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KIMBERLY CLAUSING:
THE PROGRESSIVE CASE FOR FREE TRADE AND GLOBALIZATION

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PARTICIPANTS:

Introduction and moderator:

DAVID WESSEL
Senior Fellow and Director, Hutchins Center on Fiscal and Monetary Policy
The Brookings Institution

Presentation:

KIMBERLY CLAUSING
Thormund Miller and Walter Mintz Professor of Economics
Reed College

Panelists:

KIMBERLY ELLIOTT
Visiting Fellow
Center for Global Development

SOUMAYA KEYNES
U.S. Economics Editor
The Economist

LORI WALLACH
Director, Global Trade Watch
Public Citizen

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PROCEEDINGS

MR. WESSEL: Good morning. Welcome to Brookings and the Hutchins Center on Fiscal and Monetary Policy. I'm impressed to see that all of you have braved what passes for a blizzard in Washington. (Laughter) I want to assure you we have plenty of facilities here if you get trapped because we have an inch and a half of snow. We can take care of you for a few hours.

I'm very pleased today to be helping celebrate Kim Clausing's new book, "Open: The Progressive Case for Free Trade, Immigration and Global Capital." The timing couldn't be better. We are, I think since the -- even before the last presidential election, engaged in a huge debate about whether globalization, immigration, free trade, flows of global capital are (a) responsible for everything good that's happened to the U.S. economy over the last couple of decades, or (b) responsible for everything bad that's happened over the last couple of decades.

As you know, the world is never black and white. As a journalist I always said that our job was to make the shade of gray a little darker, a little lighter, so that people could understand what was going on, and we're going to try and do that today.

The order of business is Kim Clausing is going to make a presentation. Kim is a professor of economics at Reed College where she specializes in international trade, international finance, and particularly taxation of multinational firms. Then I'm going to be joined up here by a panel of three people with very different perspectives, so I'll introduce later.

So, Kim, can I call on you? And welcome to Brookings. (Applause)

MS. CLAUSING: Thank you so much, David. It's a real honor and a pleasure to be at Brookings to talk about my book. I am also really grateful for the panel you've put together, which looks awesome.

I'd like to start with a few words about why I wrote this book, and for me the starting point was really the 2016 election. And the rhetoric of that election on both the left
and the right made two things very clear to me. One, the economic dissatisfaction was very deep. People were upset with the rising inequality over the prior decades, with the wage stagnation, with declining opportunity. And even though the last eight years had seen improvement in economic wellbeing, there was still a lot of economic discontent. But the second theme of that election was the swelling tide of nationalism. And this was seen in the rhetoric of candidates on both ends of the political spectrum. Foreigners and trade agreements like NAFTA were held up as responsible for the weakening status of the middle class.

Now, the outcome of that election, as we all know, was a result of many different factors. But on inauguration day, the one promise that Trump made the American people was to put America first. And this theme was frequently appealed to in the years since in terms of economic policy. And I would point out that the United States is not alone in this appeal to economic nationalism. Brexit reflected a tide of nationalism and a rejection of EU trade and migration policies. We’ve seen nationalism on the rise in Poland and Hungary, and Brazil’s recent election, and elsewhere.

So this book is one economist’s three pronged response to that rising tide of nationalism. The first question asked is what’s going on with the American middle class, why is it that we see wages stagnant despite increases in GDP? What’s caused the increase in income inequality over the last few decades? And how much should we blame the global economy for that?

The second big question is what are the consequences of openness for American workers? And by openness I look at it in a lot of different ways, I look at trade, capital mobility, multinational corporations, and immigration, and I ask how do these factors affect U.S. workers, but also importantly, what if we were to curtail those factors or to limit them, how would that affect U.S. workers?

And the final question is what to do about all of this. And in the closing chapters of the book I suggest a policy agenda to respond to these recent decades of
economic outcomes.

So today I only have 20 minutes, so I'm going to give you a brief taste of these arguments, but hopefully this and the conversation that we have afterwards will inspire you to engage with the longer arguments in the book, which by the way is for sale in the back a full month before you can get it on Amazon.

So let's start with what's happening with the American middle class. And you see in this picture here the blue line is showing you the increase in GDP per capita over the last few decades. And that's been very substantial. There's been an over 60 percent increase in GDP per person in the United States over the last 3 decades, enough so that if distributed equally everyone could have more than $20,000 of additional real income over these previous decades. But notice the red line is far flatter. What the red line is showing you is median household income. So at a time when GDP per capita has been rising strongly in real terms, real median household income is much flatter and, in fact, less than a quarter of the growth that you see in GDP per capita. And that's of course problematic for your typical household.

Why has that occurred? In short, income inequality. And if you look at these two eras of income inequality you see a very different pattern. So in the first 35 years after World War II cumulative income growth for the bottom 90 percent of the population was about 100 percent. So they expected their income to double. They roughly doubled over that 35-year period, whereas income growth at the top, the other three bars of the top 10 percent, the top 1 percent, and the top .01 of 1 percent. That income growth was actually smaller than that of the bottom 90 percent. So that was an era when rising tides lifted all boats.

But this most recent era, the 35 years just previous, had a very different pattern. The bottom 50 percent of the population sees almost no economic cumulative income growth. The 50-90th percentile see less than half what they did in the earlier period, and the growth is really spectacular only for those at the top, the top 10 percent, the top 1
percent, and even better the top .01 of 1 percent.

So if you look at that period, that shows us that there really is a good reason for economic discontent. The economic growth isn't necessarily helping everybody. And so there's a lot to worry about here. So the next question is why is this happening. So one thing you could say is, okay, in the second period there was definitely more trade, there was more immigration, there was more foreign direct investment. Maybe foreigners are the problem. And that's one possibility. But one thing to keep in mind is that a lot else changes between these two periods that might contribute as well.

One example would be technological change, right, the role of computers, mechanization, the internet, have displaced the need for a lot of unskilled labor and probably shifted demand away from those workers and towards others in the economy. And so technological change is an important issue. But there are several other important things that have changed too, market power is a much more salient feature of today's economy than it was earlier. We see sales and profits are much more concentrated in a few companies than they used to be, and a larger share of society's savings is in the hands of corporations. We see changes in labor markets where there's less unionization and a richer reward for those at the very top of most labor markets. We see change in social norms. Now the typical CEO earns 300 times the average worker's salary. In 1980 that was 30 times. So that's a big change in executive compensation. And there have also been huge changes in economic policy, including reductions in top tax rates and reductions in capital taxes.

All these other factors are important. If you look at the economies in the world, almost all of them have experienced increasing globalization, an increase in technological change, yet the outcomes on the ground look pretty different in different places. And one of the reasons for that is that institutions, social norms, and policy matter.

So, at the end, there's a lot going on and people are definitely right to be concerned. Globalization may be a factor, but it's not clear it's the only factor. This storm that's affecting the middle class is coming from a lot of different directions.
So next let's think very briefly about two types of economic integration and how they can explain or not explain what we've seen going on with American workers. And today I'm going to focus on trade and immigration but leave capital mobility and multinational corporations for later in the conversation.

So international trade comes with a lot of benefits that I talk about in chapters three and five of the book, but it also comes with costs and downsides. And one example comes from the China shock. A team of researchers has shown, using variation in exposure to Chinese imports, which you see the more exposure you have the darker in this map. Extra Chinese imports due to China’s joining the world economy probably reduced U.S. manufacturing employment by about 1-2 million jobs. And that's a serious cost, a cost that spread over several years when those imports were coming in. But keep in mind that while that sounds bad, we should probably put it in a larger perspective. For one thing, those Chinese imports, some of them were intermediate goods, and those intermediate goods might have actually enhanced the competitiveness of U.S. firms and caused more job creation elsewhere in the economy. It's possible that job loss also led to otherwise more expansionary monetary policy than we would have seen.

But even ignoring those factors, another thing to keep in context is this job loss is 1-2 million jobs over a period of years, but this gives you the job loss per quarter for the U.S. economy. And every single quarter we lose typically over 6 million jobs in the U.S. economy. Luckily we also create typically over 6 million jobs every single quarter. But there's just a lot of disruption coming from all sorts of sources in the U.S. economy on a regular basis. Over 6 million jobs a quarter are lost, over 6 million jobs a quarter are gained. So you can lose your job for a lot of reasons. You can lose it in part for foreign competition, but you can lose it because of domestic competition, you can lose it because a robot comes and takes your job, you can lose it just because consumers decide they like one thing more than another and shift demand away from your firm and towards another firm. So those are all causes of job loss and disruption.
Now, you could argue while losing your job to a foreigner is in a way more hurtful than losing it to a robot, and I suppose that's possible, you could also argue well we can't do anything about robots or social norms or market power, but what we can do is we can raise tariffs and maybe that would help us undo this 1-2 million job loss even if we can't address every 6 million that happen each quarter.

