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May 25, 1998
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U. S. Department of Labor
Management Council

FY 2000 Budget and Management Concepts and Proposals

LISTING BY AGENCY

EMPLOYMENT AND TRAINING ADMINISTRATION

Low Wage Worker Proposals

o Low Wage Workers and Welfare-to-Work Initiative. Propose legislation, (?) consistent with authority in the pending workforce development language, to upgrade the skills of incumbent low wage workers in order to make room at the bottom of the wage/skill scale for previous AFDC recipients who need to be placed through the Welfare-to-Work program.

-- The proposal assumes the extension of WTW legislation at least through FY 2000, thereby requiring an increasing number of entry level jobs. A set aside for low wage skills upgrading could be included in that reauthorization. The National Skills Standards Board could be involved in the proposal through the creation of defined career ladders in growth industries.

o Labor Partnership Initiative. Utilize the abilities of labor unions to widen learning opportunities for workers who are unable to compete in the growing economy because of low level skills.

-- Ask Unions to identify new learning skills, assist in sustaining lifelong learning, and expand linkages with community schools.

o Contextual Learning. Develop better contextual and experiential training techniques to make learning more applicable to the job.

-- Develop a database, support training providers to adapt classroom training to experiential learning, promote research focusing on accelerating the learning of the hardest-to-serve, and provide linkages with incumbent worker training organizations .

EMPLOYMENT AND TRAINING ADMINISTRATION

Employment Security Proposals Stabilizing Strategies

- o Reemployment Bonuses. Budget neutral legislative initiative to provide bonuses to permanently separated, unemployed workers who take new, full-time jobs within a period of up to 12 weeks.
  - -- The bonus cost amount would equal about three to four times the UI weekly benefit amount. The cost would also approximate the amount of savings realized from reduction of the average period of unemployment, and therefore make this proposal budget neutral.
  - -- This proposal is based on four earlier reemployment bonus experiments which indicated that the provision of bonuses had a significant impact on job search behavior.

- o UI (Employment Security) Reform Proposal. Provide $7 million ($5 million in State grants and $2 million for research) to review, evaluate and develop improved practices, conduct research, and build technical assistance in the Employment Service (ES).
  - -- This addresses continued high insured unemployment exhaustions and high average spells of unemployment, despite overall low unemployment and improved economic conditions, as well as the need for serving additional unemployed.
  - -- The funding would provide: evaluation of current practices such as the work test and profiling; tests of new methods of providing employment services; recommendations on GPRA data; investigation into benefit exhaustions and long spells of unemployment; and building State ES capacity.

- o Alien Labor Certification. Require U.S. employers who receive permanent labor certification, to list their job vacancies on America's Job Bank.
  - -- This would reduce the requirement for direct State involvement in the labor certification process, speed the process, and reduce costs. The requirement could be added to the temporary program, however a change would be required in the H-1B legislation.

EMPLOYMENT AND TRAINING ADMINISTRATION

Other Proposals

- Skill Shortages. Propose legislation authorizing a new program to improve the labor market's ability to respond to changes in the ~~demand for~~ skilled labor.

  -- Funded at $200 million, $150 million would be utilized for competitive grants to consortia to improve the effectiveness of work-related training by identifying needs, supporting efforts to respond to skill shortages in specific industries, and disseminating proven training tools. Another $25 million would be used by BLS to develop a system to predict skill shortages, while the remaining $25 million would be utilized for evaluation.

- Business/Labor Advisory Council. Provide a routine mechanism for DOL leadership to consult with representatives of workers and employers through the establishment of a Business/Labor Advisory Council.

  -- Meeting on a regular, formal basis, employer and labor union representatives would provide advice and counsel on a wide range of issues related to the effective functioning of the labor market and workforce development systems. Funding of $1 million would be required to support 4 FTE and related research.

- Quality Improvements. Consolidate existing quality improvement efforts, such as Enterprise, Simply Better!, PEPNet, and UI Performs, and update them for expected changes in the workforce development arena, such as new workforce legislation, Welfare-to-Work, Youth Opportunities Unlimited, and possible Trade and UI amendments.

  -- This consolidation would continue the identification and dissemination of exemplary levels of performance, and be funded at $10 million, including $6 million for technical assistance and training, and $4 million for salaries and expenses.

- School-to-Work Intermediary Organizations. Establish intermediary organizations to sustain the achievements of School-to-Work after that legislation sunsets on September 30, 2001.

  -- Organizations such as private industry councils would bring schools, businesses, and job training entities together to match participants with employment opportunities, provide technical assistance to employers, and collect information on the outcome of the program. Such organizations are authorized in the pending Senate workforce development legislation.

PENSION AND WELFARE BENEFITS ADMINISTRATION	
o	**Compliance** -- **Voluntary Compliance Program for Fiduciary Breaches**: Outreach to customers. Allow plans that have committed fiduciary breaches to voluntarily participate with PWBA in a negotiated resolution to correct the breach.
o	**Summits** -- **Summit on International Pension Systems:** Representatives from selected countries would share experiences with changes in their demographics, social insurance systems, changing economies and common enforcement problems relating to private pension plans. -- **White House Saver Summits:** Research or some initiative resulting from the 1998 summit or alternatively the agency may need funding in FY 2000 to prepare for the FY 2001 summit.
o	**Managed Care Initiatives in Health** -- **Implement Bill of Rights Legislation:** Some type of legislation will pass containing changes to ERISA plans related to the consumer bill of rights. As with the passage of HIPAA, funds will be needed for regulatory, enforcement, and customer service. -- **Health Education Campaign:** Public-private education campaign to disseminate basic information about the use and rights participants have in ERISA covered health benefit plans.
o	**Research** -- **Plan Investment Patterns:** Financial analysis research designed to demonstrate trends in pension plan investments would address emerging regulatory and policy investment issues. -- **Health Quality Research:** In partnership with HHS, conduct research on health quality as it relates to how large employers and unions purchase health care.

EMPLOYMENT STANDARDS ADMINISTRATION

Immigration Functional Consolidation

- o Consolidate DOL's immigration-related functions and implement recommendations made by the Commission on Immigration Reform.
  - -- Give DOL a stronger voice in national immigration policy and improve consistency in policy development and pronouncement.
  - -- Move most of ETA/USES immigration responsibilities to the Wage Hour program.
  - -- Expand W/H and OFCCP's responsibilities for employment eligibility verification(INS).
  - -- ESA claims this will improve customer service, and may reduce operational costs.

Stability
Service

Telephone Triage

- o Create a telephone and computer database system that will allow Wage Hour staff to respond quickly to calls on compliance issues and answer common questions on Wage Hour laws, accept complaints from workers over the phone, and provide quick and proper disposition of calls unrelated to the Wage Hour program.
  - -- Pilot testing would be needed to demonstrate return on investments.
  - -- Could provide framework and infrastructure for similar applications in other ESA programs.

