**Testimony of John Johnston**
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Committee on Commerce, Science and Transportation
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Good morning, Mr. Chairman and Members of the Committee, and thank you for the opportunity to testify on the vital question "Is 'Free Trade' Working?" The short answer is "no" and I'll explain why in a minute.

My name is John Johnston, and I have been involved in manufacturing in Ohio for 16 years. Two years ago, I helped to found a new metal services venture called Modern Metal Cutting, which offers our customers precision cutting and machining of tubes and other metal shapes.

I have also been active in several regional and national manufacturing organizations. Since 1997, I have been a Board member of the Summit County Machine Shop Group, an Akron-area organization of small companies in the precision metal-working sector. These firms, generally family-held for generations, specialize in quickly turning around constantly changing small orders of highly customized parts and components of larger industrial products. From 2001 to 2006, I served as the organization's president.

In addition, I sit on the Steering Committee of the Northeast Ohio Campaign for American Manufacturing or NEOCAM. NEOCAM is a regional coalition formed to promote awareness of domestic manufacturing's importance, and to improve its competitiveness. Northeast Ohio has been hit especially hard over the last two decades by trade policies that allow our foreign competitors to take advantage of unfair government programs designed to boost manufacturing – and our government does nothing in response. Anyone who makes the short ride into downtown Cleveland from the airport – and sees the abandoned factories – knows something went very wrong in Northeast Ohio – and the rest of the industrial heartland.

In recent years I have been pleased to work with the U.S. Business and Industry Council. This national business organization is composed of 1,500 member companies that are mainly smaller, family-held domestic manufacturers. For decades, its Washington advocacy efforts have focused on ensuring that national-level domestic and international policies preserve and strengthen industry in the United States. They supply the national and international political perspective that is often lacking in our local organizations.

In sum, I have been committed to strengthening manufacturing in my home region and state, and in the nation at large, all my adult life. I want to believe strongly in its future. In fact, I've got my money on it. But I also want to make very clear that my commitment – and those of thousands of other manufacturers like me – alone is not enough. No matter how hard we try, we can't win in a policy environment stacked against us. Our efforts can still be defeated by unwise federal policies – especially unwise trade policies.

Because I have been very deeply involved in sales and marketing, I have visited companies throughout the Midwest. I know firsthand that in the globalized American economy many of these firms have had to continually reinvent themselves with new technologies, new management techniques and new business models. Many of these dynamic businesses have been very successful; others have not.

My hometown and region also understand that local and state government policies can be crucial to the health of their manufacturing bases. Our recent economic difficulties have sparked a major burst of community development initiatives and coalition-building involving business, the public sector, and the non-profit sector. Manufacturers in Ohio, and particularly northern Ohio, know that they need to be proactive doers and big-picture thinkers. We are not sitting around idly waiting for protection.

Nevertheless, our efforts must be complemented with major changes at the federal level, and nothing is more essential than an overhaul of Washington's approach to a broad range of international trade-related issues. The U.S. role in the global economy is Washington's responsibility – especially because we live in a world in which foreign governments fight hard for the interests of their businesses and have no reluctance to use all the resources and influence at their disposal to get this job done. Indeed, under the Constitution, the right to regulate foreign commerce rests with the Congress. Thank you for taking that responsibility seriously at this Committee.

The needed overhaul of U.S. trade policy has to reflect the interests of domestic businesses, which are too often absent from policy deliberations in Washington, DC. If new U.S. trade policies don't actually change trade flows by changing the conditions companies like mine face both at home and abroad, they won't bring us a dime's worth of new business, they won't create or preserve a single new American job, and they won't raise the wages or benefits of a single American worker.

Has "free trade" worked for Ohio and for Ohio manufacturing? It's impossible to look at my state's economy and say "Yes." The latest Census data tell us that, as of 2004, Ohio was the nation's third largest producer of goods. But in the seven years prior to 2004, goods production in our manufacturing-heavy state dropped nearly nine percent in real terms – the worst performance in the country and the fourth worst in percentage terms.

Between 1997 and 2006, Ohio lost more than 22 percent of its total manufacturing jobs and nearly 25 percent of its jobs in durable goods industries. The latter still account for nearly 70 percent of the state's manufacturing employment, and they pay among the state's best wages – as they do nation-wide. That's surely why wages in the state's goods-producing sector overall – which paid more than 24 percent better than the service sector according to the latest figures – fell 15.7 percent from 1997 to 2005 – the worst performance in America.

Why do I blame ineffective U.S. trade policies? Clearly, they're not the only factor. But I look at the recent trade performance of some of the manufacturing sectors that are among Ohio's biggest, and it's difficult to ignore the very strong connection. For example, between 1997 and last year, the U.S. trade deficit for durable goods industries increased by nearly 260 percent. In transportation equipment, it grew by nearly 155 percent. In fabricated metals – my sector – it exploded by more than a factor of 10. In non-electrical machinery, America ran a surplus of $14.4 billion in 1997. By last year, that had turned into a deficit of $11.9 billion.