So one question I ask in the book is are tariffs ultimately helpful to American workers, and I conclude that no, actually. From a set of priorities where we prioritize American workers, tariffs are actually quite harmful to them in several ways. So what are those ways? First is producers. It's true we've had trade shocks. Those are hard to undo. But that doesn't mean that we need to create new trade shocks. And trade restrictions and barriers often create new shocks. For example, soybean farmers in the Midwest have felt the pain of our trade policy lately as they've sold fewer soybeans, General Motors has paid over a billion dollars in tariffs over the last year and they've also closed plants in the Midwest. Many U.S. companies have announced that they're making less profits than they expected to because of disruptions in their global supply chain. These are all new types of shocks that affect American workers and generate new types of disruption. So that's one way in which trade barriers affect workers.

Another way is through their role as consumers. All of us are consumers as well as producers. And one underappreciated fact is that tariffs are very aggressive taxes. So if you look at the share of income spent on imports for the bottom quintile, it's about three times the size of the share of income spent on imports for top quintile. And so that means that when we tax trade we're disproportionately putting that tax burden on those at the bottom of the distribution. And, in fact, if you go back in history and you look at why we adopted the income tax over 100 years ago and pushed for it through the constitutional amendment that was necessary in order to allow that, there was a strong sense at the time, in the early 1900s, that after that first Gilded Age we couldn't really rely on regressive tariffs to fund the state, that we needed to turn to a fairer tax, which is the income tax. And so
that's an important piece of our history to keep in mind.

A third way that trade restrictions hurt households is by hurting our international relations. And that's not nothing. We have a lot of global problems that affect households on a daily basis that require cooperation. And one that leaps to mind is climate change, of course.

Now, I know it's out of vogue to care about other countries, but I would also point out that trade and global market access have been important for them. Trade is not the only thing going around in this diagram, but you see here that the fraction of the world's population that is living below the global poverty line, which is $1.90 a day, has declined dramatically in just this time period that we've been talking about, since 1980. So it used to be 40 percent of the world lived below that very low extreme poverty line, now it's about 8 percent if you go out to the present day. And the decline in China you'll notice is even steeper than the decline for the rest of the world.

Now, openness isn't all of that story, but it's an important part of that story. And another important thing to keep in mind is that these gains are a not a zero-sum situation. At the same time that those poor countries have grown and have passed that growth along to their citizens, the United States has also seen GDP per capita grow by 60 percent in those same years. So our economy is growing while their economy is growing. It's not true that our gains have been evenly shared, but that's a separate question from whether our growth is consistent with their growth, which it clearly is.

And as chapter six of the book explains, trade deficits are not a good metric for who's winning, losing, and achieving the gains from trade. And it's a particularly silly policy tool for the United States. I'm happy to talk about that later, but I don't want to go into that a lot now.

So while trade has created some adjustment costs, the basic conclusion is that the trade barriers will do more harm to U.S. workers than help them. And, indeed, those barriers create a lot of cost for ourselves and others.
I'd also like to talk a bit about immigration. This is even easier. There is no serious evidence that immigration is responsible for the woes of American workers and the economics literature -- there have been hundreds of papers written on immigration, and the picture is pretty clear. Immigrants are good for the country, immigration is good for almost all the groups in the country, it's good for the immigrants themselves, and there are very few losers to reckon with here. Now, immigrants are presently about 13 percent of the population as you see here. This counts anyone that's residing in the U.S. that's foreign born. The undocumented, by the way, are less than a quarter of that total and a shrinking part of that total. And most of those overstay their visas rather than crossing the border.

Immigrants are not evenly spread out. They tend to settle in particular communities. And notice this part of the country that doesn't have a lot of immigrants is also the part of the country that tends to object to them the most, which is an interesting polling finding. But some nonetheless feel that we have too much immigration, despite the lack of evidence that immigrants are harmful and under the present U.S. Administration we have many policies that are hostile to immigrants, including not just the idea of the wall, but increased vetting and obstacles for legal immigration as well as reduced refugee quotas. In the UK, of course, restricting migration was one of the points of Brexit and we also see migration being a big issue throughout the EU.

So I'd like to point out dangers for American workers of reducing immigration and what sort of risks are involved for U.S. workers. One risk is that we lose talent and innovation. And there are some fun facts in the book, but one fact is that over 60 percent of our scientific Nobel Prizes that are awarded in the world go to U.S. based researchers, but a minority of those go to U.S. researchers who are born here. The majority is going to foreign born U.S. residents. So certainly immigrants are very important for innovation. Over half of our graduate students in computer science and engineering are foreign students; many of these want to stay and work in the United States. This is an area
where we have a lot of skill shortages, but often we require these folks to go home.

A second big cost of restricting migration is that we lose entrepreneurs and job creators. About 40 percent of our Fortune 500 companies were founded by immigrants or their children. Half of our billion-dollar startups were founded by immigrants. And so this is a big source of job creation that we would lose by restricting migration.

A third loss is that we lose important parts of the labor force. We need the skilled workers for some unique talents that they have, but we also need unskilled workers who often do jobs that native born Americans are reluctant to do, such as agricultural field work or elder care. And importantly immigrants also ease our demographic burdens and budget burdens associated with social security and medicare. We view these burdens as large but imagine living in Japan where the ratio of retirees to workers is 8 to 10, so there are 8 retirees for every 10 workers in Japan. In Italy there are 5 retirees for every 10 workers. In the United States and Canada that number is a healthier 3, and the reason it's lower is because not only do we have our current generation of immigrants, but recent generations of immigrants have higher fertility rates than people who've been in the United States longer.

So these are all important things to keep in mind before restricting migration. And, finally, I would also argue there's an important moral argument for being open to refugees. As Emma Lazarus put it, these are the huddled masses yearning to be free. And closing our door to them seems to me at least to be un-American. I use that word purposefully.

So in the end, I suggest more not less immigration and for the good of American workers targeting both unskilled and skilled workers.

Okay, so to recap this book is arguing that there are important problems facing American workers, but that erecting trade barriers and immigration restrictions and the like is more likely to hurt them than to help them. But this leaves us with the big question, which is what to do. So what should we do about these decades of income
inequality and wage stagnation? These are very important features of our world. So I suggest in the chapter at the end of the book several important policy things that we can do. I'll just give you a few examples of those here. One set is to support workers better. And we can support workers both by investing in things like infrastructure and education and research and development, but also by helping workers who have been left behind through things like wage insurance, free community college, strengthening the Affordable Care Act, and helping invest in communities that have really received these shocks. And that's an important part of the policy response.

Another important step we can take is true tax reform. And I would distinguish true tax reform from what we saw the past year as the Tax Cuts and Jobs Act went into effect. I would argue that that legislation was a big step in the wrong direction, but I would build true tax reform around three principles. First, expanding the earned income tax credit and targeting negative tax rates to those at the bottom of the income distribution. Our tax system is strong enough to make sure that when GDP goes up that those at the bottom can receive some of the gains from that. And that's something that we should be doing far more aggressively. Second, I suggest making the tax system more efficient by reducing the tax avoidance gaming. And we can do that by taxing different types of income more uniformly. For individuals this means taxing capital income at a higher rate that's more commensurate with how we tax labor. For companies this means taxing foreign income at a rate that's more commensurate with how we tax domestic income. And, third, I suggest a carbon tax. That's long overdue. And I was thrilled to join a group of prominent economists from across a wide spectrum who support that ideal. Almost every time we tax we discourage something good, like labor or savings or entrepreneurship. But if you tax carbon you discourage something bad, and that's a beautiful thing. And carbon taxes need not be political suicide if we make a clear link between the revenue we get from those and lower tax rates elsewhere in the system and perhaps carbon refunds or something like that.

The final set of policy ideas that I bring up in the book are clustered around
a better partnership with the business community. It's long recognized that markets work best when they're competitive and when people have access to information as consumers and workers and investors. And we can do a lot better to ensure competitive marketplace and address issues of market power and to provide people with better information. And so I go through some of those ideas in the book.

In general these policy ideas are all based around economists' love of finding efficient solutions to our social problems in the ever present hope that by lowering the cost of addressing the problems we make the problems easier to address. But unfortunately I wrote this book because I believe we are in a dangerous time. The last big era of globalization ended with a rising tide of nationalism and was followed by two World Wars and a Great Depression. At present our economic discontent resulting from inequality and wage stagnation have created a situation where nationalism and isolationism are far more attractive than it should be. This clearly dangerous for peace, but it's also dangerous for the prosperity of workers, which I argue in the book.