Outreach

Helping workers and Employers Solve Problems in the Workplace

- o A national campaign to put a complete library of Wage Hour compliance assistance materials in every public library and junior and high school library in the United States.
  - -- Explore partnerships with American Library Association, NEA, AFT, and AFSCME (and other unions that represent library employees.)
  - -- Make more people aware of material available on Web site.
  - -- Develop public awareness by: improving Web Site including: a "brand" name and logo to be used on all types of compliance information materials; and put new compliance information materials in foreign languages.
  - -- Explore partnerships with the NASW, the National Hospice Organization, home health care organizations, the American Hospital Associations, etc., to launch a national campaign to educate social workers and other health care providers about the FMLA.
  - -- Explore partnerships with the SBA and IRS to provide Wage Hour compliance information to businesses receiving loans and or tax assistance.

EMPLOYMENT STANDARDS ADMINISTRATION

Staff training

21st Century Enforcement

o Develop and provide specialized computer training and resources for ESA investigators. Specialized training is needed to build proficiency in the current environment of computerized records and to develop expertise in law enforcement issues relating to the investigation of computerized records.

outreach

Preparing New Workers for the Workplace

o Provide a computer-based training module on workplace laws and issues for new employees entering the workforce. The module would be used by high school and college students and marketed to schools and libraries. The module could information on PWBA and OSHA programs as well as ESA programs.

outreach internal?

Worker Outreach/"All About ESA"

o Develop a consolidated compliance assistance/briefing presentation on all ESA programs. Presentation would include handouts and videos. OSHA and PWBA would be invited to participate.

Staff service

ESA Field Liaison

o Establish ESA administrative liaison officers in each of the six DOL regions to assist regional programs with personnel, budgeting, accounting, safety and health training, reorganizations and space moves, training, and labor relations reporting and representation.

internal training

Maintain Employee Skills to Maximize IT investments

o Develop an on-going series of training materials for all ESA employees to keep their information technology skills current. Because ESA's staff is widely dispersed, classroom training is costly and unfeasible. The series could be developed using outside contracting services.

internal training

Resources to Enable Reliable Program Evaluation

o Provide in-house program evaluation staff in each ESA program and in OMAP to serve as experts in the development of program measures, evaluation methods, and reporting requirements.

EMPLOYMENT STANDARDS ADMINISTRATION

FECA Paperless Injury Compensation

o Continue to convert the basic operations of the FECA injury compensation system to one that is entirely "electronic", including processing claims and injury reports, paying medical and pharmacy bills, providing responsive customer service, and providing better outcome measures for performance evaluation.

-- In FY 2000, ESA will convert existing paper files to images so that examiners are working in a single mode.

-- ESA states document conversion will save millions in space and paper-handling costs in just a few years, reduce time and error in decision-making, improve customer service, and free staff for return to work efforts.

-- Builds on FY 1999 requests for paperless office.

Training in New Ways of Doing Business

internal training

o Provide an ESA-specific program-directed training effort to improve staff usage of off-the-shelf and program-specific software. Specialized training would increase network customer service, expert customer-assistance systems, and work with imaged documents.

E-laws and expert guidance for the public

outreach

o Initiate projects and train staff to provide expertise and technical assistance to customers (workers, claimants, etc.) about their rights and other information about various ESA statutes and functions. Projects would include providing information on the Internet for easy access and provide print materials for customers that do not have computers. All ESA programs would be included.

EMPLOYMENT STANDARDS ADMINISTRATION

OWCP GPRA Evaluation and Institutionalization

- o Provide funds and staffing to "institutionalize" the GPRA partnership between employees and management on strategic planning and program evaluation begun by OWCP.

  -- ESA-wide, this would include: 1) evaluation of program measures; and 2) oversight of fact and opinion-gathering from the customer community.

  -- Program -wide, it would include continuing the GPRA thought process as an organizational way of life impacting budgeting, organizational planning, and staff education.

OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION

Education/Training/Outreach Initiative
Place permanent full-time training officers in each of OSHA's 70 Federal Area Offices to provide compliance assistance to American businesses, both employers and workers.

outreach

- o Enhances OSHA's current compliance assistance activities by providing training: 1) for workers to protect themselves, and 2) for employers to implement effective safety and health programs.

outreach

- o Enables the Federal OSHA to provide the education and training services that are already provided in some form by state OSHA programs.

- o OSHA states that the **AFL-CIO** would support this initiative since it focuses on worker education, and **businesses** would "welcome" this as outreach to implement safety and health programs.

- o OSHA indicates that a concomitant increase in enforcement would also be necessary to "balance" OSHA's program for some of OSHA's other stakeholders.

MINE SAFETY AND HEALTH ADMINISTRATION

o **Campaign to End Black Lung**

-- **Replace existing respirable coal mine dust sampling program** by adding 75 inspectors. Existing program doesn't work. New approach might include, Single-sample, personal sampling devices, and reliance on Federal inspectors rather than operator submitted samples.

o **Metal/Nonmetal Initiative**

-- **Increase inspector presence at mining operations**. Last year, the metal and nonmetal mining industry, particularly stone, sand and gravel, experienced the highest number of fatalities in the last ten years. At the same time, levels of production in the nonmetal industry, particularly for operations that produce aggregates, continue to increase. The $200 billion transportation re-authorization bill is expected to dramatically increase the already burgeoning demand for aggregates. At the same time, MSHA's metal and nonmetal inspector resources are stretched thin, even as the industry it regulates and inspects expands in the areas of production, workforce, and extended work hours.

MSHA proposes to restructure the metal and nonmetal organization to increase inspector presence at the mines. Increased resources will allow MSHA to take care of its basic business of inspecting mines, while at the same time fully integrate compliance assistance activities into its safety and health program.

o **Compliance Assistance**

-- **Hazard targeting programs**. Augment the 16 positions requested for FY 1999. This would increase MSHA's flexibility to focus resources at specific problems, such as haulage, roof falls, and drugs in the workplace, without sacrificing statutorily required health and safety activities. It would also enhance support for MSHA's small mines' initiative and education and training efforts.

o **Improved Regulations**

-- **Improve Risk Assessment in Health Area.** Additional positions in Standards office would help MSHA address complex health issues such as exposure to diesel exhaust particulate that will necessitate an enhanced approach to rulemaking both through increased on-board scientific staff and contracting for scientific expertise.

MINE SAFETY AND HEALTH ADMINISTRATION	
o	**International Training** **-- ILAB and MSHA Joint Ventures**. Mutual sharing of mine safety and health training expertise between the U.S. and foreign countries.
o	**Restructuring of Budget Activities** **-- Realign budget and accounting structure.** Current budget activities do not reflect outcome oriented organization required under GPRA.