The net effect of these figures means fewer opportunities for sales abroad and often reduced sales at home. An even clearer picture of the damage comes from research on import penetration in U.S. manufacturing industries that has been published in recent years by the U.S. Business and Industry Council. Import penetration is an economist's way of saying how much of the U.S. home market is being taken away from domestic manufacturers and captured by foreign imports.

The Council has looked at how much of the U.S. market has been won by imports over the last 10 years in over 100 categories. It's not a pretty picture.

An astonishing 96 percent of these sectors – which are all capital- and technology-intensive industries – lost U.S. market share to imports during this period. That's the market they're supposed to know best. That's the market where they face no trade barriers. In literally dozens of cases, import penetration at least doubled. In dozens of cases, moreover, imports now control more than half of the U.S. market. Among the biggest so-called "loser industries" are sectors such as aircraft engines and parts, machine tools of all kinds, and power generation equipment.

These sectors represent the heart of the industrial economy of any high-income country in the 21st century. They generate disproportionately large gains in productivity, and technological advance. They employ most of our country's knowledge workers. And they, of course, pay the best wages in the entire economy. A country that loses its dominance in these industries is like an athletic team that sits back and watches its star players bought by rival teams willing to offer better packages and conditions. The U.S. is also going to be a country that will face major struggles to remain an economic and military superpower.

These points describe some of the microeconomic problems caused by our trade policies. But we should not forget the macroeconomic threats. As a businessman, I can't help but be worried by the American economy's rapid accumulation of titanic debts – so much of them resulting from decades of buying from the rest of the world much more than we sell.

I have a hard time believing that the rest of the world is going to continue funding our over-consumption – especially as we become ever less creditworthy, at least by normal financial standards. I would feel a lot better about the prospects for my business and my industry – and the nation at large – if I didn't know that the dollar could easily collapse if just a few foreign central banks started hedging their bets and reducing their dollar holdings.

I really hope that we can avoid the kind of worldwide economic meltdown that would result. Like most of you I suspect, I am puzzled as to how long the nation can keep tempting fate.

I also keep hearing and reading that I shouldn't be concerned about the loss of U.S. manufacturing jobs because it's a sign of soaring productivity. I don't see any correlation between productivity gains and the loss of factories and jobs. Some of our best-run companies are now starting to disappear.

And as a businessman, I find myself wondering exactly who is going to buy most of the products that the world's factories keep turning out, if not the American consumer? Unless we keep going deeper into debt, how can we as a nation keep up the pace if high-paying manufacturing jobs keep getting replaced by much lower-paying service jobs?

Are the American customers for the products I help make really going to be replaced by Chinese or Indian customers – on anything close to a one-for-one basis? And if so, with trade deficits continually rising at this point, how long is this going to take?

But how exactly has trade policy contributed to these problems? I'd like to focus on two features of this policy. First, as I indicated before, foreign governments intervene in trade flows all the time, in countless ways. They erect tariff and non-tariff barriers to protect their own industries. They heavily subsidize producers on their home soil, including with Value-Added Tax rebates on exports that have grown in recent decades as tariffs have been cut. They manipulate their exchange rates. They steal intellectual property. And they dump product in our market at below the cost of production in their home market.

What's most important to understand, however, is that our trade problems are not limited to one high-profile sector – like steel. And they aren't limited to one problem country – like China. Increasingly, these practices represent the way business is done all around the world, throughout the manufacturing sector, with one major exception – the United States. And what our trade policy has done for way too long has been to open our market wide to producers enjoying these advantages – which of course include multinational companies that produce overseas – and then tell our domestic firms, which manufacture and create economic benefits here: "You're on your own. Lots of luck."

Second, recent Presidents and their trade negotiators keep picking the wrong target countries to sign trade deals with, at least from the standpoint of strengthening manufacturing at home. Just think of the countries and regions that have dominated U.S. trade diplomacy for nearly 20 years – where we've signed the most deals. Mexico. China. The Caribbean Basin. Central America. Sub-Saharan Africa. Jordan. And more recently, Panama, Colombia, and Peru. Even the current Doha Round of world trade talks aims explicitly at delivering most of the benefits of expanded, freed-up trade to developing countries.

Signing trade deals with these countries and regions may be justified – if the main purpose of trade policy is to create new opportunities for foreign workers and companies. Or if the main purpose is bolstering U.S. national security and fighting global terrorism by aiding populations that might be receptive to the pitch of violent extremists. (Incidentally, both of the above assumptions are open to serious questioning.) However, if the central goals of U.S. trade policy are creating more export opportunities for domestic companies and raising the standard of living of their employees, then our aim is completely cockeyed.

