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To expand communications between Washington and California, the California Institute provides periodic faxed bulletins regarding current activity on Capitol Hill which directly impacts our state. Bulletins are published weekly during sessions of Congress, and occasionally during other periods. The e-mail edition is made possible in part by in-kind contributions from Sun Microsystems and IBM Corp.

HOUSE AND SENATE PASS ONE-WEEK CR

By a vote of 406-13 on Thursday, October 30, 2003, the House of Representatives approved H.J.Res 75, a third continuing resolution to keep most of the federal government operating through November 7, and the Senate gave its approval later in the evening, prior to the October 31 expiration of the current stopgap resolution (H.J. Res 73). To date, three appropriations bills (Defense, Homeland Security, and Legislative Branch) have been enacted, and the Interior conference report is expected to be forwarded to the President for signature in the near future. Programs funded by the Interior bill and the nine other appropriations measures that have yet to be conferenced will be maintained by the short-term CR.

FEDERAL ASSISTANCE MADE AVAILABLE IN RESPONSE CALIFORNIA WILDFIRES

On Monday, October 27, 2003, following an October 25 request by Governor Gray Davis, four Southern California counties were declared federal disaster areas due to the fires sweeping through the region over the past week. As of Thursday, the fires, in the Simi Valley area of Ventura County, and in various parts of San Bernardino, Riverside and San Diego Counties, were blamed for at least 20 deaths, including one firefighter. In addition, the fires have destroyed over 2000 homes and charred more than 500,000 acres. More than 13,000 firefighters continue to battle the fires as most still rage out of control with no more than 20 percent containment.

In response to the catastrophe, all members of the California Congressional Delegation have moved to provide as much federal assistance as possible. In large part through the efforts of Rep. Jerry Lewis (Redlands) and Sen. Dianne Feinstein, \$500 million was included in the Emergency Supplemental Appropriations Bill for Iraq in order to combat the California fires. The money will be available through the Federal Emergency Management Agency to provide assistance to the residents hurt by the fires. On Thursday, California House Democrats introduced the "California Funding for Immediate Relief of wildfire Emergencies Act" (H.R. 3407), seeking a freestanding bill to provide a \$500 million emergency appropriation for battling California's fires.

Upon request from Rep. Duncan Hunter (Alpine), who lost his home in one of the fires, the U.S. Defense Department is providing four Military Aerial Firefighting units and six CH-53 helicopters to the region to help

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local firefighters. The Defense Department has also sent eight C-130 aircraft that can drop water or fire retardant chemicals to aid with the effort. Eight UH-60 helicopters equipped with water buckets from the California National Guard are already deployed in the area. Rep. Elton Gallegly (Simi Valley) had urged a legislative change to allow military firefighting equipment to be used to fight the fires, and he sharply criticized as “a bureaucratic technicality” a 1934 law that required the U.S. Forest Service to deploy all available commercial aircraft (even if such aircraft are located far from the scene) before activating any federal resources that may be located close by.

In other federal action, the California fires have spurred action on legislation to prevent future fires by thinning forests of dead trees. The Senate has reached a bipartisan compromise on the “Healthy Forests” initiative, adopting a manager’s amendment by a vote of 97-1. The bill is aimed at expediting forest-thinning operations on federal lands, while protecting old growth forests. The compromise would reduce the number of reviews currently required by the National Environmental Policy Act (NEPA) and limit injunctions against logging operations to 60 days, pending court review and renewal. It also doubles the current authorization for forest-thinning operations to \$760 million annually and requires that at least half of that money be spent in forests near populated areas. The remainder of the money would be allocated to watersheds, endangered species habitats, and areas of insect infestation and other environmental damage.

During debate on the bill, the Senate adopted two amendments offered by Senator Barbara Boxer. One requires EPA to monitor hazardous air pollutants in federal disaster areas; it was adopted by a vote of 78-7. The other, adopted 94-3, requires the National Institute for Occupational Safety and Health to monitor the health of firefighters. The Senate was expected to continue debate on the bill on Thursday.

The House had passed its version of the Healthy Forests bill, H.R. 1904, on May 20, 2003 by a vote of 256-170. Its bill restricts environmental reviews further than the Senate bill does and calls for court review of preliminary injunctions against logging after 45 days.

