TESTIMONY OF

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ON CURRENCY MANIPULATION AND ITS EFFECT ON U.S BUSINESSES AND WORKERS

BEFORE

U.S. HOUSE OF REPRESENTATIVES

WAYS AND MEANS SUBCOMMITTEE ON TRADE

FINANCIAL SERVICES SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL MONETARY POLICY, TRADE AND TECHNOLOGY

ENERGY AND COMMERCE SUBCOMMITTEE ON COMMERCE, TRADE AND CONSUMER PROTECTION

WEDNESDAY MAY 9, 2007
9:30 A.M.
1100 LONGWORTH HOUSE OFFICE BUILDING

Introduction

I am Bill Hickey, President of Lapham-Hickey Steel Corp. Lapham-Hickey Steel Corp. is a metal service center founded in 1926 with headquarters in Chicago and plants in Illinois, Ohio, Wisconsin, Minnesota and Connecticut. Currently we have approximately 450 employees and customers of all sizes.

I also am a sitting member of Industry Trade Advisory Committee (ITAC-12) which advises the Department of Commerce and USTR on trade policy. I am a past chairman of the Metals Service Center Institute (MSCI), who is a leader of the China Currency Coalition, whom I represent as well as the employees of our company. The China Currency Coalition mostly consists of supply-chain industries such as primary metals, fabricated metals, plastics, electronics, textiles, small- and medium-sized manufacturers and labor organizations.

I want to thank these three subcommittees for their unprecedented cooperation and holding this hearing on currency manipulation and its effect on our manufacturing companies and their employees.

My wake-up call on this subject occurred in the summer of 2001 when one of our long-term customers asked for a meeting to talk about their business. He told me they were no longer going to purchase steel products from our company, but would purchase the parts that they had produced from China and assemble these parts in their plant. The finished machined parts delivered from China would cost less than the raw steel product that we sold to the customer.

So our customer reduced their staff of higher skilled and income employees and retained a few lower skilled and income employees to assemble and ship their product.

This visit started my research into how this economic event could take place; how can China deliver finished, machined products to the United States at less than the cost of the raw steel?

My First Experience With "The China Price" and Its Effect On U.S. Manufacturing

During this time the industrial economy in the United States was in recession. Tens of thousands of manufacturing jobs were disappearing each month. As these jobs vanished, our trade deficit with China exploded, but the value of the Chinese currency did not move. This is when I realized that what China had done in the mid 1990's was to devalue their currency by about 50% against the U.S. dollar, and freeze the value at that exchange rate by intervening in the exchange markets. This guaranteed that the Chinese manufacturers could ship massive amounts of products to the United States at "The China Price." Japan, which engaged in similar tactics, was not far behind.

All the economic theory about free and fair trade I had learned was thrown out the window.

As I realized that the domestic manufacturing companies could not compete with Asian governments, I began to witness a structural decline of the U.S. manufacturing sector, and I was not alone.

The decline of manufacturing is not just a series of anecdotes. What I saw was captured by the import penetration rate for tradable manufacturing industries, as reported by the U.S. Census Bureau. In 1997, imports totaled 22.6% of the tradable U.S. industrial market; in 2004, imports totaled 31.8%. That nine percentage point increase amounts to a 41% increase in U.S. the import penetration rate for tradable industries.

Of the 473 manufacturing job classifications under the North American Industrial Classification System (NAICS), 37 sub-industries (8%) increased their market share, with one category suppressed for national intelligence reasons. 85 sub-industries (18%) are deemed untradable by the Commerce Department, which does not provide import and export data. Accordingly, 351 of the 473 industrial sub-classifications (or 74%) lost market share from 1997-2004, explaining the 41% increase in the U.S. import penetration rate.

In the fabricated metals sector, which I am most closely tied to, 30 out of 43 sub-industries were tradable. Only one industry gained U.S. market share, a mere 0.9% percentage point growth. Specifically, imports in “other metal container manufacturing” fell from 13.15% of the market in 1997 to 12.24% in 2004.

Surely, other competitive factors include high corporate tax rates, health and pension benefits, tort costs, natural gas and pollution abatement. The Manufacturers Alliance and the National Association of Manufacturers (NAM) estimate these non-wage structural factors add 31.7 percent in production costs to US manufacturers compared to our major trading partners. We also face strains in our education system and major challenges producing skilled workers.

These issues are all very important to me. However, today I believe the most pressing problems facing all U.S. domestic producers are effectively macroeconomic trade problems. 143 of our trading partners have consumption taxes averaging 17-18 percent, where they tax our exports at the border and do not tax their exports to the United States. As a result, all imports come into this country free of tax while those we offer for export to almost any destination in the world carry the burden of double taxation.

If you add an undervalued currency in China at 40 percent or more, and a significant but slightly smaller regional undervaluation in Japan and the rest of Asia, the trade magnitude effectively doubles the other non-wage structural disadvantages. As a pragmatic businessman, when faced with numerous difficult problems, I feel I must identify the largest source of competitive disadvantage and eliminate it first, otherwise there is not enough time to deal with the full range of competitive problems.

My Advocacy From 2001-Present

Accordingly, I turned to public advocacy to get our Government to level the playing field with our Asian competitors.