But most important, I think blaming foreigners for our economic problems really distracts us from effective and direct policy solutions to these very same problems. So I believe this moment in history is an important time to get economic policy right and I'm looking forward to discussing how we might do that.

Thank you. (Applause)

MR. WESSEL: Before I turn to the panel, there are seats in the front. You're welcome to come down. I promise not to call on you. You have to raise your hand. And there are also a few seats off the front row. So if you're standing in the back and want to sit down, I hope you'll join us up here. We don't bite.

Well, thank you very much for that, Kim. One of the challenges of having a conversation about Kim's book is she has avoided the trap that many economists fall into, which is to write extensively about one silo and act as if everything else that happens in the world is irrelevant. So the book ranges widely from trade and trade agreements and
globalization and immigration to tax policy, labor policy, and how the pieces all fit together. And I think I really appreciate how lucid your presentation was. I often think that having speakers here who spend their time talking to undergraduates is a very constructive thing. (Laughter) That wasn't meant to be a joke, that was serious. I mean I know that the average level of the average undergraduate at Reed College is probably somewhat higher than the average member of congress, but we can all strive in that direction.

So I thought what would be useful is if we started by talking about the issues on trade and globalization. And to that end we have a particularly interesting bunch of people here. At the end is Lori Wallach, who knows more about trade and trade agreements than anybody else in Washington. She has been thinking about them for 25 years. And if you want to know what's on page six of the Korea-U.S. trade agreement, she can tell you what's there, how it got there, and what they should have done better. Lori is the Director of Public Citizen's Global Trade Watch.

Next to her is Soumaya Keynes, who is Economics and Trade Editor at The Economist and host of the Trade Talks Podcast, which she does with Chad Bown from across the street at the Peterson Institute, which is really a wonderful way to learn about this stuff while you're exercising. It's a painless way to make the time fade. I speak from experience.

And Kim Elliott is now a Visiting Fellow at the Center for Global Development. She has been involved in writing about trade and trade agreements around the world for many years.

So we have very different perspectives.

Lori, I wonder if I could start with you. So Kim basically makes the case that there's lots wrong in the American economy, a lot of workers are getting screwed, a lot of companies are taking advantage of them, but globalization and immigration are not the cause, so we shouldn't try and limit them because that would be counterproductive. And since you've been involved in the trade debate since the early '90s, about the time I came to
Washington originally, I wonder if you look across the arc of the debate of policy and political debates over trade, how does this fit into that? Is this a good restatement of old views or is there something new and interesting here? And remember to push the button in the middle that looks like some wifi signal coming out of someone's mouth.

MS. WALLACH: There we do. Well, the first thing I want to say is I think that the book has some very useful interesting things to say about U.S. tax policy and international tax policy vis a vis profit shifting and tax avoidance. There's some important points I think about antitrust and concentration of corporate power in multinationals. And so I think those are a variety of ideas that I think there isn't enough focus on in congress, and I hope a future U.S. president thinks about.

With respect to the trade issues, I think both the rhetorical frame actually is an example of the kind of framing and argumentation that some degree got us Trump. It is a restatement of the same argument that have been kicked around in defense of the status quo. And, in fact, I think when I teach -- I teach a seminar sometimes on trade politics -- I might assign parts of that book because it actually has every single trope that you have ever heard in Washington recycled, which a bunch of them are sort of debunked on causation or other issues, or there's just now new academic research that disproves, for instance, the automation issue. I would send people to the literature review part of the most recent paper by I think it's Susan Helper that goes through all of the literature that basically at this point disproves actually whether in the dichotomy between trade and automation, which had the biggest impact on job loss and income inequality.

But be that as it may, I think the bigger issue and the reason why the proposals in a way on policy are some of the right ones on trade, but the argumentation is probably -- closes down some of the people you'd want to hear those arguments -- is because it's promised on a false equivalence, the arguments about trade, putting Trump and Sanders critiques of the current trade regime in the same boat, and they're not. Trump has a very nationalist isolationist frame of the foreigners are out to get us, which is empirically
kind of boneheaded given the U.S. negotiators framed (inaudible) negotiations that Trump is now attacking is against the United States, which is a kind of complicated contradiction in reality. However, Sanders’ critique, which is I would say is my critique, is that we’ve had capture, which we have in the U.S. 500 official corporate trade advisors in a process that’s otherwise closed, with limited input by other interests and other communities who have had the opportunity to write a particular set of rules. And as a result you have rules that have a certain set of interests being benefitted versus workers in the environment internationally with different kinds of impacts in different places. But the lack of recognition between what is a nationalist sort of isolationist critique that gets into sort of answers of pure protectionism versus a progressive critique, which is there are benefits in trade, let’s get the rules right, because this set of rules is not the set of rules that’s going to float all the boats. And if you have more losers than winners you can’t just basically transfer from the winners to those few losers to try and help ease their transition. You have to get the rules right.

And that also goes to a false dichotomy I think in how the frame or the idea of open is put together, which is -- and this is actually a quote from the book, and this theme is over and over and over, but this I thought was the most fleshed out version of it. We can keep economies open, foster international economic relationships, and accept immigrants, or we can erect walls, block trade, and erect other barriers to investment. Those aren’t the choices. Those aren’t the choices. I mean I think even the most Trumpy of the Trumpians is not talking for autarchy. The question I think is the policy choice that really faces us. And I think have done endless focus groups now of Obama, Obama Trump voters in Wisconsin, Michigan, Ohio, and Pennsylvania to try to figure out what the hell happened, the frame of open is an elite construct that if you posit it as you can either have the status quo, which for them -- you know, some of the things in the book about economists haven’t educated people properly or they get this, or it could be worse is one of the claims. These are the kind of things that make the people who should be voting for democrats on economic issues think Trump is a better idea. If we posit the choice in front of us is continuing what is, you know,
in wonk world we would call the neoliberal status quo versus a bunch of crazy nationalist isolationist ideas, the isolationist and nationalist sounds just like change. And people don't want more of the same. And inside policy circles we may say, oh my god, there are enormous downsides to in many different ways, economically and otherwise, to what he is proposing. But how it is heard to people -- because I've watched these focus groups and it's really interesting -- how it's heard is that guy's for change, that lady is for the status quo. I'm not saying it's a fair characterization, but when we're trying to figure out how the hell people who voted twice for Obama then voted for Trump, which is part of my job is to figure out how to educate the public that it is not neoliberalism versus nationalism. There is a way to get the rules right where you get the benefits of trade without basically the status quo set of rules.

And that's just my third part on what's new and what isn't, which is some of Kim's ideas about -- and sadness about what's missing in trade agreements, where is the environmental cooperation, where is the tax avoidance, where is something to deal with corporate concentration, et cetera. I think there's -- some degree is the difference between recovering trade attorney, who does not know economics very well, unless I'm taught by others, and economists, which is looking at the policies -- I think there's a basic misunderstanding of what's in the agreements that's part of the premise of the book. So first of all, there's a power analysis that's missing -- 500 corporate advisors, not a shocker that you have the pharmaceutical companies getting IP protections. What is that doing in a free trade agreement? You point that out, but to spell it out, why we put the classic rent seeking protectionist device, a government issued monopoly license to a particular interest, into a free trade agreement? Obviously the reason is to have (inaudible), so people have a way to invest in innovation. Why you would put that in a free trade agreement? This is the kind of thing like David Ricardo and Adam Smith, rolling in graves, because it's stopping competition. Or why would you have a set of deregulation for the financial services sector, which you call for financial stability, exactly right goal, important part of the future of a stable
global economy, except, you know, the World Trade Organizations general agreement in
trade and services actually explicitly limits the ways that countries can use nondiscriminatory
financial regulations or that agreement also basically is the anti-antitrust, which is to say it
has specific rules. You can't limit by size, you can't break up service providers according to
what kind of services they provide, they're conglomerated.

So we have a set of existing rules, some of which, for instance, you're
calling for expanding -- we should do more WTO negotiations -- or, for instance, calling for
TTIP as a way to stop competitive deregulation, competition to have low regulatory
investment climates, when in fact all of those agreements have a ceiling on regulation and
no floor. So you wouldn't want TTIP or TPP because it's the opposite of what you call for,
which is the right goal, which is a floor for global competition. We have global corporations
and no global rules right now, but for those that limit what governments can do to try and
tame capitalism. So I think a lot of the policy suggestions are right, but there is confusion
about what's in the agreements.

And a couple of books I would just say are companion readers, Kuttner's
new book, "Can Democracy Survive Global Capitalism", which deals with a lot of the same
issues, but deals about the lack of regulatory policy space, Dani Rodrik's last book, and the
sort of notion of hyper globalization eating policy space needed to have equitable
globalization, the very instruments that -- open (inaudible) are the very instruments he says
need to basically be renegotiated, some of them scrapped.