The FY04 Interior Appropriations Conference Report (H.R. 2691, H.Rpt. 108-330) also provides federal funding to prevent and fight wildfires in the future. The bill includes a total of \$2.9 billion for wildfire operations. Of that amount, \$800 million is provided for suppression, \$11 million for forest-thinning programs, and \$9 million in state and community fire assistance. The bill also includes \$400 million to cover the debt incurred by the Forest Service and the Bureau of Land Management when they borrowed from other programs to deal with previous blazes.

In an October 25 letter to President Bush, Governor Davis requested federal funds to: “(1) fund eligible State and local emergency response and permanent repair, restoration, and replacement costs, (2) fund the removal of fire related debris, (3) fund crisis counseling, (4) fund the assistance to Individuals and Households Program, (5) fund reasonable and cost effective hazard mitigation, ...”. The letter also requested implementation of disaster loan programs from the Small Business Administration.

GOVERNOR-ELECT SCHWARZENEGGER MEETS WITH BIPARTISAN CALIFORNIA CONGRESSIONAL DELEGATION DURING DC VISIT

California Governor-elect Arnold Schwarzenegger, who is expected to be sworn into office on November 17, visited Washington on October 29 and 30 for meetings with Administration officials and Congressional leaders. During the trip, he met with the bipartisan California Congressional delegation, including Senators Barbara Boxer and Dianne Feinstein. In addition, Schwarzenegger met with Secretary of Transportation Norman Y. Mineta and Secretary of Agriculture Ann Veneman (both Californians), as well as Energy Secretary Spencer Abraham, Federal Emergency Management Agency head Michael Brown, and Vice President Dick Cheney. The Governor-elect cut short his Washington visit, cancelling a meeting with Education Secretary Rod Paige, in order to travel to Southern California and receive a briefing regarding the area’s devastating wildfires.

Although Schwarzenegger commented that he “came basically to Washington to establish relationships and to make sure that we are getting more federal money to California,” the trip also became an opportunity to

encourage federal assistance related to the state raging wildfires. Schwarzenegger said that the fires had been the primary topic of his meeting with Cheney, though he added that homeland security issues were also discussed. The Governor-elect added, "I will come here as many times as possible to make sure that we get more federal money to California."

While an important part of the meetings during the two-day trip was making introductions and laying the groundwork for relationships that might bear fruit in the future, a number of substantive issues were discussed, particularly in the reportedly cordial meeting with the bipartisan California Congressional delegation. In addition to wildfire disaster relief, topics brought up included education, health care (particularly emergency medical care and Medicaid matching), the environment, the CALFED water restoration effort, transportation and highway funding, military base closures and cleanup, offshore oil drilling (including a proposed federal buy-back of leases off the California coast), and California's low per capita share of federal homeland security grant funds.

The state's balance of payments deficit -- whereby the state receives 77 cents in federal spending for every tax dollar paid by California taxpayers -- continued to be an important refrain. On several occasions the Governor-elect referred to himself as the "Collectinator" to highlight his goal of securing federal assistance to reduce the state's budget shortfall and address at least a portion of the state's imbalance of federal taxes versus federal spending. (For details regarding the state's \$58 billion balance of payments deficit and the 77 cent rate of return, refer to the California Institute's report entitled *California's Balance of Payments with the Federal Treasury, Fiscal Years 1981-2002*, available at <http://www.calinst.org/pubs/balrpt02.htm> .)

SENATE KICK-STARTS BIPARTISAN HEAD START BILL

The Senate Health, Education, Labor and Pensions (HELP) Committee on October 29th approved a bipartisan Head Start bill by unanimous consent, omitting controversial state demonstration program language included in the House companion Head Start legislation and boosting funds for the program. The panel's 21-0 vote signaled a major bipartisan success in advancing the reauthorization of Head Start, a bill approved by the full House in July by one vote. A compromise was also reached over the inclusion of academic testing language for Head Start children.

Head Start provides comprehensive health and social services as well as academic preparation for 900,000 low-income children below age 5. It is currently funded at \$6.67 billion dollars, but long-term authorization language for the program expired on October 1st. California receives \$817 million in Head Start funds or about 12.26 percent of program funds.

Unlike the House bill passed in July, the Senate's version does not include the Title II state demonstration program that grants greater authority to states in the administration of Head Start funds. Critics denounced the demonstration project as an effort to block-grant the Head Start program, a move that would weaken federal standards and jeopardize the appropriate allocation of Head Start funds. Supporters of the program, including Secretary of Health and Human Services, Tommy Thompson, believe that strengthening the role of states will improve state coordination and collaboration in the management of preschool programs.

