. Hamilton

doubled his or her income. Since 1973, wages have basically stagnated. So, for twenty years, we have not been increasing the wages of workers in this country. If you want to understand why NAFTA is unpopular, and why there is this unease and this anxiety in the country about jobs, that's it. Family income has often grown because the spouse has gone to work.

Increasing Global Competition

With respect to wages is the widening gap between skill levels. The most skilled and the best educated among us are in demand in today's economy while the lesser skilled workers face increasing competition from overseas and immigrants. If you ask my colleagues from California to name the number one political issue in the country today, they will unanimously respond, "Immigration." Immigration is a concern, even in Indiana, one of the interior states in the country. Come with me tonight to a public meeting in Corydon, Indiana, and I'll guarantee you the question of immigration will come up. Why? Because of this quiet anxiety about jobs in this country.

Troubled companies are eliminating jobs by the tens of thousands. Even companies that are making money today are shedding jobs. Why? Two reasons: First, technology is a big factor. That's good, it enhances productivity, but it can also threaten jobs in the short run. The other reason is that we are threatened by a highly competitive world economy, and the factors that underlie that competitive economy are not going to change. Ten or twenty years ago when I toured a plant in southern Indiana and asked the plant manager, "Who's your competitor?" he would say, "A plant over in Illinois, or down in Kentucky, or Arkansas." (A Democrat has to work Arkansas into every speech these days, one way or the other.) Today ask that manager where the competition comes from. You know the answer — Italy, Japan, Germany, and all the rest.

The Key is Investment

What should we do? There are a lot

of ideas floating out there, but one of the things that has really impressed me as I sit and listen to the testimony of economists is the unanimity of view of economists about what we have to do in the country. They can be monetarists, they can be supply-siders, they can be Keynesian, they can be neo-Keynesian, but they basically agree.

You've got to increase productivity. In order to increase productivity you must invest — in R and D, in people, in infrastructure. In order to invest you've got to save. In order to save, the quickest and the fastest way to save is to get the federal budget deficit down. Everybody agrees to this. And, the quickest way to get that deficit down is to cut consumption spending, which in another word is entitlement spending. The key to better jobs and better wages, is productivity — enhancing investments.

It is not a simple solution. It is not a solution that will come quickly and it will take stamina to achieve it. But there aren't any short cuts. Some people say a short cut is to erect a trade barrier. I don't think so. We have to invest in machines, factories, research, development, and in new and better ways of doing things. And certainly one of the most important things to invest in (all of us agree to this) is education — a good basic education for everyone: affordable college, school-to-work apprenticeships for young people, and lifetime learning.

Obviously, providing good jobs in America is not the function of American government. That's the private sector's job. But our job, it seems to me, is try to create a climate that is conducive to non-inflationary growth. And I think

that jobs — good jobs — in a competitive world economy is the number one issue that confronts us. Every leader in the developed world has a very low public approval rate. There isn't a leader in Europe today that has a public approval rating above 35 percent because they are all dealing with this problem. They are all confronted with a world economy that is so highly competitive that a vast restructuring is going on and it is creating great tensions and anxiety among our people and we must be sensitive to that.

Trade Issues

Let me say a word about the North American Free Trade Agreement. The world is poised on the brink of major decisions with regard to trade. The most important one probably is not NAFTA, rather it is the General Agreement on Tariffs and Trade. December 15th is the deadline because that is when the fast track legislation authority runs out for Congress and I doubt very much that the Congress would approve giving the President fast track authority further. (We should, but I don't think we would.) There are billions of dollars being lost every month in the world because we don't have a GATT agreement. Billions of dollars and millions of them are in this state.

You may not have heard about APEC, but we're going to have a big meeting in Seattle, Washington, in November. Presidents and Prime Ministers from all over Asia are going to come in and they're going to talk about economic and trade arrangements for the fastest growing economies in the world in Asia.