BUREAU OF LABOR STATISTICS	
o	**Employment Cost Index (ECI) Enhancement** Expand the ECI sample by 6600 in order to reduce the sample error and increase data reliability. The sample increase also would allow BLS to publish reliable estimates for the nine census divisions, and may allow for publication for up to nine major metropolitan areas. In their YR. 2000 Budget guidance, OMB stressed that DOL should review the ECI considering its accuracy and relevance to users' need. ESA would benefit from improvements in the data derived from the reimbursable agreement they have with BLS to meet the needs of the Services Contract Act.
o	**Occupational Safety and Health Statistics (OSHS) improvements** Improve the survey design and expand the sample size for the annual OSHS survey to increase the number of industries for which it can publish national estimates of workplace injury or illness. -- A larger sample would lead to an increase in the number of industries for which BLS publishes injury/illness estimates (broader industry coverage). Conducting response analysis surveys to identify mistakes or omissions in employer responses will lead to better survey design to reduce errors in the future (quality improvement). Completing follow back surveys to obtain detailed epidemiological information would be useful to OSHA and NIOSH in the development of standards for particular workplace hazards (better workplace safety standards). Improved statistics may help OSHA with enforcement issues.

BUREAU OF LABOR STATISTICS

o **Improve Service Sector Coverage in Productivity Series**
Improve the quality and coverage of the service sector in the Producer Price Index (PPI) and Productivity program.

-- Increased resources in the PPI would help reduce bias in the index caused by changes in the quality of goods and the lag in the introduction of new items (quality improvement).

-- Develop new indexes for nonresidential structures, the construction industry and 13 additional service industries (broader service sector coverage.

-- Quality and coverage improvements in the PPI service sector activity, would allow the Productivity program to produce new labor and multi factor series (quality/scope improvement). In their YR. 2000 Budget guidance, OMB stressed that DOL should review productivity series considering its accuracy and relevance to users' need.

DM: OFFICE OF SMALL BUSINESS PROGRAMS
o **Internet Revision.** New home pages, organized specifically for the customer. Proposed pages would include; Employer, Employee and Academic and Administrative pages. The pages would be constructed to provide links to progressively more detailed information on each subject as well as related information (e.g. references to information of use to businesses, on the Employer page, such as setting up employee retirement accounts, drug abuse, etc.)
o **E-Mail Information.** Develop a system to provide informational "one liners" to keep DOL staff better advised of the various agencies' activities. This would allow interested staff to keep informed and draw additional information from sources such as the Daily Labor Report and news clippings is desired.
o **DOL/Small Business Administration Partnership.** In order to target the **welfare of independent contract workers**, DOL could clarify labor laws, rights, available training, and guidance regarding pensions and health coverage, and SBA could concentrate on business management issues including financing. One-stop type informational materials could be developed along with a joint homepage on the Internet to assist these workers. Independent contract workers, a growing segment of the workforce do not fall neatly into either the employee or employer categories of DOL's constituency. Certain DOL administered labor laws, training and assistance services apply to these individuals who: are often downsized former employees; range from unskilled labor to high priced consultants; have minimal resources; and are particularly vulnerable upon start-up.

DM: OASAM
Incorporate ADR in the State Complaint Process and Provide Competitive Training grants for HBCUs and HACUs
Personnel\Payroll Communications Network
Building and Equipment accommodations for ADA
FY2000 Contingency Planning for System Failures

DM: OASAM
Video Conferencing\Satellite Uplink Capability for Simulcasts
Department-Wide Usage of Internet For Major Acquisitions
Upgrade of Health Maintenance Equipment in the Health Unit
Lifelong Learning

CHIEF FINANCIAL OFFICER
o **Department wide financial management proposal**. -- remediate financial systems weaknesses identified by external review, -- implement cost accounting as well as building the link between cost and program performance -- ensure that the financial management workforce is adequate and prepared to support the Department's mission.

INTERNATIONAL LABOR AFFAIRS BUREAU
o **Global Workplace in the New Millenium:** -- Task Force to Study the effects of globalization on workers, examine existing policies, and identify new initiatives.

OFFICE OF THE INSPECTOR GENERAL
o **Proposals:** -- (Kerwin/Dohanic to provide)

DM: OFFICE OF CONGRESSIONAL AND INTERGOVERNMENTAL AFFAIRS
ADMINISTRATION-WIDE BUDGET THEME o **Out-of-School Youth** Reduce minority youth unemployment, as well as other key indicators, over the next five years through a comprehensive strategy involving DOL, ED, HHS, HUD, DOJ, and others. o DOL would push for increased amount in youth block grant, allowing the beginning of restoration of youth funds cut in 95 and with amount above $1 billion for Youth opportunities. o **Child Care**. Put down a marker to negotiate a bigger piece of the Administration's revised version for next year.
DEPARTMENT BUDGET THEMES o **Internet/E-LAWS.** Provide information and communicate directly with customers, employers, and all stakeholders. Look at ways to use Internet for enhanced public education, compliance assistance, and ways to submit information to the Department directly. o **GPRA Data Systems**. Respond to the need to comply with GPRA. GAO criticized the Department's strategic plan because it does not have adequate data systems for measuring performance results.
ETA BUDGET THEMES o **21st Century Workforce.** Broaden the President's "education" theme -- return to the original lifelong learning theme. Emphasize skill shortages and high tech jobs and what both DOL and ED programs need to do to address these needs. -- Additional funding for merica's Labor Market Information System would increase access to job information. -- Increased funding for One-Stop/Employment Service system would expand labor exchange access. -- Train workers for demand occupations. o **Increase employer incentives to train** their employees in order to boost the skills of incumbent workers nationwide. This could involve expansions of the Section 127 tax code provision, as well as encourage State use of the new incumbent worker authority in the Workforce bill. o **Welfare to Work** The funds for the W2W mandatory funding program end in FY 99 and if any new funds are to be provided, it must be included in the FY 2000 budget request.

DM: OFFICE OF CONGRESSIONAL AND INTERGOVERNMENTAL AFFAIRS

PENSION BUDGET THEMES

o **Participant Assistance for Baby Boomers** Impose fees on large pension plans that file Form 5500 with the government or who request rulings, advisory opinions and other services from the Department. Dedicate these user fees to financing technical assistance

-- Instead of requesting additional tax dollars to meet the anticipated demand, these costs could be paid for by those who benefit from the pension system.

-- Many of the service providers profit from the private pension system.

WORKER PROTECTION BUDGET THEMES

o **ETA and OSHA Joint Ventures** Develop pilot initiatives where ETA and OSHA can work together to improve safety and health training in the workplace.

-- Focus on new workers and those in OSHA's "five industries" (GPRA plan)

-- ETA can train disadvantaged or dislocated workers in jobs such as health care aides, and ensure they learn to deal with biohazards and ergonomics.

