Date of Hearing: August 12, 2013

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY
Jose Medina, Chair
AJR 12 (Gatto) – As Introduced: February 6, 2013

SUBJECT: Minimum wage and foreign treaties

SUMMARY: Memorializes the California Legislature's request to the U.S. President to include a provision within future international treaties, trade agreements, and other international protocols relating to the raising of foreign minimum wages. Specifically, this bill:

1) Makes a variety of declarations that include:

   a) Unemployment remains too high in the United States and that one significant cause is the "outsourcing" of quality trades, manufacturing, and service industry jobs to nations where workers are paid minuscule wages for their labor;

   b) In an age of "globalization" many American industries have suffered due to competition from foreign employers who pay wages well below the U.S. federal minimum wage;

   c) A standardized international minimum wage would ensure that American workers and firms compete on a "level playing field" in the global market, raise the standard of living for billions of people worldwide, and open new markets to American exports; and

   d) The U.S. has a long history of stimulating beneficial policies abroad when negotiating treaties and trade agreements, including, inter alia, demanding free elections, protecting American patents, prohibiting nuclear testing, requiring currency stabilization, and requiring environmental safeguards, as a condition for peaceable relations, open trade, and robust commerce with the United States.

2) Resolves that the California State Assembly and Senate call on the U.S. President to include the raising of foreign minimum wages in future treaties, trade agreements, and other international protocols; and that the U.S. Senate decline to ratify agreements that fail to include such provisions.

FISCAL EFFECT: None

COMMENTS:

1) Author's Purpose: "Many U.S. industries have struggled to compete with foreign employers who pay wages well below what U.S. workers make. As a result, quality trades, manufacturing and service industry jobs have been outsourced to nations where workers earn minuscule wages for their labor, causing the U.S. economy to continue to suffer from higher unemployment as companies cut costs to remain competitive.

   A standardized worldwide minimum wage would ensure U.S. workers and businesses compete on a level playing field in the global market. A rising minimum wage would also benefit workers in foreign countries by improving the standard of living for billions of people around the world and opening new markets to American exports. Reducing poverty would make developing countries less reliant on U.S. foreign aid and able to create more stable societies less prone towards wars or terrorism.

The United States is in a unique position to affect global policies by utilizing its treaty powers to require foreign nations to stop exploiting low wages for competitive advantage. Throughout its history, America has stimulated beneficial policies abroad when negotiating treaties and trade agreements, including calling for free elections, protecting U.S. patents and requiring environmental safeguards. It is in this spirit that this resolution hopes to follow – influencing the world community to improve the quality of life for those less fortunate than us."

2) Framing the Policy Issue: This resolution expresses the California Legislature's position that the U.S. should pursue an international trade policy that more accurately reflects current global economic conditions and advantages available to the U.S. with higher foreign minimum wages.

Economic development practices that promote strategies that increase worker wages are sometimes referred to as investments in the virtuous cycle. In a virtuous cycle, wage growth leads to healthy consumer demand, which encourages business investment, which drives productivity growth, which then supports wage growth. Wage increases among lower income workers have been found to be particularly effective in spurring economic growth because these workers have a higher propensity than other workers to spend the full amount of the wage increase.

As the global leader in trade, foreign investment, and business development, the resolution would express the California Legislature's belief that the U.S.' position on employment compensation, especially in emerging markets, could play a significant role in improving workers' quality of life, hastening the development of their middle class, helping to develop a new consumer-base of U.S. products, and reducing the flow of industries fleeing the U.S. and other industrialized nations in search of cheaper labor. The analysis includes information on U.S. trade policy, the importance of trade within the California economy, and trends in global development standards.

3) U.S. Trade Policy and the State Consultation Process: The U.S. Constitution grants the federal executive branch the power to negotiate treaties and trade agreements. Ratification, however, is vested in the U.S. Congress upon a two-thirds vote of approval. Under "Fast Track" trade authority, Congress is prohibited from making amendments to a trade agreement, however, it is not uncommon for related bills to accompany the passage of a trade agreement that include mitigation provisions for economically impacted communities, workers, and businesses.