I favor NAFTA, but NAFTA would not be approved today in the House of Representatives. It would be defeated if it were voted on today, although I think it probably would pass the Senate. I support NAFTA because I think it will benefit our economy. I think it will improve the environment and I think it will promote foreign policy interests of this country. NAFTA will benefit U.S. workers.

There is an amazing consensus, of the independently financed studies on the value of NAFTA. (You can find some studies that go the other way, but check out how they're financed.) The consensus says that NAFTA will increase U.S. exports, it will increase U.S. employment, it will increase U.S. wages. There is going to be a net gain of jobs. We must be careful here, a *net* gain is important to note. There are people who are going to lose their jobs. And unfortunately those people are going to be those who are less skilled. That's the way it usually works isn't it? Those of us who support NAFTA have to be prepared prepared to support generous assistance for retraining and re-education and relocation of those people who lose their jobs. If you don't like that position, OK but you don't have a chance of getting NAFTA through the Congress unless we do it. It ought to be done anyway, but as a practical political matter it must be done.

Since we're producing more now with fewer workers, opening new markets is the key to job creation and economic growth. NAFTA is going to improve our economic long-term competitiveness. This is a 370 million people market. We have a \$6 billion surplus of trade with Mexico today, and their tariffs

are four times higher than our tariffs — 2.5 versus 10 percent. Even with that tariff barrier, we have a \$6 billion surplus in trade. Take away that barrier, which is what NAFTA does, and we will be able to export more. Beyond that, the company today that moves around that tariff barrier in order to locate in Mexico, to hit the Mexican market, won't have to do that anymore. Let me tell you, the Japanese are developing a regional market; the European Community is developing a regional market; and we had better develop a regional market on our side of the globe.

NAFTA as a Metaphor

Let me conclude just with a few quick observations about the foreign policy implications of NAFTA. Economic arguments predominate and should. But, foreign policy advantages are very substantial. NAFTA is going to produce a closer, more competitive more constructive relationship with Mexico. We have a lot of problems with Mexico — for example, the environment. Some of the environmentalists are coming to me and saying, "Vote against NAFTA." The environmental problems that exist on the border today are awful, but they weren't caused by NAFTA. NAFTA has the mechanism within it to deal with those problems. It provides us leverage by which we can get the Mexican government to attack the environmental problem. If you defeat NAFTA, you get the status quo. NAFTA will help us with the immigration problems and with the drug problems.

President Menem of Argentina was in the other day and I finally said, "Mr. President, what's the number one bilateral problem between the United States and Argentina?" His

answer, "NAFTA." I said, "How can that possibly be? You're not even a party to NAFTA." He said that every leader in Latin America would answer the question the same way.

NAFTA has become for the 1990s what the Panama Canal treaty was during the 1970s. During the 1970s the Panama Canal Treaty question had to be resolved. If you didn't resolve it, you simply could not get to a lot of other questions in Latin America, such as democratization and the market economy. The same thing is true in the '90s with NAFTA. You have to resolve that question before you can get to a lot of problems today in the Western Hemisphere.

So approval of NAFTA is a critical step in developing closer economic and political ties with the rest of Latin America. And, of course, the adoption of NAFTA will help us on GATT and APEC as well as other things. NAFTA has become a metaphor. It is a metaphor of everything that's wrong in the American economy. It expresses those anxieties that I was talking about. And we have a heavy job to get it approved.

The Indiana Fiscal Policy Institute, formed in 1987, is a private non-profit governmental research organization. It is the only independent statewide source of continuing research into the impact of state taxing and spending policies. The Institute is privately supported by a variety of organizations, corporations, associations, and individuals in Indiana and surrounding states. Contributions to the Institute are fully deductible under section 501(c)(3) of the Internal Revenue Code.

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At the recent annual meeting of the Institute elections were held for officers and members of the Institute Board of Directors. The Institute would like to acknowledge the members of the Board of Directors and their organizations for their continued support.

(New members in bold type.)

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