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It is an honor to again be asked to testify before this distinguished commission. We must begin, as we did in our June 14, 2001 testimony by saying that we do not come before you as experts on the Chinese economy. Rather, we speak as students of economic history and as economic journalists who have closely followed the evolution of the world economy in the wake of the fall of the Berlin Wall. We regard the end of the cold war as one of the few truly transforming events that have occurred in the world economy in the years for which a record of economic growth has been assembled thanks largely to the work of the great economic historian, Angus Maddison.

The years since the fall of the Berlin Wall have been characterized by "shock and awe" in the western world, responding to the emergence of some key Asian countries as huge economic success stories, particularly China and India. This is usually thought of as a remarkable change. But the truth of the matter is that the long-term growth records that have been carefully analyzed by Maddison show that between the beginning of the Christian era and the years that saw the industrial revolution in Europe, first of course in Great Britain, both India and China grew faster than did the Euro-centered countries.

Not that these countries grew very fast before the industrial revolution. Growth throughout the world was slow but was indeed faster in the east than in the west. And that more rapid growth, and the emergence of what Maddison believes were marginally higher standards of living lasted for almost 1800 years. These early statistics do not play a large part in this story. I cite them only to make the point that the Euorocentric west has hardly had a lock on world economic leadership. It was, on the contrary, the arriviste, emerging as the growth leader only with the discoveries, and, more importantly with the industrial revolution. I'm sure that our Chinese and Indian friends are well aware of these facts and it is good that we should know about them as well.

In May of 1997, Anne Colamosca and I published a book, "The Judas Economy: The Triumph of Capital and the Betrayal of Work." We testified on that book before the U.S.-China Economic and Security Review Commission, on June 14, 2001. That testimony stressed that because of the end of the Cold War and the spread of the market economy, the global labor force had become a New Leviathan, posing great challenges to those in the Eurocentric labor force that had dominated advanced production through the dark days of the Cold War and indeed the entire period of state socialism that had preceded it.

The serious nature of the decline in the demographic position of western workers was easy to grasp. In 1989, 248 million Americans were part of a select industrial world population of 900 million participating in a free global marketplace – some 23 percent of the world's population. Each American was, in effect, competing with 2.8 people in the industrial world.

The end of the Cold War radically increased the number of workers involved in the competition. The year 1994 was the latest year for which we could get data, at the time we wrote our book. By that time, when the free market had penetrated all but the most remote and obdurately communist parts of the world, 260 million Americans faced potential competition from 5.6 billion people around the globe – essentially each American was competing with about 21 people, an enormous change.

In the book, we set about analyzing the impact of the quantitative leap in the labor force competition facing American workers by introducing two basic ideas: The first is the "law of one price", and that simply says that adjusting for transportation costs, products will sell for the same price everywhere in the world be it Bangalore, India or Bangor, Maine. The second is the common observation that capital is more mobile than labor. This, of course, is true for economic reasons, but it's also because capitalists have a way of smoothing the road for their product. "Judas" was essentially a 250-page analysis of the impact of this change and its conclusion that the Eurocentric labor force would have its troubles has obviously worked out both in extremely slow growth in per capita real worker income and in a general weakening in the ability of organized labor both to grow and achieve its goals. This has been true in both the United States and Europe.

? One further point on "Judas" – I think it is fair to say that based on a reporting trip to India in early 1996 and a subsequent analysis of what was occurring in Bangalore, India, the book was early in delineating the challenge that globalization would pose to knowledge workers. The second idea that guided "Judas" was also a simple one: capital is more mobile than labor. It is far easier for capital to move into zones where the returns are higher than at home than it is for labor to accomplish a similar feat. As the world opened up to the relatively free movement of capital, it was easy for American businessmen and American investors to move their capital into zones where rates of return were high. No such spectacular opportunity was available to those who earned their living from work in the United States. The effect, of course, was a weakening in the power of American labor. Wage growth began to stagnate, many high wage jobs disappeared and the American labor movement lost much of its power to bargain effectively for American workers. One effect was a shrinkage in the union movement.

The erosion if the position of those who earned their living from work represents a radical change in the entire atmosphere of the United States. Virtually anyone who has studied economics remembers the vivid celebration of the position of the American worker in the early days of the Republic. In "The Wealth of Nations," published in 1776, Adam Smith explained why the average worker was faring better in what was to become the United States than in Europe. He patiently showed that American workers were prospering simply because they were scarce, and small in number, relative to the quantity of resources, particularly land, that was available in the country. The consequence, of course, was that the return to labor was under constant upward pressure as compared to Europe where the supply of labor was abundant as compared to land and other resources.

Perhaps the biggest surprise that we experienced while working on "Judas" was what we found when we visited Bangalore. Why did we as reporters get to Bangalore so early? We asked the brilliant British historian, Eric Hobsbawm, in 1996, “If you wanted to know what was going to happen in the 21st century, how would you find out?” He answered. It’s very simple. Go to Bangalore, India. With our journalistic connections, and a host of Indian friends, Bangalore opened up to us. We were lucky enough to spend a lot of time with N. R. Narayana Murthi, the then CEO of Infosys, a company he had founded. Listening and talking to Murthi was historically profound. It was not just about software for him by a longshot. It was about an overwhelming commitment to put India’s young men and women on the world stage – to give them an historical platform and international respect of a kind they had not had for centuries. His aim was to dig deep into the untapped pools of knowledge workers who had emerged from the educational system that Nehru had set up in Bangalore. And in that sense, Bangalore’s success is not just a triumph of enterprise but also a triumph of Nehru’s social commitment in India. Murthi and his wife, both Brahmins, were dedicated to educating the poor and Mrs. Murthi did this as a computer science professor.