In recognition of this inability to modify specific elements of already negotiated trade agreements and their far reaching impact on state and local economies, Congress has directed the U.S. Trade Representative (USTR) to seek advice from states during the negotiation process through a Governor appointed State Point of Contract (SPOC). With the recent resignation of the Deputy Director of International Affairs and Foreign Investments, California currently has no SPOC.

In addition to the SPOC process, the USTR maintains nearly 30 trade-related advisory committees, including the Intergovernmental Policy Advisory Committee on Trade (IGPAC). The IGPAC is currently comprised of 24 state and local officials, including members of state legislatures, state trade directors, and related national associations. Former State Senator and now Los Angeles City Councilmember Curren Price and Carlos J. Valderrama, who represents the Los Angeles Area Chamber of Commerce, are members of IGPAC.

The U.S. has trade agreements in force with 20 countries including Australia, Bahrain, Canada, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Israel, Jordan, Korea, Mexico, Morocco, Nicaragua, Oman, Panama, Peru, and Singapore. In addition, the U.S. is negotiating the Trans-Pacific Partnership, which includes 12 countries, and has recently (July 2013) initiated discussions on an agreement with the European Union.

In addition to trade agreements, the U.S. maintains a number of trade preference programs that allow special access to U.S. markets for countries that are considered developing markets and/or where the U.S. wants to cultivate a stronger relationship. The Andean Trade Preference Act (ATPA) and the Andean Trade Promotion and Drug Eradication Act (ATPDEA) are examples of two such trade programs which assist Bolivia, Colombia, Ecuador, and Peru in promoting "broad-based economic development, diversification of exports, consolidation of democracy, and to help defeat the scourge of drug trafficking by providing sustainable economic alternatives to drug-crop production in beneficiary countries." AJR 12 proposes that these types of trade agreements and trade preference programs include policies that require the development and continuing increase of minimum wages within their broader economic development framework.

4) California's Role in Foreign Trade Agreements: Over the years Members have expressed concerns regarding the California Legislature's involvement in what they deem to be federal issues. Some have commented that these types of discussions, international trade agreements as an example, distract Members from their core responsibilities of approving and overseeing the implementation of legislation and the state budget.

   Other Members, however, believe that the U.S. trade model clearly envisions the role of state consultation by establishing the SPOC and IGPAC consultation process as means for states to engage the USTR. The relevance of individual state engagement on trade issues has increased over the past decade as foreign trade agreements have expanded beyond the direct import or export of a ready for sale product and now include rules on issues within the traditional purview of states including public procurement, professional licensing, and investor rights. Under reciprocity standards, state laws relating to environmental standards, hiring local workers, and buying local products, can and, in some cases have, been challenged by foreign companies.

   In the last few years, California Legislative Members and stakeholder groups have emphasized the importance of California's engagement on trade agreements in order to ensure California communities are not disadvantaged. As an example, in 2011 the Legislature adopted AJR 15 (Alejo), which urged the U.S. government to consider the potential negative economic impact of the Colombian Free Trade Agreement on the California economy, especially as it related to the California floriculture industry. The issue was raised, not from a protectionist perspective, but based on the U.S.' significant involvement under the ATPA and the ATPDEA in the development of the Colombian cut flower industry. Today, the Colombian cut flower industry, with its U.S. subsidized infrastructure and $333 (589,500 pesos) per month minimum wage, competes directly with California producers.

   As illustrated in the Colombian example, the U.S. economy is increasingly entwined with business and consumer markets in other counties and that trade agreements and other trade policies can have direct economic impacts on domestic workers and businesses. AJR 12 proposes that the U.S. take a more comprehensive view of the policies and practices of other countries in order to ensure not just a better quality of life for their workers, but to also provide the economic foundation for the long-term development of consumers of California and U.S. products and services.