An additional dissimilarity between the two chambers' versions of the bill is the Senate's inclusion of an extra \$2 billion to be phased into the program over 5 years. It also includes a provision that would employ the National Academy of Sciences to review the scientific validity of adding proposed academic standards as a way of narrowing the achievement gap between Head Start preschoolers and their more affluent peers.

Other provisions in the Senate bill include: requiring an associates degree for all Head Start teachers by 2009; requiring unannounced inspections at Head Start sites; providing for regular Head Start Center reviews; funding caps for administrators; and reallocating unused Head Start funds to assist centers overburdened with waiting lists.

The bill is not scheduled for Senate floor action, and the Senate may not take it up until Congress reconvenes for its second session in 2004. In addition, some observers caution that some of the bill's provisions may be altered before it is considered by the full Senate.

The California Institute's most recent federal formula grants publication, released in conjunction with the Public Policy Institute of California (PPIC), focuses on the Head Start program structure and California's performance as a recipient of program funds. To view a copy of the report visit the PPIC website at: http://www.ppic.org/content/pubs/FF_1003TRFF.pdf.

WAYS AND MEANS REPORTS CORPORATE TAX BILL

On Tuesday, October 28, the full Committee on Ways and Means approved H.R. 2896, the American Jobs Creation Act of 2003, by a vote of 24-15. The bill repeals the Foreign Sales Corporation-Extraterritorial Income (FSC-ETI) tax regime, which was declared illegal by the World Trade Organization. The WTO has threatened to impose \$4 billion in tariffs against U.S. goods if the tax is not repealed by the end of this year. To compensate for repealing the FSC-ETI, the bill provides several other tax benefits to U.S. companies, including:

- reducing the tax rate for U.S. producers and manufacturers from 35 to 32 percent;
- an across-the-board rate cut for all mid-size to small businesses (C-corporations) with less than \$20 million in taxable income; and
- expanding the size of companies exempt from the corporate Alternative Minimum Tax (AMT) from \$7.5 million of gross receipts up to \$20 million.

The Committee extended the tax rate cut to apply to all property that is "manufactured, produced, grown or extracted, including tangible personal property, agriculture, softwood timber, processed food, construction, architectural, and engineering services for construction projects built in the United States, extracted items, software, movies, music, and oil and gas refining and production." The inclusion of software, movies, and music products to the list was a strong priority of the information technology and entertainment industries located in California.

A full summary of the bill's provisions is available on the Committee's website at: <http://www.waysandmeans.house.gov>.

FY 2004 INTERIOR APPROPRIATIONS CONFERENCE REPORT APPROVED

In addition to funds provided for firefighting (*see separate Bulletin article above*) by the fiscal year 2004 Interior Department Conference Report, the bill will provide a total of \$19.6 billion in non-emergency funds after an across-the-board cut reduces the current total of \$19.8 billion upon enactment of the bill. The House passed the Conference Report (H.R. 2691, H.Rpt. 108-330) on Thursday, October 30, 2003, by a vote of 216-205, after a motion to recommit the measure failed by a 190-220 margin.

Among other funding, Lake Tahoe projects will receive \$12.3 million; the Quincy Library Group Project will get \$31 million; and \$10 million is appropriated to combat bark beetle infestation in California's forests, which is in addition to \$30 million included last month in an emergency supplemental appropriation for removal of trees damaged by the bark beetle in Southern California. The bill also includes \$20.7 million for the Presidio Trust and \$36 million for the Elk Hills Settlement.

Other California projects included in the bill are:

- \$750,000 for California desert inholdings;
- \$2 million for the San Diego National Wildlife Refuge;
- \$1 million for the Otay Mountain Wilderness Area;
- \$750,000 for the Santa Rosa Mountains;
- \$2.21 million for Sequoia and Kings Canyon;
- \$2.5 million for the Dofflemeyer Ranch;
- \$1.35 million for Six Rivers to the Sea;
- \$385,000 for the Pacific Coast Immigration Museum;
- \$1.5 million for Ahearn Ranch Acquisition, Los Padres National Forest;
- \$1 million for Mojave Desert Plan Resource Protection;

- \$500,000 for Imperial Sand Dunes Resource Protection;
- \$200,000 for California Desert Rangers;
- \$1 million for California Trail Interpretive Center; and
- \$725,000 for San Bernardino National Forest Sanitation Improvements.