RESTARTING FAST TRACK

A Conference
hosted by the
Institute for International Economics

Rayburn Building, Room 2237
Washington, DC

February 3, 1998

AGENDA

9:00 a.m.	Coffee and Breakfast Rolls		
9:30	Welcome and Overview		
	C. Fred Bergsten *Director, Institute for International Economics*		
	Initial Remarks:	Congressman David Dreier Congressman Barney Frank Congressman Robert Matsui	
11:00	Changes in the Negotiating Authority?		
	Papers:	Jeffrey J. Schott (on the substantive issues) *Senior Fellow, Institute for International Economics*	
		I. M. Destler (on the legislative procedures) *University of Maryland and Visiting Fellow, Institute for International Economics*	
	Initial Remarks:	Congressman Philip Crane Congressman Phil English Congressman ~~Sander Levin~~	Davis (Fla)

12:30 p.m.	Lunch	~~David Lipton~~ Tim Geithner *Under Secretary of the Treasury for International Affairs*

2:00 Changes in the Labor and Environment Provisions?

	Paper:	Steve Charnovitz *Global Environment & Trade Study, Yale University*
	Initial Remarks:	Senator Byron Dorgan Congressman Jim Moran Congressman Jim Kolbe

3:30 p.m. Complementary Domestic Initiatives?

	Paper:	Robert Litan *Director of Economic Studies, Brookings Institution*
	Initial Remarks:	Congressman Charles Rangel Congressman Amo Houghton

5:00 Summary and Closing Remarks

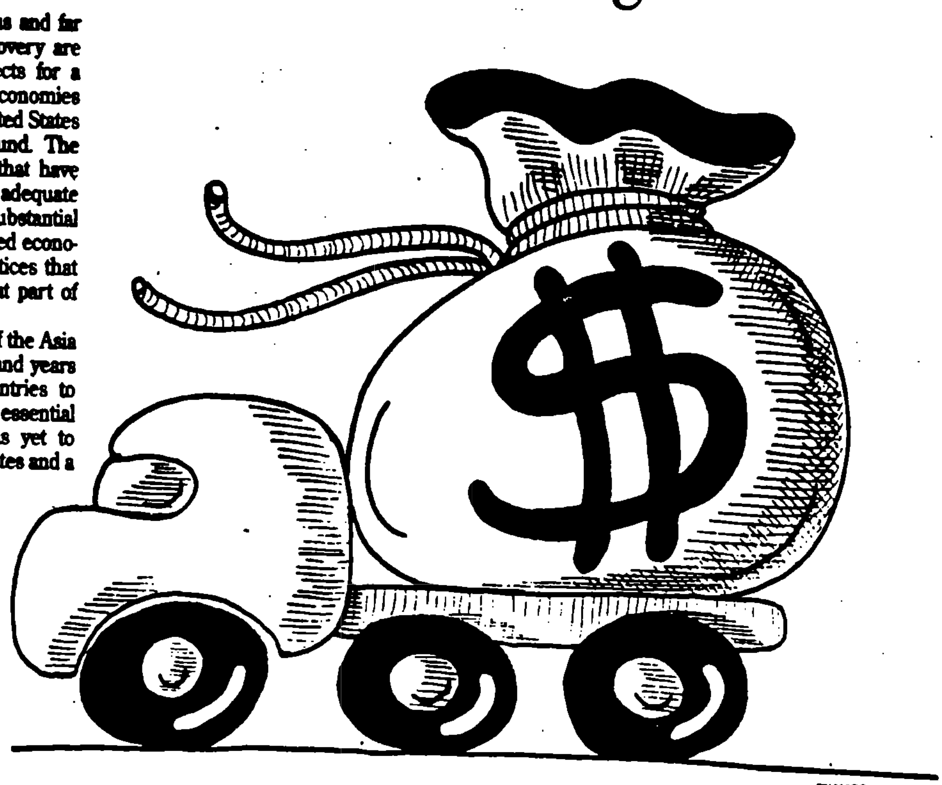
C. Fred Bergsten
Director, Institute for International Economics

William V. Roth Jr. and Fred Bergsten

The (Potential) Asian Silver Lining

The Asian financial crisis is serious and far from resolution. The outlines of recovery are emerging, however, and the prospects for a positive outcome not only for Asian economies and financial markets but also the United States and the global economy are profound. The potential silver lining in the clouds that have enveloped Asia is the fact that the only adequate response to the crisis will involve substantial opening of the region's overly regulated economies and an end to mercantilist practices that have bedeviled our relations with that part of the world for decades.

Trade frictions with the countries of the Asia Pacific have become almost routine, and years of American prodding at these countries to liberalize their markets—although essential and even sometimes successful—has yet to produce the results that the United States and a healthy global economy require. The major reason for the relatively laggard response of so many of the countries of the Asia Pacific to our overtures, pressures and demands is that leaders in these countries have not generally seen it as in their interest to liberalize their economies as quickly as we would like.



BY MARGARET SCOTT

The Asian financial crisis, the result of the unavoidable forces of global markets at work, however, has provided a thunderous wake-up call to these leaders. No longer is the so-called "Asian model" of capitalism even mentioned—let alone touted—as the successor to the workings of free markets. Indeed, the financial crisis has done more to change the views of mercantilist bureaucrats and politicians around the region in a shorter period of time than anything advocates of trade liberalization have achieved in years of arduous trade negotiation. It is clear that the countries of the Asia Pacific now share our interest in more open markets. And nothing promotes speedier adaptation and reform than shared interest.

Major trade-opening objectives and significant policy goals have already been achieved as a direct result of the storms buffeting Asia. The landmark financial services agreement—strengthening competition, efficiency and global prosperity in the multi-trillion-dollar financial services markets—might very well not have been completed in the absence of the problems afflicting Asia. The leaders of the APEC countries, at their recent summit in Vancouver, agreed to reduce barriers in nine sectors where trade will exceed $1.5 trillion over the coming year. And last week, after years of recalcitrance, Japan announced small but nonetheless significant tax cuts to bolster domestic-led growth. Clearly, Japan has to do more, but, as is almost always the case with Tokyo, only extraordinary circumstances provide sufficient pressure for the country's hidebound bureaucrats to break their allegiance to status quo policies.

Just before the recent APEC summit, 200 corporate CEOs met to discuss the region's future. Not one indicated any intention to withdraw, despite the current difficulties. Indeed, virtually all of them anticipated a brighter future in light of the reforms that will be forced by the crisis.

By no means is the Asian financial crisis at an end, because a variety of measures must be implemented. The new Korean president and his administration must provide forceful leadership to convince the Korean people that short-term pain in getting Seoul's economic house in order is essential for the country's mid- and long-term return to prosperity.

Japan must finally come to terms with its enormous, festering bad-loan problem, a more convincing package of tax cuts and likely a campaign to induce the Japanese public to use those tax cuts for consumption rather than savings. China must resist any temptation for currency devaluation to avoid the onset of a series of regional competitive devaluations. The IMF must avoid the so-called moral hazard problem. That is, it must avoid coming to the rescue of each and every economy encountering trouble lest other economically troubled countries assume bad economic policies. At the same time, judicious programs in support of effective adjustment policies can often be valuable and desirable. The United States must play a central, supportive role in resolving the crisis. In particular, the administration and Congress must work together to pass fast-track legislation and ensure that the United States makes good on its $3.5 billion contribution to the IMF's so-called New Arrangement to Borrow. Finally, all the countries of East Asia must make the structural reforms necessary to open their markets to far freer flows of capital and goods.