5) Fast Track and Calls to Update U.S. Trade Framework: At its core, AJR 12 is proposing an update to the U.S. trade framework. Developed decades ago, the framework for U.S. trade agreements has not been comprehensively reviewed even as significant new elements have been added such as public procurement, service industries, and investments. Limited solutions have been developed to address domestic related economic issues, such as trade adjustment assistance for workers who have lost jobs

due to globalization and, in particular, to the impacts of trade agreements. These updates, however, are only a piecemeal approach and have left a number of domestic economic issues unresolved.

This resolution is timely as President Obama is currently seeking authorization from the U.S. Congress for Presidential Trade Promotion Authority (also known as Fast Track). As noted above, Fast Track trade legislation allows the White House to submit trade deals to Congress for straight up-or-down votes without any amendments. It was last passed by Congress in 2002 and expired in 2007. In exchange for Fast Track, authority it would be expected that federal lawmakers would use the opportunity to set negotiating objectives including those that would be applied to the Trans-Pacific Partnership and the proposed European Union agreement.

Further debate over Fast Track is expected to be significant. The National Conference of State Legislators has previously conditioned its approval of Fast Track on having enforceable labor and environmental standards, as well as:

- Granting “no greater rights” to foreign investors than are granted to U.S. citizens;
- Protecting state policy and regulatory authorities;
- "Grandfathering” existing state laws;
- Utilizing an “opt in” or “positive list” process for making commitments relative to state-level authorities or interests;
- Fully indemnifying the states for any monetary claims brought against the United States under an agreement as a result of state action;
- Requiring express congressional action to legitimize preemption of a state law to comply with a trade agreement; and
- Requiring federal or other reimbursement of state expenses incurred in trade disputes.

In March 2013, more than 400 groups urged the replacement of the U.S. Fast Track trade authority and the current trade framework used in the Trans-Pacific Partnership Free Trade Agreement. Among other criticism, the 15 million combined members and supporters stated that the current U.S. framework is outdated, that negotiations are being undertaken in secrecy, and that the purpose of the agreements should be to advance a more just and sustainable global economy. Key elements proposed by the groups for a more comprehensive update to the U.S. trade framework would include:

- Prioritize human and labor rights;
- Respect local development goals and the procurement policies that deliver them;
- No elevation of corporations to equal terms with governments;
- Protect food sovereignty, including programs that ensure farmers and workers receive fair compensation;
- Access to affordable medicine;
- Safeguards against currency manipulation;
- Space for robust financial regulations and public services; and
- Improved consumer and environmental standards.

Among the 400+ groups signing onto the letter and new trade framework are: Earthjustice, Equal Exchange, Global Exchange, International Brotherhood of Electrical Workers, International Brotherhood of Teamsters, Maquiladora Health & Safety Support Network, National Alliance of Latin American and Caribbean Communities, National Nurses United, Public Citizen, Rainforest Action Network, Sierra Club, and the United Steelworkers.

The committee may want to consider expanding the scope of AJR 12 to include a call for a comprehensive review of the nation's trade framework and the development of a broader set of core economic and policy elements that can better serve the U.S. in the new globally connected economy.

6) Wage Rates around the World: In January 2013, U.S. President Barack Obama called for the raising of the U.S. minimum wage from $7.25 to 9.00 per hour by 2015. Compared to other industrialized nations, the Organization for Economic Co-operation and Development (OECD) ranks the U.S. as ninth behind Canada ($8.04), United Kingdom ($8.53), New Zealand ($8.63), Belgium ($9.52), Australia ($9.54), France ($10.02), Ireland ($10.81), and Luxembourg ($11.36).

   In viewing the minimum wage rates for these developed counties, it is important to also consider the highly integrated global economy whereby raw materials, research, production, assembly, and distribution networks often cross a variety of national boundaries within both industrialized and developing nations. Product origin labels are based on percentages of where labor and materials are sourced, reflecting the reality of multiple-sourced products. For many workers who are employed in countries with lesser developed commercial and industrial sectors there are no minimum wage rate and the recession has worsened their economic conditions. In the 2012/13 study by the International Labor Organization (ILO), wage growth is reported to have remained significantly below pre-recession levels and has especially dropped in developing countries and among certain regions. As an example the ILO reports that "a worker in the manufacturing sector in the Philippines took home $1.40 for every hour worked, compared to less than $5.50 in Brazil, $13.00 in Greece, $23.00 in the U.S., and $35 in Denmark."