The California Institute will prepare a more detailed analysis of the FY04 Interior Conference Report, which will be available on its website in the near future.

SENATE ENERGY SUBCOMMITTEE CONSIDERS CALFED

On Thursday, October 30, the Senate Energy and Natural Resources Subcommittee on Water and Power held a hearing on the CALFED bill sponsored by Senators Dianne Feinstein and Barbara Boxer. S. 1097, the CALFED Bay-Delta Authorization Act, authorizes federal participation in the CALFED Bay-Delta program and provides \$880 million for fiscal years 2004 through 2007. The bill also stipulates that the federal share for all CALFED projects cannot exceed one-third of their total cost.

The Subcommittee heard from three panels of witnesses. They were: Rep. Ken Calvert (Corona), chair of the House Resources Water and Power Subcommittee and sponsor of the House CALFED bill, H.R. 2828; Bennett Raley, Asst. Sec. for Water and Science, Bureau of Reclamation, Department of the Interior; Patrick Wright, Dir., California Bay-Delta Authority; Ron Gastelum, CEO, Metropolitan Water District of Southern California; Tom Birmingham, Gen'l Mgr. Westlands Water District; Tom Graff, Reg. Dir., Environmental Defense; Sunne McPeak, CEO, San Francisco Bay Area Council; and David Guy, Ex. Dir., Northern California Water Assoc.

In her opening remarks, Sen. Feinstein stressed the absolute necessity of reauthorizing federal participation in CALFED and passing a balanced bill as soon as possible. She stated: "The essence of CALFED is creating a predictable environment and a cooperative framework for California's communities to plan for their water supply – and for protection of salmon and other fisheries and the environment. There are three core principles enshrined in the bill that Senator Boxer and I have introduced: balance, consistency with the Record of Decision, and partnership between the State and Federal governments." She also stated to Rep. Calvert that she saw no major irreconcilable differences between their two bills and committed to working with him to work out a solution.

Senator Feinstein also read into the record a letter she received from Governor-elect Arnold Schwarzenegger that expresses "strong support for advancing federal legislation on the CALFED Bay-Delta program."

Rep. Calvert testified that he has held many hearings in California and worked with all parties interested in California water, and "what I have heard across the board is that we need storage, efficient conveyance, improved water quality, more agency accountability, and strong communication and coordination." He also stated: "I commit to work with you, Senator Feinstein, and the distinguished members of this Committee, and the Subcommittee I chair, to work-out what few differences we do have so we can get the needed federal authorization to move forward. We need balanced legislation on improving our water supply and we need it now."

In his testimony, Asst. Secretary Raley reiterated the Administration's belief that coordinated solutions like CALFED are absolutely necessary to avoid water conflicts and stated that he believed the Administration, Senator Feinstein, Rep. Calvert and the other parties are "achingly close" to agreeing on a solution. He stated, however, that, especially given the current federal budget concerns, the Administration did not agree with the \$880 million/four year authorization in S. 1097. On the other hand, under questioning by Senator Lisa Murkowski (AK), Chair of the Subcommittee, Sec. Raley could not offer an acceptable authorization level. He did, however, commit to Sen. Feinstein that he would begin working immediately with the California Bay-Delta Authority and the Senator's staff to reach an agreement on a feasible funding level.

All of the panel of stakeholder witnesses, with the exception of Mr. Graff of Environmental Defense, strongly supported reauthorization of federal participation in CALFED. Mr. Wright outlined the successes of

the CALFED program over the three years since the Record of Decision was announced in 2000, but stressed the need for federal authorization and funding to ensure CALFED's continued success. Ms. McPeck stressed that California businesses need the stability and certainty that would come from the federal government's affirmation of its commitment to a balanced CALFED package.

Mr. Graff expressed his strong concern, however, that providing additional water supply commitments to water users would come at the expense of the recent successes that have occurred in fish and ecosystem restoration in the state. Mr. Gastelum, however, expressed MWD's strong support for the policy of beneficiary pays, although allowing for the fact that it would have to be part of the CALFED process to determine what the beneficiary's appropriate cost-share was to be.