And then, finally, I would sort of flag some of the work that Jared Bernstein
has done, laying out the kinds of rules you would want in the global economy, so that the
winners and losers who have been picked under this current power dynamic and negotiating
regime -- because it's clearly winners and losers -- there are no tariffs to cut, largely
speaking. Like the kind of gains you'd normally measure for liberalization, it was done 15
years after the WTO. Now it's about policy choices and who the winners and losers are, the
IP, farmer guys, Wall Street, or can we get new rules that distribute gains of globalization
and frankly regulate multinational corporations.

And I'll stop.

MR. WESSEL: First of all, I want to thank you for the term "empirically boneheaded", which I intend to use liberally. Unfortunately there are lots of things that are said in Washington or proposed for which that applies. But I haven't heard those two words together.

I just want to make sure I understand. So you're sympathetic -- I understand you're saying your sympathetic to Kim's concern about what's happening to the American worker and you're sympathetic to her concern that -- her argument that globalization and trade are not to be feared and shut down. So you like the ends that she proposes but you're suggesting that framing it this way, rather than the way you prefer, which is let's have globalization and trade but have better rules, would be appealing as a political measure. Am I characterizing you right?

MS. WALLACH: Part of it. I mean I think that --

MR. WESSEL: Turn on the mic.

MS. WALLACH: Part of it. I think that the defense of the status quo has proved incredibly treacherous. Because people's lived experience --

MR. WESSEL: Right.

MS. WALLACH: -- is so powerful now of what -- and they know even --

MR. WESSEL: But is that a framing?

MS. WALLACH: Hold on.

MR. WESSEL: Yeah, okay.

MS. WALLACH: And they know parts of the policies that have led to the outcomes. So there is also just I think a framing issue and there's a policy issue. And on both grounds the goals you want to get to, which is global financial stability, having agreements that deal with multinational transborder issues, like climate crisis and tax avoidance, those goals we share. But what instruments and policies will achieve that and
also what things you have to change in the status quo that now prohibit you from dealing with those things -- some of the existing trade -- but they’re not about trade -- agreements is a huge difference.

MR. WESSEL: Okay. Kim, maybe I can turn to you next because Lori endorses something that Kim argues for in the book, that basically trade agreements are a great way to deal with issues of international import that go beyond just do we allow six soybeans into the country tariff free or seven. I guess I should say seven billion. And I know that you have some views about whether this is a good use of trade agreements. And I wonder if you could talk about the pros and cons of that.

MS. ELLIOTT: Confusing having two Kims on the same panel.


MS. ELLIOTT: Doesn’t happen very often. Thanks, David, and thanks to Kim for the book. I really enjoyed reading it and I in general do agree with Kim’s -- well, the framing of maintaining openness while also dealing with inequality issues, I mean I think I would be sympathetic to. But I also agree with Lori that -- well, I agree with her that the trade agreements we have I think are part of the problem not part of the solution, but I disagree on where I think the trade agreements ought to go.

You know, I think that what I really liked about the book was focusing on what we need to do to fix the problems of workers in the middle class and inequality are primarily domestic. It is strengthening the safety net, empowering workers, improving American competitiveness, and fixing tax policy so that we can pay for all of this in a sustainable way. I also agree with many of her specific recommendations, but she short of - - it doesn’t spend a lot of time on it but does sort of say and let trade agreements do more to fix these problems of tax competition, regulatory competition. And that’s where I differ with both Kim and Lori, is I think part of the problem of the backlash against globalization -- I agree with Lori on that, that it is that trade agreements have gone too far. You know, I very much enjoyed reading -- I just got through with Dani’s book not long ago as well, his new
book on "Straight Talk on Trade" -- is that it? -- which is similar. It's that we've tried to do too much with trade agreements, because they have steadily expanded, they have added competition chapters.

And the thing is where I disagree with Lori in labor and the environment is those things have also strengthened steadily over the years. If you look at -- I know the main left argument against the labor and environment chapters is they're not enforced. That's sort of a different problem and I don't really think we can do it very well through trade agreements. I think we need to look at other areas, so sort of this is not going to fly politically at all, but I would be inclined to remove a bunch of chapters from the U.S. trade agreement template. IP, I think we probably maybe all agree that it has gone too far in terms of protecting intellectual property. It's bad for developing countries as well that the drug patents are not appropriate, the copyrights are not appropriate for poor countries with little innovative activity to protect, so I'm also concerned about that side of it. To the degree that people are concerned about trade agreements impinging on American national sovereignty and policy autonomy, well, imagine if you're a negotiator from, you know, Costa Rica, right, you've got no chance to preserve any policy autonomy. You're going to sort of take what's put in front of you. So I completely agree with that there are problems with the current trade agreement template that I think we need to fix, but it's more paring back than adding, piling more and more on and thinking that that's going to work very well.

Coming back just for a second to the sort of broader agenda of what I think is really needed to help the middle class and workers is this broader domestic agenda. And there it is the politics. And like I said, that was my sort of biggest disappointment with the book is that I didn't find answers there. I agree with the recommendations about we need redistricting reform, we need campaign finance reform, we need these things. The question is how do we get there. And this has been -- Lori -- I have been working on the trade stuff as long as Lori has, and a lot of us have been saying for decades we need to take care of the losers, we need to make sure that they're made whole, we need to support workers, we
need stronger unions, we need better education. We've been saying it for decades and decades. I would argue domestic policy in a lot of areas has gotten worse, not better.

So as I was reading the book I kept harking back -- and I don't think EJ Dionne is here today, but he wrote a column in November 1997 that I kept thinking about. He wrote it after congress at the time had rejected President Clinton's request for fast track authority to facilitate negotiating some new trade agreements and he interviewed Barney Frank -- because a lot of democrats, even with a democratic president, in congress voted against giving Clinton fast track authority, and Barney Franks said, you know, "We're going to hold globalization hostage to equity. We're basically not going to approve more trade agreements until we get progress on these domestic priorities." Well, that was 1997. We had two trade agreements at the time. We have 14 now. So I still don't know how we move forward on the domestic agenda, but I do think that that's on the one hand where our focus needs to be and on the other hand maybe just not worrying about trade agreements so much. We're not really negotiating good ones right now anyway, maybe just focus on that domestic agenda and then try to build the support to keep openness in the meantime.

MR. WESSEL: Thank you, Kim. In my experience if you want good political strategy, economists are not the right place to go. So maybe it's just as well that you didn't lay that out in the book. (Laughter)

Soumaya, so there's an interesting theme here. I think it's that we all understand in this room, and among a lot of elite, that globalization and trade and immigration are basically good for America and good for Americans, we just haven't found a way to explain to them and we haven't found a way, as Lori points out, to set up rules of the road that make sure that the benefits are widely distributed. And we haven't done those things which have nothing to do with trade to raise the living standards and the prospects for future living standards for a lot of workers, so we have this big clash now, a revolt of the people who feel left out. Their target is globalization and trade and I would say the forces of defense are regrouping.
And I'm sort of -- I'll put a question mark at the end of that and you can say whatever you want.

MS. KEYNES: Great. Excellent. (Laughter) Yeah, okay, so first of all, thanks for this. I read the book, greatly enjoyed it. And I think in some sense it set an example for the way I wish more debates were conducted in Washington. I wrote down a sentence that I really liked from the book -- well, my favorite sentence -- and it's more the phrasing than the content, although I'm happy with the content -- which is going without trade -- which is autarchy -- is quite harmful to a country's well-being. And, yes. And so I think there's a way in which that clash that David just described has been litigated and fought over in the public debate. You also wrote in the book that meaningful inclusive debate on the substance of these -- if TPP was virtually absent and part of me -- the kind of conflict hating writer for The Economist wishes that more kind of debates could happen in a way that expresses the uncertainty that we have in a clearer way.

So there's a bit of a contrast I suppose because obviously the talk you gave was the most -- you know, you were trying to present your conclusions in a forceful way, but if you read the book there's actually a lot of nuance and uncertainty about some things. So you come down on the side that it's actually mostly technology and not trade. But I think one of the really interesting ways of getting to that is actually to say in some senses it's difficult to disentangle those two philosophically, right. So you might observe something as technological progress in the data, but you don't know what spurred that. It could be that the pressure of outside grade competition was the thing that the technology -- the displacement happened because of technology at a faster rate. And so it's kind of nuances like that that I wish were heard more loudly as we go to war over whether it's technology or trade.