In early 2003, I started by visiting my Congressman at the time, Representative William Lipinski, who was very supportive in our efforts and referred me to his friend, Congressman Luis Gutierrez of the Financial Services Committee. We engaged the Metals Service Center Institute (MSCI) to use their chapter structure to hold town hall meetings across the United States to inform the people in the manufacturing sector that we were not incompetent – we were and still are at a competitive disadvantage that our government allows to continue.

I, along with many others, including many Members of Congress, have tried to get this Administration to recognize that the misaligned Renminbi was destroying thousands of manufacturing businesses and millions of jobs.

Every time this Administration was pressed for some action on the currency, those pushing for action were either insulted or ignored. The action by Congress has been only marginally more responsive.

In the last two Congresses, under the Chairmanship of Representative Bill Thomas, The House Ways & Means Committee refused to even hold a hearing.

On October 1st 2003, Chairman Peter King of New York agreed to hold a hearing with the Financial Services Committee Subcommittee on International Monetary Policy, which many of you participated in. During that hearing, the Undersecretary of Commerce, Grant Aldonas, refused to acknowledge that currency misalignment by China was costing jobs. Treasury Undersecretary John Taylor was asked directly by Congressman Manzullo what plans the administration has to stop overt currency manipulation by Japan. Mr. Taylor failed to disclose he was consenting to what turned out to be massive Japanese intervention in a follied attempt to combat deflation, as revealed in his recent book *Global Financial Warriors*.

In 2004, the China Currency Coalition filed a Section 301 case against China's currency manipulation, which would have required the administration to begin negotiations if accepted. The 200+ page petition was rejected two hours after it was submitted in September 2004.

In 2005 and 2006, the National Association of Manufacturers staff told their members pushing for an association endorsement that the administration opposed the legislative solution.

In early 2005 I had a chance to visit with Representative Tim Ryan of Ohio. He explained the problems of the manufacturing companies in his district and we discussed how much of this economic distress was caused by currency manipulation.

A match made in heaven!

Representative Ryan combined with Chairman Duncan Hunter of the Armed Services Committee to sponsor H.R.1498 in the last Congress that ended with 178 bipartisan co-sponsors, but was ignored by Chairman Thomas.

Now that the control of Congress has changed parties, we have a Treasury Secretary calling for much faster appreciation by China on their currency. Unfortunately, he still lacks any leverage to accomplish these objectives.

Now that the control of Congress has changed parties, we have a Department of Commerce that has conceded that non-market economies employ massive domestic and export subsidies. Unfortunately, this issue may end up in the U.S. courts without Congressional intent being crystal clear.

Now that the control of Congress has changed parties, we now have a USTR that starts trade cases at the WTO against China. Unfortunately, this is a slow, cumbersome and unpredictable process.

If control of Congress had not changed, does anybody believe that the Administration would have taken these recent actions?

The Case For H.R. 782

This is why we need H.R. 782 enacted into law as soon as possible. This bill makes currency misalignment by protracted government intervention a subsidy under the

U.S. countervailing duty law. I have submitted for the record a detailed set of questions and answers prepared by the China Currency Coalition about the legislation.

In summary, The Fair Currency Act of 2007 has five important virtues.

1) For the first time, injured industries and their workers would have an effective remedy under U.S. trade law against undervalued currencies.

2) For the first time, the Treasury Secretary would have leverage for his diplomatic campaign to stimulate U.S. exports.

3) It is consistent with our obligations under the WTO subsidy rules.

4) It avoids any reliance on the International Monetary Fund. IMF Article IV urges all members to avoid using exchange rates to prevent the adjustment of imbalances in trade flows. In practice, it is an outmoded carry-over from the Bretton Woods era, contains no definitive legal obligation and is inherently unenforceable. In fact, IMF Director General Rodrigo de Rato said publicly the IMF should play no role in disputes over currency values. Fundamental reform of the IMF is a worthy long term goal; reliance on a new IMF in the short-run assures an unbearable status quo.

5) This bill addresses the problem of currency manipulation per se by any country at any time. In my remarks, I focus on China and the Renminbi. Let me assure you that this is a much bigger problem. Japan, South Korea, India and others are using mercantilist currency policies to engineer an artificial advantage in both their own and the U.S. market.

The China Currency Coalition has consistently sought an immediate substantial revaluation of the Renminbi to reflect economic realities. We recognize that a more flexible currency regime requires time and institutional reform. Moreover, we note that Japan has a flexible managed float regime that has produced an undervalued Yen. That is not what we want for the Yen, the Renminbi or any currency.

It has been six years since I lost my first customer. Since then, there has been no effective action taken by the government.

We, as a country, need laws that ensure our companies and employees are not going to be destroyed by a policy of neglect by any Administration at any time. In December of last year to China's Academy of Social Sciences, Fed Chairman Ben Bernanke called China's currency policies an "effective subsidy." The momentum continues; in the last two weeks alone, two major publications have vindicated the arguments the United States domestic manufacturing sector has been making for years. Steve Pearlstein of the *Washington Post* stated on April 25th: "Contrary to what you hear from editorial writers and other free-trade ideologues, it is not 'protectionist' for the United States to impose countervailing duties on imports from a country that subsidizes exports and keeps its currency pegged to the dollar."

In the May 14th issue of *Newsweek*, Robert J. Samuelson, writes: "It is not "protectionist" (I am a longstanding free trader) to complain about policies that are predatory; China's are just that."

Thank you