Mr. Birmingham testified that Westlands strongly supports S. 1097, stating its passage would "ensure that the CALFED Program is implemented in a balanced and innovative manner that links progress on environmental restoration and enhancement with progress on water supply and water quality improvements." Mr. Guy seconded that opinion on behalf of the Northern California Water Association, and detailed the success NCWA and Northern California water users have had in implementing a comprehensive, integrated water resource management program that includes fish passage improvements, groundwater management, evaluation of the Sites off-stream reservoir, flood protection, water use efficiency programs, potential expanded storage in Lake Shasta, intra-regional water transfers and exchanges, and watershed management.

At the end of the hearing, Sen. Feinstein obtained Chairwoman Murkowski's commitment to work with her to pass a feasible CALFED reauthorization bill as soon as possible.

Testimony of all the witnesses can be obtained from the Committee's website at:

<http://www.energy.senate.gov> .

SENATE APPROVES TRANSPORTATION APPROPRIATIONS BILL

The full Senate voted on October 26, 2003 to approve its version of the FY 2004 Transportation, Treasury and related agencies appropriations bill by a 91 to 3 vote. Passage of the Senate transportation appropriations bill signifies crucial progress for appropriators as Congress continues work on completing unfinished funding plans that keep federal programs in operation for the fiscal year that began October 1. Issues of contention, such as the debate over Amtrak funding levels still remain, however, and will move to the Conference committee for resolution.

The \$91 billion measure is \$300 million below the amount requested by President Bush in his FY 2004 budget request. Some highlights of the Senate bill, S.1589, include the provision of an historic high \$33.8 billion for federal aid highways programs, a \$4.6 billion increase from the President's request and \$2.25 billion more than FY 2003 funding levels for highway programs. \$14 billion is attached for Federal Aviation Administration activities and programs, an increase of \$500,000 compared to 2003. The transit section of the bill includes \$125 million for 54 national intelligent transportation projects while funding for the IRS is set at \$10.35 billion.

In a statement, Senator Boxer expressed support for the measure and identified a number of California projects slated to receive funds. Senator Feinstein stressed the importance of securing more funds for the EastSide Light Rail Transit (LRT) project in Los Angeles. The Eastside LRT extension receives \$5 million in New Starts funds, according to the Senate Report. Feinstein, however, noted that the President's budget requested \$55 million for the project, pending the completion of a Full Funding Agreement (FFA). Transportation Appropriations Ranking Member Patty Murray (WA) understood the gravity of adequate funding for the LRT expansion project and pledged to work with others to meet the project's funding needs.

The national railroad passenger service, known as Amtrak, is awarded \$1.35 billion in the Senate bill, a significantly higher figure than the \$900 million amount recommended in companion House legislation. Top Amtrak administrators portend that Amtrak operations are under threat of shutting down operations if the service receives less than \$1.8 billion. Amtrak funding may provoke considerable debate in conference.

California operates three major Amtrak lines and has invested heavily in Amtrak. Some 24 million Californians are among Amtrak's annual ridership, traveling on 60 intercity trains and 300 commuter trains every day.

ONLINE WINE SALES ISSUES EXAMINED; FTC REPORT DEEMS STATES' BARRIERS TO WINE SHIPMENTS AS "ANTICOMPETITIVE"

On Thursday, October 30, 2003, the Commerce, Trade and Consumer Protection Subcommittee of the House Energy and Commerce Committee held a hearing to examine issues relating to electronic commerce and the interstate shipment of wine in conjunction with its online sale. *For additional information regarding previous activity, see Bulletin, [Vol. 9, No. 28 \(10/10/02\)](#), & [Vol. 10, No. 21 \(07/17/03\)](#).* The discussion at the hearing, which was entitled "*E-Commerce: The Case of Online Wine Sales and Direct Shipment*", focused on a report issued by the Federal Trade Commission (FTC) concerning government regulations of particular products and services that could stifle online commerce and competition and the public policy concerns surrounding the direct shipment issue.

Subcommittee members heard from the following panel of witnesses: Todd Zywicki, Director of the Office of Policy Planning at the FTC; David P. Sloane, President of Wine America; and Juanita D. Duggan, President and CEO of the Wine and Spirits Wholesalers of America. The San Francisco-based Wine Institute submitted written testimony to the Subcommittee.