Also I don't think Kim knows this, but you actually cite an article that I wrote in The Economist with byline, so you wouldn't know this, but there was a kind of yelp of wonder when I read the footnote. So more of that. (Laughter) That sounds great.

MR. WESSEL: Yeah, but then you have to promise to write in The
Economist in simple declarative sentences, following Kim's model. (Laughter)

MS. KEYNES: Sure, sure. I'll get back to you on that.

So with all of that, this fighting in the background, I think that I also wish that there was more discussion of the actual substantive things in the rules. So in a sense I agree with you and I want to have this debate over what's actually in the rules. And so over the next six months we're going to have these two massive debates. One is going to be over USMCA, the rewritten NAFTA, and one is going to be over U.S.-China. And there are tensions I think in applying this dichotomy open to these debates. So let's take the USMCA or NAFTA. So essentially, the real policy debate that is going to happen is over something called State-State Dispute Settlement. So one of the problems that the democrats have identified with the USMCA as it is written is that essentially there are some procedural problems in the chapter that allows a state to sue another -- allows the U.S. to sue the Mexican government if they think that labor standards have been violated. In past agreements essentially what happened was the government being sued used these procedural loopholes to slow down the case, which meant that it just took so long, this process was ineffective, and actually enforcing the rules that have been written into this agreement.

The USMCA, as it is written or negotiated, does not fix some of those loopholes in the way that actually they were in TPP. And it looks like this was a deliberate thing because the USTR does not like the idea of a different government being able to sue the U.S. It doesn't like this tough enforcement provision with the USMCA because there are all these issues of sovereignty. And so one, these like little procedural loopholes -- and you won't hear about these loopholes in any speeches by Elizabeth Warren or anything, it will be about high level enforcement of the rules. And so it's very difficult to get a handle on what actually it means, what actually that means. But it's super important. And it's worth asking the question, why hasn't that problem already been fixed.

So, one, there's this issue that we care about sovereignty, we care about
labor standards. We don't want workers to be oppressed, not allowed to unionize, that sort of thing. The issue when you write that into a trade deal is that you're effectively giving the U.S. government the power of enforcing that over the Mexicans. And so there's this issue of like well who should be the one enforcing those rules, shouldn't that be a Mexican issue. And so there's a kind of tension, the stronger your language on these labor standards, which is one of the things that people on the left call to, the bigger this tension is between like okay, well, if you write this into a trade rule then it becomes the job of some other government to enforce that. And that kind of seems difficult if anything. Why should the American government be the one to be interfering with the labor laws of Mexico?

And so you can have our view on where you should lie, but it's tricky and that's I think one of the reasons the U.S. government isn't going to allow itself to be -- the Mexican government to sort of be able to sue it over its unionization law, for example. And so looking at why these were done in the past I think explains why it's tricky now.

I want to say something on -- again, more an enforcement. I've been spending far too much time with trade lawyers, and so all I can think about is trade disputes. Sorry. So I think one of the things that came up with the U.S.-China dispute is that these tariffs unleashed and you had this chorus of voices saying this is a catastrophe this is the worst thing ever, tariffs won't fulfill your objectives. And then the argument was basically like, oh, you care about the trade deficit, the tariffs won't help, why are you so stupid. And I happen to agree that trying to affect the bilateral trade deficit with tariffs is not the greatest idea, but there's a problem, which is that there's a reason why trade deals have expanded over time, which is that they have teeth. So trade deals are these immensely powerful instruments because you can write into a trade deal these rules and then you have an enforcement mechanism. At the World Trade Organization, if someone doesn't stick to the rules then the threat it is that you are allowed to apply tariffs on them. And so these things are powerful only if you think it's credible that at some point you can apply these tariffs as a
way of punishing a rule breaker. The idea, obviously -- the hope is that no one breaks the rules because there are these mutually beneficial things, but you can't think that trade deals work if you don't think that tariffs can be applied in any circumstance. We can agree that perhaps these tariffs, these punishment devices actually hurt you, they also are an active of self-harm as holding the other party to account. But there is a kind of problem there if you think that tariffs should never be applied in any circumstances, but you say, oh, but the way our trading system works is that they're useful as this punishment device.

And so, yes, that's a kind of difficulty or a nuance that I suppose -- you know, Trump made it difficult for that nuance to come out because there's all this talk about the trade deficits and it looked like there were all these other silly arguments in favor of tariffs. But supposing the U.S.-China dispute had happened the right way and someone had taken a case and sued China at the World Trade Organization and they had found, yes, they were breaking the letter of the rules, then you'd end up with tariffs at the end of that if China didn't change its policies. And so then the argument becomes about well, you know, the way in which you apply the tariffs, which is a slightly different set of issues.

I think I've been talking for long enough.

MR. WESSEL: I'm trying to get my head around the idea that you're complaining that Trump doesn't show enough nuance. (Laughter)

MS. KEYNES: I mean tweets aren't very long. So maybe that's the problem, maybe that's the problem.

MR. WESSEL: Kim, I don't want you to respond to everything, so I'm interested in your response to two things and we can get to -- I'll give you a chance before it's over -- one is there's Lori's argument that your framing and your focus on openness is good and your lack of attention to how the rules are basically a way for capitalists to get an unfair advantage weaken your case for openness. That's one. And the second is Kim's somewhat more narrower point that making free trade agreements more expansive is not a good idea.
MS. CLAUSING: Yeah, I'm happy to talk about both of that. I mean I think in away Lori and I agree about many aspects of the content of trade agreements. If I was going to design a perfect trade agreement it wouldn't have such tough intellectual property features, it wouldn't have the Investor-State Dispute Settlement mechanism. You know, I think a lot of those are examples of that power dynamic that you point out where corporate interests have been prioritized over worker interests in those agreements. And so I imagine evolution of those agreements that would be healthier that would downplay those things and perhaps include other things. And I don't know that those other things need to be in trade agreements as much as in agreements in general, like the OECD G20 process on addressing tax avoidance I think was a very useful first step for countries to start to think about way we could expand agreements.

And I guess my point about expanding them was in part that if we think about carrots that bring the business community to the table, to sort of address global issues, one carrot is market access in international trade. And that's a powerful carrot that might get them to be more interested in more collaborate ways of framing our global problems, like climate change and tax avoidance.

And so I view that as a possibility. I mean another possibility is to just have a standalone trade agreement -- I mean, sorry, a standalone agreement on something like climate change that came with border adjustments or standalone agreements on international tax competition. I think the problem with taking these piecemeal approaches as opposed to something more all-encompassing is that you don't have the carrots to balance -- like if you're saying to companies, oh, let's all cooperate so that we can pay more taxes, like that's not going to be as exciting to them as if you could pair it with something else.

But I would take issue with one element of sort of this focus on trade agreements in general. And I do think that trade is responsible for some disruption, some cost to American workers. But I think it's very important to recognize that when we hold up these trade agreements as being so important, like in the Sanders primary ads where he
would have the word NAFTA and then he would have a burnt out city and then the word NAFTA and then a burnt out city, or when we have Trump who is sort of saying NAFTA was the worst deal we ever made. I think we’re actually putting way too much importance on these trade agreements. I don’t think the trade agreements really have anything to do with those pictures that I showed you at the beginning, that show the divergence between median income and a GDP per capita or the increasing income inequality. It’s possible trade has something to do with that. But the trade agreements, I think we’re putting way too much emphasis. Even if we got the perfect agreement, even if we let Lori and a team of experts make the perfect agreement, that’s not going to change this last generation of income inequality or wage stagnation. And I think we’re misleading workers if we’re saying listen, if we get the rules right suddenly everything is going to be perfect for you. And so part of the argument I’m trying to make in the book is that maybe those trade agreements aren’t such a powerful lever at helping workers and instead if we do focus on the fundamentals, focus on better tax policy, focus on a better partnership with the business community, these big building blocks go directly to the problems. If we could do our dream trade agreements -- and I don’t think we’re going to make a very big dent in anything that’s really happening to American workers.

MR. WESSEL: All right, let me ask you a political question if I might. So I think the notion that it’s -- I think there’s widespread agreement, not only on this panel, that we have had policies that are inadequate to deal with all the forces that have widened inequality and have contributed to stagnant wages and incomes among a lot of people. And I think Kim is arguing that didn’t have a lot to do with trade agreements, but whether it does or not, why haven’t -- the advantage of trade agreements that do benefit big business is that you can, as Bernie Frank suggested, use them as a lever to get other policies which might not have anything to do with trade that would make life better for American workers. So there have been conversations about things like wage insurance, which would help people who lose their jobs, no matter why, they lost their jobs and have trouble getting another one.
We had every political candidate talk about increasing the earned income tax credit for single workers. There are all sorts of things that -- you know, everybody is in favor of doing something good for community colleges, which everybody seems to land on sooner or later when they're trying to figure out -- why hasn't the political system been able to deliver these kind of pro worker, pro equality benefits as the price of getting trade agreements through? Instead we've ended up with we'll put a little bit more money into trade adjustment assistance and we'll write some side letters. What's the politics, why hasn't it worked better?