This is obviously a large, sensitive and politically demanding agenda. Bureaucrats, protectionists, mercantilists and nativists will fight these measures every step of the way. But global prosperity depends on meeting head-on the simplistic but often politically appealing arguments they proffer. And the Asian contagion provides free traders and advocates of economic liberalization their best chance to move the global economy toward a new level of growth and prosperity.

Sen. Roth (R-Del.) is chairman of the Senate Finance Committee. Fred Bergsten is director of the Institute for International Economics.

TRADE POLICY AND TRADE LEGISLATION IN 1998

Introductory Remarks by
C. Fred Bergsten
Director, Institute for International Economics

To a conference on

RESTARTING FAST TRACK

Institute for International Economics

Washington, D.C.

February 3, 1998

Trade policy has become a contentious political issue in the United States after almost six decades of bipartisan consensus. The Congressional debate over NAFTA in 1993 was the most divisive battle over trade since the Smoot Hawley tariff. The controversy over the merits or demerits of NAFTA continues to rage. The two camps fought to a virtual standoff last fall over whether new fast track negotiating authority should be extended to the President

Trade has become the new "third rail" of American politics, both between and (maybe especially) within the parties. Fortunately, it now appears politically feasible to discuss previously untouchable topics like Social Security and Medicare. Trade was banished by both presidential candidates from the 1996 election campaign, however, after playing a divisive role in the Republican primaries (as in Democratic primaries in earlier years). Hence an opportunity to join the debate was missed. Nor did last year's conflict over fast track significantly advance the discussion.

Any Congressional action on fast track in 1998 is unlikely to progress much further in resolving the basic clash between proponents and opponents of globalization. A new consensus on which US trade policy can rest in the early twenty-first century will require much more analysis of the impact of trade and investment on our economy, including the effects on losers from the process; much more interaction between the two sets of views; and much more public education and participation in the debate. The Institute for International Economics, like many others around the country and elsewhere in the world, is working on all those aspects of the issue.

But the immediate question is how the United States should proceed in the interim while, hopefully, a stable consensus for the long run is being developed. Today's conference will <u>not</u> attempt to discover how to generate more votes for the legislation that failed in late 1997. It <u>will</u> ask a series of questions concerning the policy issues surrounding that legislation:

- Can the United States pursue its national economic and foreign policy interests without fast track authority?
- Should the scope of the negotiating authority be changed, for example, to rule out regional liberalization efforts ("no more NAFTAs") in favor of multilateral initiatives (a "WTO-only" approach)? To the contrary, to focus on a few bilateral agreements (Chile only? Also Australia, New Zealand, Singapore and/or South Africa?)? To emphasize sectoral negotiations? Solely to provide tariff proclamation authority? Some combination of these?
- Should the labor and environmental provisions, the major sources of contention last fall, be altered? To incorporate these issues in new trade agreements? To launch parallel efforts on them in other forums?

- Should complementary domestic initiatives, with respect to both the social safety net and the ability of workers to take advantage of globalization rather than feel victimized by it, be undertaken to help deal with the adverse effects of trade expansion? Do the numerous proposals made by President Clinton, especially his "G.I. Bill for Workers," and by Congressional leaders show the way to dealing effectively with the domestic consequences of future trade liberalization (as well as other sources of change in the economy)?
- Are there changes in the legislative details that could improve the fast track process while maintaining its core principles?

Papers have been prepared and distributed on each of these topics, and will be summarized at the outset of each segment of the conference. Leading members of the Congress from both parties who have been active on trade policy, especially from the House where the debate has been much more intense than in the Senate, will launch the discussion of each topic. My own remarks will be followed by overview perspectives by three of the Members who have played especially important roles in the previous and continuing debate.

In setting the stage for the conference, and hence the 1998 debate on fast track, we need to recognize the multifaceted impact of a major new development of perhaps overriding importance: the Asian economic crisis. This year, and perhaps next, are likely to be "lost years" for much of Asia including Japan—zero or negative growth, large rises in unemployment, widespread bankruptcies, unstable markets and possible political disruption. Growth in China, the other megamarket in Asia, will be dampened to a lesser but still substantial extent. There are several implications for the United States and specifically for US trade policy.

On the one hand, continued openness of the American market is essential for a successful resolution of the Asian crisis. Each of the troubled emerging market economies in the region must be able to strengthen its trade and current account balance in order to restore its economic health and regain global confidence. All these countries continue to rely on the US market for a sizable portion of their exports and thus must be able to continue selling here. Any American retreat from openness would shatter the prospects for successful resolution of the crisis.

Even more importantly, the International Monetary Fund and the United States are insisting that the Asian nations remedy their problems by accelerating the liberalization of their own economies. Every one of the troubled countries has thus committed itself to further opening its economy, particularly its financial sector but other key sectors as well, far beyond what had been achievable in all the US and WTO negotiating efforts of the past decade or more. Moreover, the APEC heads of state agreed at their summit meeting in Vancouver in November to eliminate barriers by early 1999 in nine major sectors with a global trade value of more than $1.5 trillion. Any US rejection of market liberalization could jeopardize this "potential silver lining" in the cloud of the crisis.[1]

Failure to legislate new fast track authority would of course not produce any new closure of US markets. Nor would it necessarily mean a reversal of the basically open US trade policy of the past sixty years. Such an outcome, however, would almost certainly be viewed around the world—notably including in Asia—as heralding a US move in those directions. It would clearly strengthen the forces within the Asian countries (and perhaps elsewhere) that would respond to the crisis by rejecting global norms in favor of protectionism, mercantilism and even xenophobia.

[1] "The (Potential) Asian Silver Lining," William V. Roth, Jr. and C. Fred Bergsten, *The Washington Post*, December 28, 1997.

There would be some justification for such a reaction. We know from history that trade policy is dynamically unstable; it either moves forward steadily toward further liberalization or it retreats toward protection. The opponents of fast track could indeed be expected to follow up a confirmation of their victory of last year by seeking subsequently to roll back the liberalization of the past, perhaps starting with NAFTA and then moving on to broader arrangements if they continued to prevail. Other countries would thus be correct to react with some alarm to a toppling of the bicycle of liberalization in the United States.[2]

A strategy of "retreat rather than compete" by the Asian countries would almost certainly worsen their crises, causing enormous damage to the countries themselves. It would also cause enormous damage to our trade and investment interests, undercutting a source of substantial economic growth for the United States over the past three decades and an even more promising prospect for the future. It would raise the specter of renewed instability in a region where we have had to fight three wars in the past sixty years. We certainly do not want to encourage such an outcome.