How has what has happened in India since surprised us? For one, we hadn’t forecast American corporate problems with Y2K, the steep fall in the Nasdaq, and the subsequent deep cost-cutting that went on in corporate budgets afterwards. By demonstrating how capable and how inexpensive their services had been at a time of falling profits, the pace with which knowledge work migrated to India, was even faster than we had anticipated in “Judas.”

We recognize that there have been many difficulties but it is nevertheless surprising that China and India have responded rationally to the opportunities that have opened up for their historically vibrant economies. In India, the remarkable spectacle has been the transformation of what was an imaginative socialist program to use education as a tool of economic advance for what is essentially a free market capitalist economic development. The rise of Manomahon Singh emphasizes the case in point. And in China, the evolution of a code of civil law that is fairly comfortable to Westerners including the great western corporations has been a massive stir to growth in the dynamic center and provinces of China. Most of what has happened in Asia is in accord with what we expected at the time that Judas was published.

It is the performance of the United States and indeed the Eurocentric economy generally that has been surprising. We would dearly have loved to be able to say that the United States has responded admirably to the twin challenges of the new world labor force demographics and the new technology that allows information to be analyzed and processed with great efficiency from virtually anywhere in the world. Unfortunately, almost the exact opposite is the case.

We have no wish to be partisan in our approach. But we must notice that the first administration to take office after the end of the Cold War, that of President Clinton, was extremely careful in how it managed its deficits. It did, after all, raise taxes even though the military pressures had been reduced, and when it did fight its war on Kosovo, it did so in a limited way, with allies and relatively low expenditures. The United States had obviously become an empire, but the Clinton Administration basically chose to husband its resources to a major degree and was extremely careful in its foreign commitments.

Based on pure economics it is hard to justify what has happened since the 2000 election.

The Bush Administration sought a growth surge in the U.S. economy using the well-worn formula of John F. Kennedy and Ronald Reagan, who both cut taxes and raised military spending. There was a burst in income growth for those who earned their living from capital, but incomes grew relatively slowly for those who earned their living from work. And with the invasion of Iraq, the federal deficit ballooned, but rises in employment were limited by the new global labor market.

It's a loaded word, possibly with more than one meaning: imperialism. It is hard to escape the conclusion that with its military might, the great American republic has become an imperial power. One of the most penetrating analyses of imperialism is still the 1902 book "Imperialism" by the British economist, J.A. Hobson. Hobson believed, and demonstrated quite convincingly that the aim of British imperialism was to enhance the economic power of Britain relative to that of its rivals. Many British policies were designed to support British industry and Britain did succeed in generating large trade surpluses in order to finance what were its own attempts to secure world order. Yet Hobson clearly demonstrated that even in its imperial heyday, the economic returns for Britain were very low.

The economic returns to the current phase of American imperialism are even lower. The effect has been to produce astounding and persistent deficits in the U.S. balance of payments. Bush policies have resulted in a huge buildup in U.S. assets, particularly marketable stocks and debt in the hands of foreign countries.

The profligacy has turned the U.S. into what might be called a "Blanche Dubois economy." Like Tennessee Williams' great stage creation the United States has become like Blanche herself, "dependent on the kindness of strangers" to meet her financial needs. Given the size of our twin deficits, we are now dependent on other countries to keep the U.S. dollar not merely from falling, but from plunging. America's creditors obvioudly have a strong self interest in orderly movements in exchange rates, but the underlying fundemetals are sinister.

"Today's stewards of America's foreign policy could learn much from the wily and seductive (Benjamin) Franklin," Walter Isaacson wrote recently in The New York Times Book Review. "He was as adroit as a Richelieu or Metternich at the practice of balance of power realism........but he also wove in the idealism that was to make America's world view exceptional both then and now; he realized that the appeal of the value of democracy and an attention to winning hearts and minds through public diplomacy would be sources of the new nation's global influence as much as its military might."

What Isaacson could have added was that Franklin, America's first real diplomat and globalist, was also in close touch with the needs and problems of American labor. After decades of working in Europe, he was greeted by a huge band of printers and mechanics when he reached the shores of Philadelphia upon returning from Paris. Not only had Franklin continued to work on upgrading the printing press while living abroad (realizing that French printers and engravers were far superior to those in the newly formed United States) he continued to give money to manual workers so that they could be educated and continue to innovate and create new businesses. As we wrote in "The Judas Economy:" "Americans who earn their living from work have led the race to become competitive again, but they seem fated to be returning to the starting line again and again. They are looking from the outside at a prosperity in which they have no part and working in a job market in which they can find no peace."

Today's workers no longer enjoy the special advantages of those who worked during Benjamin Franklin's time. They are no longer demographically scarce, and no longer can command higher wages as a result of this scarcity. And there are no globalists around like Benjamin Franklin – except perhaps for N. R. Murthi – who deeply understand the needs of both globalization and labor. This may well be one of the country's most formidable challange problems today.