MS. WALLACH: I think that the reason why is because the analysis people have had of some of the past trade agreements were ostensibly that kind of a tradeoff could have been made is that the actual terms of the agreements will have a big effect and that that effect will be so overwhelmingly negative that you actually can't compensate your way out of the problem. One of the fundamental I would say arguments in and the reason I said sort of the list of arguments are like the whole set of tropes is there is at this point a lot of evidence that the current set of trade rules, not even about trade, not about tariffs -- I mean that was sort of done away with largely in the WTO -- there's some peaks -- but the incentives about investment, about what basically Dean Baker calls selective free trade, all of the regulatory decisions that have to do with how you're going to allocate capital and how are the winners and losers that are baked into these agreements, that all of those decisions basically end up having a lot of the progressives, who would care about income inequality and trying to make that bargain, say we can't make that sort of agreement because the outcomes that we're going to have locked in -- because trade agreements, say unlike the farm bill, which gets renegotiated every five years, they're stuck until you either decide to get out of them -- never happens -- or you decide to renegotiate them -- rarely happens. And so I think a lot of the people who might have the instincts to want to help the class of people who those kind of -- they say well you can't compensate your way out of something if the net outcome is more losers.

And I think the thing that turned that debate, honestly -- and this gets to the
sort of trope issue - is in 2004, when Professor Paul Samuelson printed, published that article where he put the data, the current data into his own core formulas, that we all learned in economics more liberalization always lead to net welfare gains. Some people lose, the imported competition sectors, but us consumers win when there are more cheap imports. We have net gains. And he crunched the data -- I mean I could not read the math. I'd be interested in hearing the economist Kim's version of what she thinks about the math, but there are about three pages of advanced calculus that pointed out that it's outsourcing more high wage jobs, including through some of the incentives in these trade agreements in the service sector and investment, that the wage losses to a higher class of the income spectrum are now outweighing the consumer benefits of cheaper goods. And he proved it mathematically. Now, he didn't say as a result we should have protectionism, but he said it is no longer the case that under the current rules we're getting the net gains, which is one of the basic premises of -- like I think, David, the slight modification to what you said, I don't think the U.S. is winning under these trade and globalization rules. You know trade and globalization is like a generic, it's like the weather, but what is the weather, what are the terms of grade and globalization. So under these rules I actually don't think --

MR. WESSEL: I see.

MS. WALLACH: -- most workers -- and it's not just U.S. versus foreigners -- most working people -- I mean interestingly, Kim points this out, growing income inequality in rich and poor countries alike. And you have to think a little bit about under what global economic rules is this happening. Because this kind of gets the enforcement issue. Right now we have enforceable global rules that protect intellectual property, that limit financial regulation, that limit distinctions in energy between heavily climate disastrous and climate friendly kinds of energy, those are enforceable. And, in fact, even beyond the really important conundrum of the sovereignty versus leveraging market access. You know in the trade agreements you're required in your domestic laws to create criminal sanctions for IP violations at the standard in the agreements. So it's not just the tribunals, actually you're at
a violation if you don’t make criminal penalties under NAFTA for knocking off patents and copyrights. At the same time there aren’t any enforceable labor enforcement rules, which, you know, sort of gets to the other Kim’s point, which is just for the record, I thought we should get -- at the time of the Seattle protests my demand was let’s get the trade agreements back to trade, back to GATT, and get rid of all the other baggage that got pasted on. Unfortunately, we kind of lost that fight.

So you have criminal penalties in trade agreements for IP violations. So then the question is what’s the global floor, and that gets to the very point the other Kim pointed out, which is some of these issues are not going to be dealt with unless there is some sort of transnational rules, tax avoidance climate. And so I’m not calling for setting one size fits all rules in the trade agreements. I think there are a host of democracy problems about that. But what I am saying is if you have a global economy and you have no global floor on which the competition happens, no global set of rules to avoid tax cheating across borders and all the clever ways.

So, for instance, one of the ideas that Kim has about having some global accounting and global ways of finding where the taxes are and allocating them, super interesting. But you would have to do that in some enforceable agreement where there’s a hammer for if you don’t comply.

MR. WESSEL: Kim, can you talk a little bit about -- I promised the other panelists I wouldn’t make them talk about taxes, but I know that won’t phase you -- to what extent -- Lori assigns a lot of the problems we have to the rules of the global trading regime. But in your book you suggest -- this may be over simplifying, so correct me if I’m wrong -- that we ought to worry a lot more about how U.S. tax law encourages companies to move stuff overseas and that that’s actually a bigger factor in what’s alarming people than the trade agreements. Have I got that 50-50 right -- 50 percent, right?

MS. CLAUSING: Yeah, I think that’s close enough that we can work with it.

(Laughter) I guess my argument with respect to tax is that part of what we’re seeing in a lot
of countries, not just the United States, is this declining labor share of income and an increasing capital share of income. And you might wonder well who's holding that capital share of income. And often the capital sort of originates in corporate form and eventually is held by shareholders. And so that creates a really sort of important feature of the policy debate, which is how do we tax that capital income since capital is an increasing share of all world income and that's an important part of our tax base. We might think about how we could creatively do that. The U.S. tax code, both before and after the Tax Cuts and Jobs Act that was passed and went into effect in 2018, but both before and after it really encourages companies to shift profit to low tax locations. And before this tax law it was before of deferral. You didn't have to pay tax on the foreign income until it was brought back to the United States, and that meant you could leave it indefinitely offshore earning very low rates. But after this Act we also have an explicit sort of preference for foreign income where it's only taxed to the extent that it's taxed abroad at a rate that is below some global minimum. And so it's set at half the U.S. rate effectively. So you can earn income abroad and pay a tax that's half that that you would in the United States.

And so I think both of these are sort of an explicit sort of acknowledgement to the multinational community that it's okay with us if you earn the income in lower tax locations and in fact avoid taxes on it. And you might say well that's okay that we're not collecting tax at the corporate level because we collect it at the individual level, yet a paper that I wrote with Len Burman, who's responsible for most of the work on that paper, shows that about 70 percent of all U.S. equity income goes completely untaxed at the individual level. So if you think about how we're dealing with this greater role of capital in the world economy is we're not taxing most at the individual level and we're letting a lot of the tax at the business level escape taxation altogether. And so this has cost the U.S. Treasury I would argue over $100 billion a year, but foreign treasuries as well face substantial costs from this shifting. And this is a problem that we could probably address and make our tax system more equitable and that would leave extra money for things like wage insurance and
the earned income tax credit and direct solutions to the plight of American workers.

MR. WESSEL: So as Kim Elliott pointed out, there are some elements of the conversation we're having here today that we could have had in 1997 or '87. However, the big change in that time is the role of China. And I think it's a fair generalization that there are a lot of people in Washington, and broadly, who are like completely baffled by the President's fixation on steel and aluminum, are not convinced that making it harder for BMW to make cars in South Carolina and export them to China is a good idea, or want to spend a lot of time changing the name of NAFTA to whatever it is -- MCA -- how do you say it?

SPEAKER: USMCA.

MR. WESSEL: I know, but what's the --

SPEAKER: USMCA.

MR. WESSEL: USMCA? Okay. All right, all right. (Laughter)

SPEAKER: It doesn't (inaudible). I think that was on purpose. He didn't want (inaudible).

MR. WESSEL: I was trying to figure out, what was the acronym for NAFTA that T-R-U-M-P would go for. Have a little contest later. But anyway, Kim Elliott and Soumaya, there are a lot of people who say look, previous administrations thought they could bring China along. We brought them into the WTO, they were supposed to get more and more like us. It turns out some of them didn't get the memo, or at least the ones who were sent that signal are no longer in power in China. I think that's probably a fair -- so to what extent do you think that China -- its growth in the world economy and the way it plays economic strategy, both domestic and international, is really a change and how do you think we should deal with it if you don't like Trump's approach?

Kim, do you want to start? And then, Soumaya, you can be thinking while she's talking.

MS. ELLIOTT: So I'm going to say something now that everybody on the panel can just agree with, which is just to question this idea of trade agreements and trade
sanctions as carrots and sticks. And I think Soumaya is right that a big reason that trade agreements expanded so much was because of this idea that they have teeth. I think that what we found out is that in fact those teeth are not all that sharp. That's the other part of my career, has been working on economic sanctions since the early 1980s, and they're just not as useful as people tend to think they are.