<u>On the other hand, the improvement of Asian trade balances</u>—due to both the sharp declines of their exchange rates and the recessions they will experience over the next year or two —<u>will produce a sizable further deterioration in our own external position</u>. A new global analysis by my colleagues at the Institute suggests that, even if the Asian currencies bounce back substantially from their present levels (as is likely), the US trade deficit will rise by about $50 billion in nominal terms and by perhaps $100 billion in real terms.[3] (The large difference

[2] See C. Fred Bergsten, "American Politics, Global Trade," *The Economist*, September 27, 1997.
[3] *Asian Competitive Devaluations*, Li-Gang Liu, Marcus Noland, Sherman Robinson, and Zhi Wang, Institute for International Economics, Working Paper Number 98-2, January 1998.

reflects the sharp improvement in our terms of trade resulting from the rise of the dollar against the Asian currencies.) The real effect drives our economic growth and probably our trade politics, so the impact will be substantial (even if there are no more major market shocks that could retard our investment and consumption levels by additional amounts).

The United States is not alone in this situation. Our new study suggests that <u>Europe will experience an even greater deterioration in its trade balance as a result of the Asian adjustment</u>. The existence of this burden sharing is unlikely, however, to obviate much of the additional pressure on US trade policy from the further large deterioration in our position. Our merchandise deficit is already approaching an annual rate of $200 billion and the postulated increase could bring it near the share of GDP that obtained at the previous record levels of the middle 1980s. Our net foreign debt has already soared past $1 trillion and, in absolute terms, is by far the largest in the world.

Fortunately, the continued strength of the US economy enables us to absorb this trade deterioration with some equanimity at least for now. Indeed, the decline in net foreign demand will help keep inflationary pressures at bay (and the Federal Reserve from raising interest rates as Chairman Greenspan strongly implied last week). With its very high rates of unemployment, Europe may in fact be more tempted to react with new trade restrictions. We will have to work closely with the Europeans to assure that they do their share to ease the crisis—and to avoid another source of pressure on our own policies which could further undercut the outlook. Any appearance of retreat by the United States itself would of course make that task much more difficult as well.

The net effect to date of the Asian crisis on legislative strategy, in both the Administration and Congress, is apparently to shift priority to the bills that would provide new resources for the IMF and—despite the President's reiteration, in his State of the Union message, "to renew my request for the fast track negotiating authority necessary to open more new markets"—to relegate fast track to a much lower priority. I strongly support the IMF bills, testified in favor of them last Friday before the House Banking Committee, and will be doing so again tomorrow before the Senate Finance Committee. But the foregoing analysis suggests that passage of fast track authority is also an essential component of the American response to the Asian crisis. Any indication of significant US slippage on trade would be as serious as rejection of IMF support in undermining the prospects for Asian policies that will produce successful and constructive resolution of their problems—resolutions that promote the economic and security interests of the United States as well.

I therefore conclude that early passage of fast track has become imperative. We must reject the view that we must choose between the IMF and fast track. President Clinton was wise to link these issues in last week's State of the Union address and call for Congressional action on both. I would hope that both the business community and organized labor would recognize the substantial risks to their interests from US failure to move forward on either the IMF or trade policy fronts.

It would be desirable if the President could have fast track authority in time for the second Summit of the Americas in Chile in April and the fiftieth anniversary celebration of the GATT/WTO in Geneva in May. He clearly needs new authority to take full advantage of APEC's agreement to eliminate barriers by early 1999 in a number of sectors of substantial export interest to the United States. The United States will need the forward momentum provided by fast track to counter the negative international reaction to the spate of anti-dumping cases that will surely be launched here against "cheap exports" from Asian countries with weakened currencies. But the most compelling reason for prompt action is the direct impact that our domestic outcome, on fast track as well as on funding for the IMF, will have on policies, performance and fundamental attitudes in Asia—which is still the largest, potentially most dynamic, and potentially most unstable region in the world—and perhaps in Europe and other regions as well.

As noted at the outset, however, there are a large number of Americans (including members of Congress) who have doubts about the wisdom of this course. Hence the Institute decided to hold this conference to explore whether changes in the legislation could, at least for an interim period while the more fundamental debate proceeds, provide adequate responses to their concerns.

To respond at least partially to those concerns, it seems to me essential that Congress adopt, in parallel to the fast track trade legislation, a series of domestic measures that would (1) continue to strengthen the safety net for *all* temporarily displaced workers and (2) further enhance the ability of *all* Americans to benefit from trade rather than be hurt by it.[4] The President's explicit linkage of trade and domestic supports in his State of the Union message, especially his call for a single "G.I. Bill for Workers," may point the way to a Congressional consensus on which we could proceed for at least the moment. This is the key issue with which we will wind up today's conference in the hope that creative ideas may emerge, as on the other policy topics, that will pave the way for positive action on trade during the current session.

The bottom line is three-fold. We need to link our international efforts and our domestic policies more closely than ever before, We need to link the economic and security elements of

[4] As proposed in Dani Rodrik, *Has Globalization Gone Too Far?* Washington: Institute for International Economics, March 1997, which reputedly provided much of the conceptual foundation for President Clinton's remarks on these topics in the State of the Union message.

our foreign policy as never before. We need to link the trade and financial components of our international economic strategy more closely than ever. Misplaced efforts to choose domestic over foreign, or security over economics, or finance over trade would doom the achievement of all these goals. The United States clearly needs an integrated strategy for 1998. We hope that this conference will make a useful contribution to moving in that direction.

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Whither Fast Track?

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The Congress adjourned in November 1997 without taking a vote on the revival of "fast track" provisions to implement the results of trade negotiations. Supporters of the legislation had to postpone scheduled votes in the House of Representatives twice in the final week of the session when they failed to secure the requisite majority. Estimates of the shortfall ranged from 5 to 20 votes; fast track legislation reportedly was favored by about two-thirds of the House Republican members but only about one-fifth of the Democrats. By contrast, the Senate seemed to have strong bipartisan support for the legislation -- a procedural vote on cloture passed by 69 to 31.

The fast track issue evoked a heated debate in Congress that primarily focused on labor and environmental issues, and further exacerbated rifts within constituencies of the Democratic Party. President Clinton recognized the need for supporters "to regroup a little bit and find a way to succeed" and committed to push for passage of fast track in 1998.

As a practical matter, the President and the Congress have a very narrow window of opportunity in 1998 to revive the fast track debate. Renewal of fast track authority would strengthen the President's hand at the Summit of the

Americas in Santiago in April 1998, at the G-7 Economic Summit in England in May 1998, and possibly at the first-ever World Trade Summit in Geneva now under consideration to mark the 50th anniversary of the postwar multilateral trading system in May 1998.

On the domestic front, passage of fast track would help the President get past, at least temporarily, the intra-party feud on trade policy, so that the Democrats can put forward a united front for the November elections. The failure to pass fast track legislation, by contrast, would weaken the President (and Vice President Gore) by abdicating global leadership on trade issues, effectively advancing lame-duck status on trade for the remainder of the second term. So for both domestic political and foreign policy reasons, an early and successful vote is important for President Clinton.