Mr. Zywicki offered a summary of findings of the recent FTC report entitled "*Possible Anticompetitive Barriers to E-commerce: Wine*". The FTC report found: that states could significantly enhance consumer welfare by allowing the direct shipment of wine to consumers, and that state bans on interstate direct shipping represent the single largest regulatory barrier to expanded e-commerce in wine. Mr. Zywicki also addressed issues of underage drinking, tax collection, and alternatives that are available to states that are less inclined to ban interstate direct shipment of wine altogether. He testified that most of the states surveyed about underage drinking do not believe interstate direct shipment of wine to minors to be a serious problem; in fact, several states that permit interstate direct shipping have adopted various procedural safeguards to prevent sales to minors. In addition, most states that elected to allow direct shipping reported few, if any, problems with collecting tax revenues. Meanwhile, the report found that those states that did not ban the practice altogether had several less restrictive alternatives to satisfy their regulatory objectives, including registering out-of-state suppliers, imposing various civil and criminal penalties against violators, and applying the same safeguards to online sales that already apply to brick-and-mortar retailers.

Mr. Sloane echoed the latter sentiment while adding that the issue of e-commerce is of particular importance to the wine industry because "wineries and vineyards comprise one of the fastest growing sectors of our nation's agriculture, and have become a major force for economic development and rural stability." He argued that direct shipment is critical to small wineries as it often makes the difference between mere survival and profitability, and pointed out that more than half of the states have effectively shut all but the top 100 wineries out of their market by prohibiting direct sales from out-of-state wineries. He also criticized the three-tier system (producers to wholesalers to retailers) currently imposed by many states and argued it is not a viable method for distributing the products of small wineries.

Ms. Duggan, on the other hand disputed FTC report's conclusions regarding shipments of wine to minors. She countered by citing a National Academy of Sciences report that showed that underage purchase of alcohol over the Internet or through home delivery is a method of illegal access to alcohol used by ten percent of minor drinkers. Framing the issue before the subcommittee as a matter of deregulating alcohol products, Ms. Duggan questioned the need for special treatment of the wine industry. In conclusion, Ms. Duggan stated that direct shipping poses a growing threat to a time-tested system that best prevents underage alcohol access. Members of Duggan's organization are alcoholic beverage distributors, who fear the loss of revenue if consumers are allowed to purchase wine directly from winemakers.

In its submitted testimony, the Wine Institute, which represents more than 660 California wineries and affiliated businesses, agreed with the FTC's findings and argued that restrictions on interstate direct-to-

consumer wine sales limit competition and place constraints on consumer choice. California is the nation's premier wine-growing state, housing approximately half of the nation's wineries and accounting for more than 90 percent of the total wine production in the country. The state has allowed the intrastate shipment of wine for 50 years and the interstate shipment of wine for more than 35 years.

The FTC's Report is available at: <http://www.ftc.gov/os/20003/07/winereport2.pdf>, and the witnesses's testimony, may be obtained through the Commerce, Trade and Consumer Protection Subcommittee website at: <http://energycommerce.house.gov>. For additional information regarding California's wine industry, as well as for the Wine Institute's statement on direct shipment, visit <http://www.wineinstitute.org/>.

HOUSE PASSES CHINA TRADE RESOLUTION

On Wednesday, October 29, the House of Representatives passed H.Res. 414, a non-binding resolution encouraging the Chinese government to fulfill its obligations to the World Trade Organization and comply with international trade rules. The resolution also encourages China to adopt a flexible exchange rate.

Specifically, the resolution commends the Administration for continued efforts to engage the Chinese government and encouraged its continued efforts (particularly on the financial front); encourages China to meet its commitments to the trade rules and principles of the international community of which it is now a member; urged China to adopt a market-based currency exchange rate, modernize its financial system, establish a more flexible exchange rate, and comply with its trade agreement obligations; and urged the U.S. government to intensify efforts to promote innovation, reduce costs, and level the international playing field for the manufacturing sector.

WAYS AND MEANS HEARING EXAMINES CHINA'S ECONOMY AND TRADE

On Thursday, October 30, 2003, the Full House Committee on Ways and Means held a hearing entitled "United States-China Economic Relations and China's Role in the Global Economy." Witnesses included Treasury Under Secretary John B. Taylor; Dr. Gregory Mankiw, Chairman of the Council of Economic Advisers; Ambassador Josette Shiner, Deputy U.S. Trade Representative. A second panel of witnesses included Dr. Douglas Holtz-Eakin, Director of the Congressional Budget Office; Dr. Loren Yager of the General Accounting Office; and Dr. Robert Rogowsky of the International Trade Commission. The Committee was expected to hold a second hearing on Friday, October 31, featuring testimony from private-sector witnesses.