Lori asserted that labor standards and trade agreements are not enforceable. That's not true, they are enforceable, they're just not enforced. And there are lots of reasons for that, but part of it is that I think the sanctions, as the agreements are written -- and this goes to the China -- I'll come back to China -- is why the Trump approach is not very useful. Sanctions when they do work you need something that you can -- in terms of compliance that is observable and measurable, otherwise your threat to sanctions is not going to be credible because nobody knows exactly when it's going to happen.

And that's been the problem with intellectual property. Intellectual property on paper, it's not that different from the labor standards actually, at least in the WTO context. The rules are there, they're enforceable. There have been very few, if any, cases brought at the WTO challenging developing country enforcement of intellectual property rules. Why? Well, one of them is it's in fact the WTO -- contrary to what a lot of people think on intellectual property -- it gives a lot of flexibility to developing countries. And, again, it's very fuzzy what's a violation. Well, we're really not sure. So countries are afraid they're going to lose if they bring a case to the WTO, so they just haven't done it, which means they can't impose the sanctions.

In the China case, I think this is the problem that we're all grappling with, you know, what does it mean for China to not do forced technology transfer. How do you define that, how do you measure it, how do you observe it if it's kind of a lot of it's under the table and not really spoken and companies don't want to talk about it. And that's sort of it looks to me like from the reports coming out the meeting this week, that's where things are getting hung up is on Lighthizer demanding an enforcement mechanism. And I think that's
why Trump gets fixated on trade deficits, because it's something observable and measureable. The problem is, it's irrelevant to unfairness or to almost anything else.

MR. WESSEL: Details.

MS. ELLIOTT: Yeah, details. But I also agree with Soumaya also said about how the problem with the WTO has been that it does constrain the use of trade sanctions. You can't use them unilaterally anymore in trade disputes, at the same time that the WTO rules don't cover some of the Chinese practices very well or at all. So that is a dilemma. And I think it's sort of a return to the 1980s aggressive unilateralism, except that we now do have a WTO.

And so I think there is a dilemma for those of us who want to see freer and fairer trade, which is how you deal with China if you can't use at least the threat of sanctions. But you also don't want to trash the WTO. And so it causes some real dilemmas I think.

MR. WESSEL: Soumaya, your thoughts on that?

MS. KEYNES: Okay. So first of all to make the semi obvious point, which is that the China shock happened and to an extent it's kind of done. And that said, obviously lots of the Trump Administration concerns are that another shock could happen in the future because of the policies that the Chinese government is undertaking. So the two complaints that many people seem to agree on, one is that there's an unfair use of subsidies and you need to constrain that and to an extent that's about how the Chinese economic system works. And aside from all of the tough bilateral talks, there are people out there -- you know, the EU, Japan, and the US they are writing new rules for how they might like to see this China subsidies issue dealt with.

So my first point, there are more boring but potentially more constructive conversations going on outside of the kind of spotlight of U.S.-China discussions in terms of how we might want to write better rules. Obviously at the end of that all you have is tariffs to enforce any rules on subsidies, so you kind of have a bit of a problem, particularly if the problem is that what's happening is that there are lots of subsidies going to industries and
what that's doing is it's depressing the global price of something, but it's not necessarily showing up in exports. So traditionally trade remedies have worked by putting tariffs on a specific -- you know, there are unfair subsidies or dumping -- selling below cost. And you put retaliatory tariffs on the exports of those goods. But sometimes the problem of subsidies doesn't show in excessive exports, it just shows up as way too much production or capacity in China and then you can't grab at anything to retaliate against. So that's kind of an issue that's coming up.

The other issue is IP theft. And here -- so I did a Trade Talks episode on this a little while back and got an upset email from one of our listeners saying why shouldn't China have the IP that it wants to get richer. And, you know, I find it difficult to sort of grapple with that. To an extent I -- you know, people in China on average are much poorer than they are in the U.S. I want them to get richer. I wish, going back to my point way, way before, I wish more of the debate wasn't about us versus them in terms of workers. I wish the debate wasn't about American workers competing with foreign workers and the foreign workers taking the jobs that have been offshored and the focus on rules helps with that because it makes it clear that it's the rules under which those foreign workers are working.

So I think that's a problem, the IP theft. But it also I suppose speaks to a question that you were asking before, which is the political economy of all of this. I think the reality is that the way trade agreements have been passed in the U.S. is that you -- you know, congress approves the deal, it's an up or down, and the farm lobby is better at delivering votes than the people who want different things to be in trade deals, or at least that's been the historical experience. And so when the negotiators are negotiating, that's the reality of how the process works.

Now, clearly there being lots of farmer lobbyist advisors is also, you know, doing something. Perhaps if it was more weighted in terms of worker representative then that would help, but that's kind of how things are done and that influences a lot of things, including the kinds of complaints that are taken to the Chinese.
MR. WESSEL: If there was a solution to the China dilemma in those last two answers, I missed it. (Laughter)

MS. WALLACH: (Inaudible) about China?

MR. WESSEL: Real short because I want to get some questions.

MS. WALLACH: I just want to point out something that Todd Tucker from the Roosevelt Institute taught me a long time ago on the data, which I think is very interesting, which is the poverty reduction that Kim, the author, pointed out for China is largely because China didn't follow the rules. And this gets to Soumaya's point about IP. So China signed up to the WTO, but then China pretty systematically either took actions in the big gaps of where WTO doesn't cover certain disciplines, certain behavior, or in other areas just broke the rules and wanted to rely on the difficulties and enforcements and how long it takes to enforce and who would dare sanction China because it would retaliate against U.S. investors, et cetera.

And so I want to point out that the poverty reduction elements, the countries that have done the best to some degree haven't signed up to the whole neoliberal smorgasbord versus if you look at some of the countries that did most faithfully, like Mexico, their growth rate and their poverty reduction has been anemic since they basically switched into I'm buying this whole package whole hog.

So this also gets to what the policy outcomes and the rules are and what is and isn't affected by the rules. And I just wanted to flag that for the China debate because I think there is a whole set of issues about how people in China continue to get richer, given poverty there is very, very grinding, versus how we also have rules that help lift people up wage wise and help with inequality in developing and developed countries simultaneously.

MR. WESSEL: There's a lot there to chew on. I'm not going to respond, though I was waiting for you, Soumaya, to mention that we probably stole a lot of IP from the British textile makers early in our history and that you might want it back.

MS. KEYNES: It's fine. I've forgiven you.
MR. WESSEL: We have time for a few questions. I'm going to suggest that we take two or three and then we'll let some but not all of the panelists answer every question. Time is limited, so stand up, tell us who you are, and ask a question, don't make a speech. You can save that for later. There's a gentleman in the back here.

MR. ELLIS: I'm Bill Ellis from George Mason. Yeah, I was curious about the carbon costs of outsourcing manufacturing to distant continents. I'm thinking about the Merchant Marine and air fleets transporting raw materials like energy and ore and finished products and recyclables, and so forth, back and forth between continents when that stuff can be manufactured here. There must be some cost. I think I read in the Wall Street Journal there's something like 50,000 merchant ships burning 4 million barrels of oil a day.

MR. WESSEL: The gentleman here, and there's a gentleman right here.

MR. WILLIAMSON: Irving Williamson, U.S. International Trade Commission. I also wanted to comment on the overwhelming importance of dealing with the tax policy, competition policy. We didn't talk about infrastructure, we didn't talk -- well, there was some mention of education, but all of those things that are going to make the U.S. economy and U.S. workers domestically more -- you know, make them more competitive, versus the whole debate about trade agreements and what they do. And I've been working on trade policy for 40 years, but I do think it's that domestic policy changes or even enforcing labor laws that we have in trade agreements in the U.S.

So there's a whole lot there that I think --

MR. WESSEL: Thank you. And I think that's very much in the spirit of Kim's book.

MR. CARTIER: Hello, I'm Charles Cartier. I'm Chairman of Economic Development Board of Mauritius. As you might not know, Mauritius is one of the countries that has implemented the negative income tax. My question is linked to something which I think all the presenters tried to agree, is that a lot of the problem that we are facing is due to automation, that is growth, but automation is bringing all of the fruits of that growth to capital
owners. If we look at that long-term, if that trend continues, won't we be in a situation where in fact workers will not be needed and that we will be faced with only one question, how do we share the fruit of growth to the masses.

Thank you.

MR. WESSEL: Thank you. So, Kim, I think maybe you can start on those. One is about a narrow question on the carbon cost of transporting goods. How would a carbon tax affect that? If you know.