Similarly, with an eye on the mid-term elections in November, the Republicans will probably not want to dwell on the contentious trade issue too long in 1998 -- particularly with a softening economy and expanding US trade deficit. However, acting too soon could expose members to anti-fast track opponents in upcoming primaries; waiting until mid-March for a new vote would get past candidate filing deadlines in some key states. The Congress reconvenes on January 27 and thus would have about ten weeks to consider the issue before the "Summit season" and election concerns swamp prospects for passage in 1998 -- and probably for the remainder of the second Clinton administration.

This paper assesses the options available to the Congress and the Clinton administration in dealing with the fast track issue in 1998. It analyzes the pros and cons of four different strategies: the "no fast track" option; modifying the fast-track bill either to alter the scope of the authority or augment its labor and environment provisions; complementing the fast-track bill with parallel domestic adjustment legislation; and reviving the November fast-track bill as it was.

Whatever approach is adopted, it is critical that the public become better informed on the importance of trade in the US economy. A trade education campaign is thus an essential complement to any of the US trade options noted above. To be sure, public education would only pay small dividends during the current fast track debate, but a sustained effort will be required to maintain support for an open US trade policy and to engage in new trade initiatives in the future.

I. The "No Fast Track" Option

The Clinton administration has conducted trade policy since 1994 without fast track (except for the residual authority provided in the Uruguay Round Agreements Act of 1994) and could continue to do so if legislation is not enacted in 1998. Such an approach would have significant implications, however, for what US trade officials could and could not do for at least the remainder of Clinton's term.

Even without fast track, the administration would be able to launch new trade negotiations, including talks on a Free Trade Area of the Americas (FTAA) and some sectoral pacts in the Asia-Pacific Economic Cooperation (APEC) forum. In addition, the United States could engage in WTO talks in areas such as investment where current US practices already meet or exceed the obligations likely to emerge from the negotiations. In other words, the United States could continue the policies of the past three years that have produced some notable successes such as the Information Technology Agreement (negotiated in APEC and expanded in the WTO) and the WTO pacts on basic telecommunications services and on financial services.

However, the recent WTO and APEC pacts made few demands on the United States, so the existence of fast track implementing procedures was never a major issue. Sectoral agreements focused on those products (not necessarily total sectors) where existing US barriers were generally low and political interests in maintaining the protection generally weak. If future agreements required significant changes in existing US policies, the United States would have greater difficulty in finishing trade negotiations.

In principle, the United States could proceed in trade talks with other countries without fast track authority and implement the results through normal legislative procedures. In practice, however, our trading partners would be less amenable to substantive negotiations. Chile already has walked away from trade talks with the United States because of the absence of fast track authority.

Other countries may come to the negotiating table, but with half-empty pockets at best. Why?

Simply put, if fast track is not revived, our trading partners won't put their bottom line offers on the table for fear that Congress will reopen any trade deal that the President concludes. To offer significant concessions to US negotiators, foreign officials will need assurance that the United States will live up to its end of the bargain; otherwise they will be reticent to propose reforms of their own sensitive trade barriers and thus expose themselves to the political wrath of their own domestic lobbies. In the absence of fast track, the potential harvest of reforms from new negotiations would thus decline sharply.

To get our main trading partners to liberalize longstanding protection in sectors such as agriculture and services, where the United States is highly competitive, US negotiators will have to offer something tangible in return. Foreign demands are likely to focus on US barriers protecting politically sensitive products such as apparel, sugar, tobacco, and dairy. In fact, Brazil has already raised several of these issues in the preparatory talks for the FTAA. But to get Congress to consider reforms of these well-entrenched US trade barriers, US trade officials would have to negotiate substantial liberalization of foreign trade barriers of significant interest to a broad array of US industries. In short, to get the best possible deal in trade talks, US negotiators need fast track authority.

Without fast track, US trade officials would have limited opportunities to negotiate solutions to emerging trade problems and would consequently focus more of their efforts on enforcement of existing trade pacts. Indeed, at the end of its 1997 session, Congress authorized additional funding for USTR earmarked primarily for new trade lawyers to support enforcement actions.

To be sure, such litigation is an integral part of US trade policy and often necessary to ensure compliance with negotiated agreements. However, trade litigation has been pursued primarily in an ad hoc manner to address specific complaints by US industries, and independent of broader US policy objectives. In many respects, US trade litigation strategy is analogous to a business plan that calls for suing rivals instead of investing in plant and equipment and R&D and developing an integrated international marketing plan.

Negotiating without fast track, and focusing more on litigation, would generate several inter-related costs for US firms and workers. In particular, such an approach would result in:

o Reduced opportunities to expand US exports due to slower opening of foreign markets. On average, US trade barriers are very low compared to those of our key trading partners in Latin America and East Asia. The MERCOSUR region has set a common external tariff of 15 percent, and many tariffs applied in China, India, and other Big Emerging Markets exceed 20 percent. While these barriers are much lower than those of a decade ago due to a combination of unilateral, regional, and GATT reforms, many of the remaining barriers represent the “muscle” of protection that has proven too strong politically for unilateral reform. To further liberalize these barriers, countries will have to craft broadbased and reciprocal trade pacts that provide substantial net benefits for their economies.

o Increased discrimination against US exporters. Most countries in the Western Hemisphere continue to pursue free trade pacts without us; the trade preferences accorded by such pacts are applied only to member countries and thus discriminate against US-based firms. For example, in competing for sales in South American markets, US firms often have to pay sizable tariffs while their regional competitors do not. Such discrimination would become even more pronounced if the proposed free trade pacts between the European Union and Mexico, and the EU and MERCOSUR, and Canada and MERCOSUR, are concluded in the next few years.

o Reduced wage premiums for US workers. Trade pacts are not an engine of job creation, but they do support jobs that provide substantial wage premiums over those provided by non-exporting US manufacturing firms. As Richardson and Rindal (1996) have documented, US exporters pay higher wages and expand employment faster in more stable workplaces than other firms. On average, workers in exporting firms earn 15 percent more in salary and benefits than those in comparable non-exporting firms.

o Reduced US leadership in global affairs. Without fast track, the United States would effectively renege on its own initiatives in Latin America (the FTAA) and Asia (APEC free trade), and would have difficulty meeting its Uruguay Round commitments in the WTO to restart global trade talks. Such flip-flops undermine confidence in US leadership and raise troubling questions about US "staying power" in other international arenas.

Furthermore, when the United States is not fully engaged in trade talks, it cannot influence the outcome and loses an opportunity to build support for US policy objectives. The lack of fast track authority would undercut the credibility of the US commitment to further trade liberalization and to the strengthening of multilateral trading rules, since it would effectively foreclose talks in areas that would require significant changes in US laws and regulations. Subsequent delays in new trade talks would in turn increase the risk that protectionist demands at home and abroad will flourish, and that regionalism in Europe and in the MERCOSUR will become inward-looking and more discriminatory. Indeed, evidence of such a backlash is already building: for example, the MERCOSUR recently increased its tariffs by 25 percent to dampen import growth from the United States and other countries.