The hearing was called to focus on U.S.-China economic relations and China's role in the global economy, with particular attention to: (1) implementation of China's WTO accession commitments (including removal of quotas and tariff-rate quotas, export subsidies and discriminatory taxes on imports, and use of non-tariff barriers to limit bio-engineered imports); (2) U.S.-China trade relations; (3) management of China's pegged currency; and (4) the relationship between U.S-China trade and the U.S. economy, particularly in the manufacturing sector. Committee Chair Rep. Bill Thomas (Bakersfield) stated, "China is an important player in the United States and the global economies. However, we need to ensure that China is integrating itself into the rules-based trading system that governs all WTO Members." Critics charge that China uses trade barriers to restrict imports, pegs the value of the yuan to the dollar (keeping its goods cheap and U.S. imports expensive), and provides little or no protection of intellectual property rights.

Under Secretary Taylor said that although economic reforms in China are helping that nation's economy, with a per capita income of only about \$1,000 per year and an ongoing need for systemic financial, legal and regulatory reform, China still faces major challenges. He said that many imports from China are actually goods from other Asian economies that are processed or finished in China before shipping elsewhere, and he suggested that the large U.S. trade deficit with China may really represent a shifting of trade, stating, "China accounted for 11 percent of U.S. imports in 2002, up from 3 percent in 1990. Meanwhile, the combined share of Japan, Korea and Taiwan in U.S. imports declined to 17 percent from 27 percent over the same period. Thus, the total share of U.S. imports coming from these four Asian countries has remained steady since 1990,

actually falling slightly from 30 percent to 29 percent.” Summarizing, Taylor said, “Much of the increase in U.S. imports from China has come at the expense of imports that once came directly from other Asian countries.” Noting that China has had to heavily purchase dollars to maintain the yuan’s current fixed exchange rate and has begun issuing central bank paper to restrict growth of the monetary base, Taylor recommended a relaxation of capital outflow controls to reduce upward pressure on the yuan.

CEA’s Mankiw said that it is important that China continues to take steps to strengthen its trading relationship with the United States because of the substantial benefits provided to the U.S. economy. He commented that enhanced trade adjustment assistance and personal reemployment accounts help workers affected by competitive pressure caused by China’s ascension in world trade. Chinese imports and exports have doubled over the last five years, Mankiw said, adding that recent growth “has been fairly evenly divided between its growth in imports and exports.” China imports about 1/4 of its GDP, he pointed out, and its imports are so large that China has had a trade deficit with the world excluding the United States for several years. However, he said that China still has much to do to open its markets to U.S. goods and services, and he specifically noted opening markets and protecting intellectual property rights. He also noted that U.S. purchases of Chinese goods have risen 40 percent since 2000, and that the U.S. has a \$125 billion annualized trade deficit with China so far this year.

Ambassador Shiner repeated a message that has been delivered to Chinese officials: “China must increase the openness of its market and treat U.S. goods and services in a fair and transparent manner, if it wants to maintain support in the United States for an open market with China.” She pointed out that less than two years after China’s accession to the WTO, China has become the nation’s fourth largest trading partner and the sixth largest market for U.S. exports. She noted that exports to China (\$22 billion in 2002) have grown 62 percent in three years, whereas exports to the world have declined by 9 percent over the same period. However, she acknowledged the growing deficit and predicted that China will represent between 21 and 22 percent of the nation’s trade deficit this year. Responding to a question, she noted that Europe also has a trade deficit with China.

Rep Sander Levin (MI), Ranking Democrat on the Trade Subcommittee, commented that while China’s exports at present are mostly in low-tech industries (toys and footwear rank first and second) more and more of the competition from China in the future will be in computers and other high-tech areas.

Responding to a question from Rep. Jennifer Dunn (WA) regarding intellectual property rights (IPR), Shiner said that USTR is educating China regarding best practices employed successfully in other parts of the world, and she specifically mentioned Hong Kong. She also noted some success working with officials of Chinese provincial governments to suggest that improving IPR performance and enforcement in their region might attract business activity to their province over another. If such efforts prove unsuccessful, however, Shiner agreed that the U.S. may need to employ available tools for enforcement.