MS. CLAUSING: Yeah, I mean the proposal that recently was endorsed by a lot of economists suggested that the U.S. adopt a carbon tax and then have an adjustment sort of at the borders such that if other countries weren't pricing carbon that we would take that into account with our trade policy. I mean I think that's one way of handling that issue, but I guess I would be wary of indirect solutions to this, just like I am with indirect solutions to the broader income inequality question. It's not trade per se or GDP per se that is bad for carbon footprints. It's carbon that's bad for carbon footprints. So you could restrict trade or you could cap GDP, as someone suggested to me, which I think both of those are kind of silly ways to get at the carbon problem when you know that it's carbon that's creating the carbon problem. Then the way to get to that is to go to the carbon tax.

And I think that that's a theme that actually relates to these other issues too. I mean if you think about workers, in a way it doesn't matter whether it's trade or automation that's hurting the workers, something is. And so we could bicker all day about whether it's trade or automation. And I think my reading of the literature is somewhat different from Lori's, but regardless of what it is, the question is, is restricting one of those things good for workers, or are there more direct ways to help them. And the argument in the book is that there are far more direct ways.

MR. WESSEL: And a list of 10 things to worry about, where does we're going to run out of work fall on a day that we created 300,000 more jobs?

MS. CLAUSING: Yeah, I worry a lot less about that than many people do in
part because look at our unemployment rate. As you point out, it’s very low. I think the problem isn’t so much that we don’t have jobs, it’s that the jobs don’t pay well. And the answer to that is redistribution. So I’m not a huge fan of, for instance, the universal basic income, but what I would like to see is that we make work pay better through things like negative income taxes and the earned income tax credit. And then if we end up with jobs in our economy that don’t pay as well as they should, we raise that bottom through those powerful tax policy tools rather than paying people not to work, which I think is a step in the wrong direction.

MR. WESSEL: All right. Can we take a few more? Why don’t you stop there and then go to the back.

MR. LUSIANI: Niko Lusiani at Oxfam. Thanks for this great book. If anything it helps trade people think about tax and migration people think about tax and trade. I think it brings these things together, which is excellent.

My question is about the Investor-State Dispute Settlement mechanisms mentioned a couple of times. I wonder if you could elaborate how that impinges on autonomy, sovereignty, on issues like public health or climate change or -- also just costing a lot of money for some developing countries that are facing these lawsuits.

Thanks.

MR. WESSEL: I think there was someone in the back.

MR. WENTWORTH: David Wentworth, consultant to the Bank and the Fund. I’d like to address the question that was raised about politics. How can your policies be presented as something that appears to the average voter as change as opposed to not change?

MR. WESSEL: I think he heard you, Lori. All right, does someone want to take the investor state issue? The dispute resolution?

Kim?

MS. ELLIOTT: I mean I think my take on it is ISDS is on its way out. There
has been a huge backlash, I think legitimately so. The USMCA -- I think Lori addressed that -- has already pared back ISDS quite a bit. I mean it's going to eliminate it between the U.S. and Canada if it goes through. So I think it has been a problem, I think the backlash on that case is working and it's going away.

And if I could go back on the previous question about automation and jobs, Kim has focused a lot on tax policy and sort of direct redistribution via the tax system. I think we also ought to be talking about better jobs. A lot of these jobs -- and although this is where immigration comes in, they're not tradable, maybe they're subject to competition via immigration, again I would tend to agree that trying to limit those things I don't think is the right way to go, but we can make those better jobs through trying to strengthen unions, in some cases through regulation. It comes back to tax policy in different ways, just taxing more so that we can pay our teachers more. I was shocked by this *Washington Post* article I think yesterday about how most teachers now are below the median wage.

I don't want to focus just on taxes though, just how we make these better jobs. And that still involves redistribution potentially from consumers to workers, because maybe prices go up a little bit. But I think that needs a lot more focus than we're giving it.

**MR. WESSEL:** Lori? On dispute resolution?

**MS. WALLACH:** On ISDS, but also just on the carbon issue, there's a really interesting study that the Sierra Club put together about what would be the trade implications if you basically forced companies to internalize what is now basically -- they call it environmental dumping, externalizing those carbon costs. And whether or not that would create different incentives for what is economically basically profitable as far as distribution of production. And it's a sort of interesting jobs and investment redistribution argument as well as a climate plant survivability one because some of the construct of very centralized long-distance shipping in an era of climate chaos may or may not be sustainable.

There's also just, for the person who asked that question, a UN study -- which I can't remember the number -- but they actually figured out the percentage of carbon
contribution to long distance shipping.

On the ISDS issue, I would say to Kim Elliott, from her mouth to god's ear that it's going away. However, I just want to flag there is a tremendous pushback. So there's a lot of data. Go to tradewatch.org, we've collected all the statements from different developing countries, from jurists around the world about the problems. It's very well documented. But both with respect bizarrely with the European Union's multilateral investment court, which is sort of ISDS with some new trim and paint that's trying to revive it under a different brand, and also right now UNCITRAL, one of the main ISDS venues, is having this unbelievable Kabuki dance festival of trying to pretend they're talking about the problems when in fact they're trying to sort of restore the legitimacy of ISDS. So there's a very powerful lobby of multinational corporations, oil and gas guys, the pharmaceutical companies, et cetera, who use ISDS, who do not want it to go away. So that is not one where I would say Oxfam or anyone else should necessarily feel relieved yet.

MR. WESSEL: Briefly.

MS. KEYNES: So on ISDS, I think it's changing. It's definitely a case that there are people in the current Trump Administration who really hate it, hate the idea of a foreign investor being able to sue the U.S.

I guess rather than banning it you could change it --- so the Europeans have this investor court -- and try and make it better. One of the problems with ISDS is that you can have lots of bites of the apple, so kind of these ad hoc committees. And so if there was a court perhaps you could institutionalize it, make it a bit friendlier.

There's another way of looking at the argument, which is sometimes I've heard it's unfair that investors get to sue foreign governments and workers don't. And so you could twist it around and say well, if there was labor-state dispute settlement would we be happier, you know, given that perhaps this thing is going to prove fairly tricky to eliminate. And that's a discussion that I don't see happening enough I think.

MR. WESSEL: Okay, thanks. We're almost out of time, so I want to ask
just one final question and see if you guys can answer this briefly.

So if there was a presidential candidate in the audience who said I care about the world, I care about workers, what is one thing in this globalization sphere you think I should know and do something about? Just of all the things, what's the one thing that should be on my to do list?

Lori, do you want to start? Let's see if Lori can do one sentence.

MS. WALLACH: I'm going to pass and come back to me. (Laughter) If I have to do one sentence, that's hard.

MS. KEYNES: People don't care that much about trade. I mean there was a chart -- I mean people -- so attitudes among republicans to trade have been improved remarkably now that President Donald Trump is in office. Trade isn't really a priority for people.

MR. WESSEL: What is?

MS. KEYNES: Healthcare. The important stuff, the wages. You know, the other stuff. I cover the U.S. economy and trade. I spent the last few years gathering an immense amount of expertise on random bits of trade law. I think that's not good for the country.

MR. WESSEL: Must be great at cocktail parties though.

MS. KEYNES: It's great, people love it.

MR. WESSEL: Okay, you had your sentence.

Kim?

MS. ELLIOTT: Can I have two?

MR. WESSEL: Yes.

MS. ELLIOTT: One is fixed domestic agenda, but two, empower workers but don't expect trade agreements to do it.

MR. WESSEL: Are you ready yet or not?

MS. WALLACH: I think the answer is that we need to basically replace a
bunch of our current rules so that we are sending different incentives in the global economy vis a vis both investment patterns, but also patterns of behavior relating to climate, taxation, but also relating to labor rights, relating to environments, both transnational and domestic environmental issues, so that we have a set of global rules for the global economy that prioritizes people on the planet in contrast to the current structure, which prioritizes multinational companies, capital, however you want to describe who's captured the process.

MR. WESSEL: Kim, last word?

MS. CLAUSING: I think in terms of the global thing, my first point would be to say that immigration is a tremendous strength for the U.S. economy and would be better to have more rather than less immigrants. I would also add, if I got to, that I don't think trade barriers are at all a useful solution for American workers and that focusing on fundamentals actually is a really big change relative to what a lot of people have been doing. Big investments in infrastructure, R&D, and education are things that people would really be excited about, as is a much more equitable tax system would also be a huge change that I think you could sell easily. So I would focus on the domestic actually in an election, but I wouldn't see a need to raise trade barriers and I would keep as many immigrants as possible.

MR. WESSEL: Thank you. Thank you all for coming. I'm sorry I didn't get more questions. A favor, if there's papers or coffee cups at your seat, it would help our people if you took them to the back and put them in the recycling.

And, with that, please join me in thanking Kim and the rest of the panel.

(Applause)
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