   In an effort to address the most extreme economic-based challenges the United Nations adopted a set of comprehensive economic, social, and environmental thresholds, in the late 1990s called the Millennium Development Goals (MDGs). Among other strategies, the United Nations is relying on improving economic opportunities within developing nations, as a central means of raising and maintaining MDG objectives in the long term. As an example, one of MDG's strategy is to halve the proportion of people who live below the global extreme poverty rate of less than $1.25 a day by 2015. This MDG was achieved five years early as the rate fell from 47% in 1990 to 22% in 2010, meaning 700 million fewer people lived in conditions of extreme poverty in 2010 than in 1990. China, still considered a developing country even though it is a top U.S. trade partner, saw the greatest drop in extreme poverty rates: dropping from 60% in 1990, to 16% in 2005, and 12% reported for 2010.

   In addition to MDG progress on health indicators such as access to safe drinking water and mortality rates from malaria and tuberculosis, goal eight proposes the establishment of a global economic partnership that supports an open, rule-based, predictable, non-discriminatory trading and financial system. In the 2013 report, export revenues were reported as up in 2010, duty-free market access reached 80% of exports in developing countries, and average tariffs are reported to be at an all-time low.

   Economic progress, however, has not been across the board. While the United Nations estimates that 233 million people gained employment since 1990, allowing them to move above the global extreme poverty rate, much of this progress (58%) has been in employment that provide little long-term job security and pay very low wages. These working environments can lead workers to accept substandard wages and unhealthy working conditions. A recent example of this can be found in the collapse of the Bangladeshi Rana Plaza factory building which resulted in 1,129 people being killed and the Tazreen factory fire in November 2012 that killed 112. As a result of these instances, the U.S. suspended Bangladesh's trade privileges until certain specific steps were taken to address the labor and public safety deficiencies. The United Nations estimates that there are still over a billion people in the world having an inability to obtain basic food, shelter, health care, and education.

7) Free Markets, Trade Agreements, and Economic Growth: Rising incomes, job creation and real wages are strongly linked to GDP and the pace of economic growth. According to the OECD, numerous reviews of literature have found a fairly consistent pattern that trade can be a key factor in promoting national economic growth. Challenging these positive forces of globalization and trade are advances in technology, growing discrepancy between incomes, and demographic shifts that will place higher demands on a limited number of workers. As an example, the McKinsey Global Institute (MGI) anticipates a shortage of both high- and medium-skilled workers in the coming decades.

Global Workforce Outlook					
High-Skilled Workers			**Medium Skilled Workers**		
Geographic Location	Workers	Unmet Demand	Geographic Location	Workers	Unmet Demand
Total Shortage	38 to 41 million	13%	Total Shortage	45 million	15%
In advanced economies	16 to 18 million	10%	In India	13 million	10%
In China	23 million	16%	In young developing economies	31 million	19%
Source: PowerPoint Slide of Dr. Koehler from JEDE 4/4/13 hearing sourced from McKinsey Global Institute					

In a globalized society, trade agreements represent the foundational rules for business and workforce development. AJR 12 proposes to include minimum wage rates and policies that encourage increasing minimum wage rates within those foundational trade principles.

8) California's Trade-based Economy: International trade is an important component of California's $1.9 trillion economy. If California were a country, its $162 billion in exports would place the state as the 11th largest exporter in the world. Exports from California accounted for over 10.5% ($162 billion) of total U.S. exports in goods, shipping to over 220 foreign destinations in 2012.