Rep. Mark Foley (FL), Chair of the Congressional Task force on the Entertainment Industry, was sharply critical of China’s barriers to U.S. entertainment products, including films, television and music. He predicted that IPR problems in China cannot be fixed until “a lot more U.S. products are permitted to enter the Chinese market legally.” Ambassador Shiner replied that China understands piracy rates and assured members that the Administration “has been clear that we need to see systemic, across-the-board progress or else we will need to move to stronger measures.” Touching on another problem shared by California and Florida, Foley also noted that China has raised spurious concerns regarding importation of U.S. citrus products.

Rep. Xavier Becerra (Los Angeles) suggested that the real problem is China’s low wage rates - 60 cents per hour in northeastern China. He predicted that no U.S. productivity advantage could overcome the financial advantage that such a wage disparity provides. Noting that more than 300,000 California manufacturing jobs (of 2.5 million nationwide) have been lost over the last three years, Becerra asked when these workers could be expected to be reemployed, and encouraged USTR to use all tools at its disposal to encourage China’s compliance.

Committee background material also noted that the United States is the second largest overall foreign direct investor in China, a nation with an average annual growth rate of 9.3 percent. China became a member of the World Trade Organization (WTO) on December 11, 2001, after many years of negotiations on its accession.

More details, as well as witness testimony, are available on the Ways and Means Committee website at <http://waysandmeans.house.gov> .

HOUSE COMMITTEE INVESTIGATES ECONOMIC IMPACT OF MIGRANTS

Witnesses testified on the economic and quality of life impacts of immigration at a House Judiciary Subcommittee on Immigration, Border Security, and Claims on October 30, 2003.

In his opening statement, Subcommittee Chair Hostetler (IN) referred to stagnant wages among low-skill workers and increased high school dropout rates as the result of wrongheaded immigration policies of the past, "I think it is indisputable that the economic history of the past three decades has been disconcerting," said Rep. Hostetler.

Steve Camarota of the Center for Immigration Studies supported Mr. Hostetler's sentiments by detailing the adverse impact on wages and employment sparked by immigrants flooding the low-skilled labor market. Vernon Briggs of Cornell University appealed to the Committee for the creation of stronger sanctions against employers who hire illegal immigrants expressing dismay at what he feels is the control of immigration policy by special interests.

Los Angeles-based conservative talk-show host Terry Anderson charged that immigration is the cause for white and black displacement in California neighborhoods and workplaces and anger among Californians. He proposed that the recall election was partially a revolt against immigrants by California voters (though he did not comment on why Californians elected a first-generation Austrian immigrant as their next Governor).

In her opening statement, ranking member Sheila Jackson Lee (TX) questioned the rationale behind what she viewed as anti-immigrant rhetoric. Responding to suggestions that immigrants cause job loss and mounting unemployment in America, Rep. Jackson-Lee retorted that job opportunities rise with population growth and that immigrants create new economic opportunities while raising productivity. Panelist Daniel T Griswold of the Cato Institute cited a study that showed income rising across all income groups between 1993 and 1999 a period of robust economic growth and robust immigration. Furthermore, the national poverty rate fell by 10 percentage points through the 1990s, according to Mr. Griswold. Mr. Griswold who prefers immigration policies that legalize and regulate migration also submitted that while the supply of low-skilled labor continues to shrink, immigrants provide many natives with the space to go back to school and train for high-skilled work.

"This nation was founded on immigrants" said Rep. Jackson-Lee, who favors a training and reinvestment approach to resolving immigrant labor workforce issues. She went on to remind committee members that immigrants pay taxes and that some had lost their lives serving in Iraq.

Before hearing testimony from panelists, the subcommittee approved a number of private bills providing relief to individuals and families with immigration regulation grievances. Before the bills were approved by voice vote, Rep. Zoe Lofgren (San Jose) submitted and withdrew an amendment that would have reformed immigration law so that adoption discrepancies would have been modified, an action that would have reduced the private bill load in Congress, according to Rep. Lofgren. Ms. Lofgren withdrew her amendment after appealing to Subcommittee Chair Hostetler to examine and modify the operative dates of international adoption finalizations.

For witness testimony and other information, visit the website of the Judiciary Subcommittee on Immigration, Border Security and Claims, at <http://www.house.gov/judiciary/immigration.htm> .