In fact, one of my own Senators, Sherrod Brown, has come up with the most convincing explanation for this set of trade deal targets. As he points out in the case of China, when American multinational companies look at the People's Republic, they don't mainly see a billion potential new customers. They see a billion potential new workers. And by extension, the main markets that the U.S. multinationals want to export product to are not abroad. They're at home.

So I agree with those who argue that it's completely misleading even to describe most recent trade agreements as free trade agreements – because the aim can't be to create sustainable two-way flows of business. Our target countries are either too small or too poor or too deeply in debt or too protectionist and export-oriented to become big new consumers of American-made products for the foreseeable future.

But they have tremendous capability and potential to supply the U.S. market – especially when our multinational companies provide them with the world's most advanced production technologies and equally advanced management techniques. As a result, it's best to describe these deals as outsourcing or offshoring agreements. Their main purpose is not to expand the worldwide sales of domestic American producers. Instead, it's to help multinational companies serve the U.S. market from very low-cost, regulation-free production platforms abroad.

Trade deals such as these – signed with regions with vastly more export than import potential – can't help but tremendously boost the U.S. trade deficit. And they can't help but place domestic producers under ever more pressure – pressure that often has little or nothing to do with free market forces – much less "free trade."

What should Congress do about this? I worded this question deliberately – because the ball is squarely in Congress' court. After more than six years under the current administration, it is clear that the White House thinks that "more of the same" trade policies will somehow produce different results. Thus the Administration can't be counted on to be part of the solution.

As a result, it's gratifying to see so many Senators and Members of Congress these days vigorously discussing the need to make big changes in U.S. trade policy. I am very pleased, Mr. Chairman, that you have introduced legislation to bring our imports and exports into line with an auction quota system – an ambitious, sweeping plan that acknowledges implicitly that piecemeal solutions to these trade problems will never suffice. I was also very pleased by the emphasis that the Senate and House Democratic freshmen have recently placed on new trade policies that reflect the needs of domestic businesses.

Enhancing worker rights and environmental protections around the globe are worthy and appropriate objectives for trade policy. Mr. Chairman, your leadership on these issues is greatly appreciated. It is important that the Congress hold firm in current negotiations with the Bush Administration requiring strong and enforceable protections for workers and for the environment in new trade agreements.

Yet from the perspective of domestic companies and industries – the ones that actually generate jobs and wealth and income here at home – these issues cannot be the main focus of changing current trade policy. Leveling the playing field for companies such as mine by changing the trade flows so that we turn the corner and begin to eliminate the trade deficit needs to be the central policy objective.

What else is needed to assist the domestic manufacturers – and service providers and farmers and ranchers – that make up the vital productive side of our economy?

It's obvious that the first step is to stop doing harm. The trade agreements that the United States negotiates and signs no longer promote more production and employment at home than they send abroad. We as a nation urgently need to figure out how to do trade policy right again. As a result, I recommend that there be a moratorium on all new trade agreements until major, pro-domestic producer and worker trade strategies are identified and put in place. Congress might consider appointing a broad-based national commission to carry out this mission.

For similar reasons, Congress should reject new Fast Track authority for the Executive – until we have in place trade policies that stop the hemorrhaging of manufacturing plants, R&D facilities, and the high-paying/good benefit jobs associated with them. Nationally, since 2001, we have lost more than three million manufacturing jobs. Stemming this erosion of jobs, skills, and our industrial base ought to be the first objective of any new national trade policy.

In addition, Congress should:

– Swiftly pass the Ryan-Hunter currency manipulation bill – which already enjoys wide, bipartisan support. This legislation would allow trade remedy law action against foreign government manipulation of currency that is designed to keep their values artificially low.

– Address the unfair advantage caused by the rebate of VAT taxes by over 150 of our trading partners. To do so, Congress must pass a border equalization tax. This tax would apply to foreign goods from VAT countries coming into our market. They would be taxed at the same amount as the rebate they received upon leaving the foreign country. We should then use the proceeds to pay the VAT tax faced by American exports entering foreign markets. This step would go far toward creating a fair and level playing field for U.S. goods and services.

– Institute major legislation to begin to reduce the trade deficit. The approach could be an import quota and auction system as recommended by Chairman Dorgan or it could be a trade-balancing, temporary import surcharge as proposed by Rep. Mike Michaud. These approaches, both of which could be designed to be consistent with WTO rules, would rapidly get the trade deficit under control. In addition, they would save the world trade system as a whole, which is dangerously out of balance today. Countries cannot get rich by exporting over-production to the United States indefinitely.

Many other things need to be done, not only in trade policy, but in related tax and regulatory policies. These measures that I have just highlighted, however, represent an essential starting point. Their passage would put the Congress strongly on record in support of a program that supports domestic manufacturers and their employees.

If these measurers were turned into U.S. policy, they would go a long way to allowing domestic businesses the chance to compete on a fair and equal basis with their foreign counterparts.

Thank you for your consideration of my views. I look forward to answering any questions that you might have.