California's land, sea, and air ports of entry (POE) serve as key international commercial gateways for products entering and exiting the country. The Port of Los Angeles continues to rank as the nation's most significant POE in terms of two-way trade valued at $273.6 billion in 2011. It is followed by JFK International Airport ($192.3 billion) and the Port of Houston ($168.8 billion). In terms of global container activity, the Los Angeles-Long Beach container port ranked 8th globally, behind Shanghai, China; Singapore, The Republic of Singapore; Hong Kong, China; Shenzhen, China; Busan, South Korea; Ningbo, China; and Guangzhou, China.

California is also home to other major POEs including: Long Beach ($94.7 billion, ranked 9th); LAX ($84.6 billion, ranked 12th); San Francisco International Airport ($50.5 billion, ranked 21st); Port of Oakland ($45.8 billion, ranked 24th); Otay Mesa Station ($34.2 billion, ranked 30th).

Mexico is California's top trading partner, receiving $26 billion (16%) in goods in 2012. The state's second and third largest trading partners are Canada and China with $17.3 billion (11%) and $14 billion (9%) in exports respectively. Other top-ranking export destinations include Japan, South Korea, Hong Kong, Taiwan, Germany, the Netherlands and the United Kingdom.

California's top five exports in 2012 were: Computer & Electronic Products ($44.6 billion); Transportation Equipment ($16 billion); Machinery, Except Electrical ($14.9 billion); Miscellaneous Manufactured Commodities ($13.9 billion); and Chemicals ($12.8 billion). The state's top five imports in 2012 were: Computer and Electronic Products ($112 billion); Transportation Equipment ($60 billion); Oil & Gas ($32 billion); Miscellaneous Manufactured Commodities ($19.4 billion); and Apparel Manufacturing Products ($18.8 billion) for a total of $376 billion in imported products.

9) Related Legislation: Below is a list of related legislation.

a) *AB 2443 (V. Manuel Pérez) State Point of Contact on Trade*: This bill would have required the State Point of Contact to provide specified Legislative committees with copies of any official position taken or comments that any entity within the executive branch of state government provided to the USTR relating to a pending trade agreement. Status: Vetoed by the Governor, in 2010.

b) *AB 1276 (Skinner) Binding the State to Foreign Trade Agreements*: This bill would have prohibited a state official, including the Governor, from binding the state, or giving consent to the federal government to bind the state to provisions of a proposed International Trade Agreement, including the government procurement rules, unless a statute is enacted that explicitly authorizes a state official to bind the state or to give consent to bind the state to that trade agreement. Status: Vetoed by the Governor in 2009.

c) *AJR 27 (Torrico) Colombian Free Trade Agreement*: This resolution memorializes that the California Legislature opposes the United States-Colombia Trade Promotion Agreement. The primary basis for this position, as documented through bill analyses, was Colombia's record on human rights, particularly as it related to trade unionists. This resolution proposes that the Legislature transmit additional information to the U.S. Government and the President relative to the Colombia Agreement. In the case of AJR 27, the new information focuses on the potential negative impact to the domestic cut flower industry, its workers, and the communities in which they are located stemming from the Colombia Agreement. Status: Adopted, Resolution Chapter 145, Statutes of 2010.

d) *AJR 55 (Villines) Colombian Free Trade Agreement*: This resolution would have memorialized Congress that the California Legislature supports the United States-Colombia Trade Promotion Agreement. Status: The measure was refused adoption in the Assembly Committee on Jobs, Economic Development, and the Economy in 2008.

e) *SB 1762 (Figueroa) Binding the State to Foreign Trade Agreements*: This bill would have prohibited the Governor from binding California to provisions of international trade agreements without consent from the Legislature. Status: The measure was held in the Assembly Committee on Jobs, Economic Development and the Economy in 2006.

REGISTERED SUPPORT / OPPOSITION:

Support
American Federation of State, County and Municipal Employees, AFL-CIO
California Federal of Teachers
Worldwide Minimum Wage Project

Opposition
None received

Analysis Prepared by: Toni Symonds / J., E.D. & E. / (916) 319-2090