Furthermore, trade talks often serve as a magnet for attracting support of foreign governments for a wide array of US foreign policy and security initiatives. In the Western Hemisphere, the FTAA is the linchpin for complementary US efforts to strengthen democracy and combat drug trade. In the APEC region, our trading partners value US participation as a signal of continued commitment to regional political as well as economic stability.

In light of the current financial crises in East Asia, the timing of the current US trade debate could not be worse. Scaling back the US role in trade talks would raise questions about the US commitment to new trade liberalization and the durability of US commitments in other important areas. Such US policy signals are unlikely to promote market reforms that these countries need to undertake to address their financial crises, and could jeopardize current adjustment efforts which depend in large measure on the maintenance of open access to US trade and financial markets.

II. Modify the Fast Track Legislation

Anticipating a renewed fast track debate in 1998, both supporters and opponents of the legislation vowed to introduce new proposals that would narrow the scope of fast track authority in an effort to broaden the base of political support. The proposals vary from limiting the geographic coverage of the authority to setting significant preconditions for use of the authority.

Comprehensive "WTO-only" Authority. One option would limit the use of fast track authority to multilateral negotiations in the WTO (including possibly sectoral free trade pacts such as those teed up in APEC). The rationale for this approach would be to avoid NAFTA-like free trade agreements (FTAs) with developing countries -- with the possible exception of the long-vetted FTA with Chile. It would allow WTO talks to go forward and would refocus US attention on the global trade agenda and the prospective new WTO Round by the end of the decade. It would also lessen concerns that regional initiatives would divert attention and negotiating resources away from global negotiations.

However, the WTO-only approach has a distinct drawback. It would effectively torpedo free trade talks in the Western Hemisphere and cast serious doubt on the credibility of the US long-run commitment to free trade and investment in the Asia-Pacific region, and thus undercut major achievements of the Clinton administration. Moreover, US exporters would still face discrimination in regional markets where the United States is not a party to a FTA that confers trade preferences only to companies from member countries.

The prospect of being able to move forward on a substantial global trade deal would help offset the adverse impact on the APEC and FTAA initiatives, although the WTO effort would be hampered by the reduction of regional liberalization that has reinforced and facilitated previous multilateral negotiations. Downgrading regional trade talks would also weaken cooperation in those regions on a variety of political, social, and foreign policy initiatives in which the United States has important interests, as noted above.

However, President Clinton could try to turn “lemons into lemonade” by seeking to roll the regional free trade initiatives into the WTO and setting a target completion date for negotiating and implementing a global pact consistent with the commitments already entered into in the Western Hemisphere (i.e., agree by 2005) and APEC (i.e., implement free trade by 2010 for developed countries and 2020 for developing countries). Such bold policies could, however, revive

Congressional concerns about trade liberalization with developing countries, so WTO objectives might need to be more narrowly focused.

In sum, the "WTO-only" option would revive multilateral trade negotiations but would be costly in terms of Latin American and Asian policy. It would, however, offer an alternative to the bill that Democrats rejected in November and thus may be easier for them to support.

Sector-specific Negotiations. A subset of the above strategy would be to extend fast track only for sectoral negotiations, following the model of the "zero-for-zero" talks in the Uruguay Round and the sectoral initiatives launched in the APEC and extended to other countries in the WTO. Indeed, at the Vancouver Summit in November 1997, APEC countries committed to talks in 9 sectors in which total trade is quite substantial.

As noted above, however, the notable successes to date in sectoral talks do not assure substantial gains in the future. The reason for such pessimism is simple: US negotiators would not be able to commit to liberalizing our key remaining restrictions in return for reforms of foreign barriers in the same sector or small group of sectors. Bluntly put, there is not enough payoff.

Prospective sectoral deals simply do not comprise a "critical mass" of reforms to support an agreement that would require US concessions in sectors where we have significant trade barriers. As a practical matter, negotiations narrow down the coverage of sectoral pacts to a small subset of products where protection is most easily liberalized (as occurred in the Uruguay Round sectoral talks). The cumulative trade coverage of all of the prospective new sectoral deals will thus likely be much more limited than the ITA.

Agriculture is the clearest example: sectoral talks on agriculture have never succeeded on their own; cross sector tradeoffs have been required to get countries to liberalize their well-entrenched agricultural protection. For that reason, sectoral negotiations are strongly opposed by the vast majority of the US agricultural community, and by other farm exporting countries such as Canada and Australia as well. In short, this approach would give up on farm reform.

Outside the context of broader trade talks, sectoral negotiations would be too limited to be meaningful for US trading interests -- it is a "Why Bother?" option. Limiting fast track to sectoral talks would thus attract <u>less</u> support from business and farm groups than more comprehensive authority.

<u>Labor and Environment Conditions.</u> The final variant of this option would be to increase the conditions for US participation in new trade pacts that could be implemented by revised fast track procedures. Such an approach would try to establish minimum obligations regarding national labor and environmental practices that could be incorporated in new trade agreements and thus subject to the pact's dispute settlement mechanism. In that regard, the NAFTA side accords go only part way toward fulfilling those objectives. Note, however, that proposals that each country fully enforce its own laws would be difficult to

implement through such a procedure, since dispute panels would not have a common standard of conduct (including enforcement) to judge whether obligations were being violated.

This variant has other significant drawbacks as well:

o While it would represent an effort to attract support primarily among moderate Democrats, it would at the same time result in reduced support by Republican members who fear that fast track legislation implementing such agreements would be used to reregulate economic activity in the United States and elsewhere. On balance, this option would probably lose more Republican votes than gain Democratic votes.

o Substantial changes in the terms of the fast track legislation would reopen debate in a number of Congressional committees and thus delay floor votes well beyond the timeframe for viable action in 1998. In other words, revising the draft bill, particularly in the politically sensitive and contentious areas of labor and environment, would extend the legislative process into mid to late 1998 when electoral considerations might foreclose the possibility of holding a vote on fast track authority.

o Establishing prerequisites ab initio for US participation in new trade pacts will complicate efforts to launch new negotiations and make it harder to achieve a successful conclusion to those talks. Few of our trading partners would agree to the types of obligations proposed by Congressman Gephardt and the trade unions, and setting such preconditions for trade talks would significantly increase the prospect that the talks would fail. Simply put, no revision of the draft legislation could likely attract labor support without setting preconditions for trade talks that were so demanding that they scared off most Republicans, not to mention our trading partners.

Contrary to the views of Congressman Gephardt and others, the size of the US market does not provide US trade negotiators with substantial leverage to convince other countries to agree to new obligations on labor and environmental issues (and enforceable by trade sanctions), because we have already committed in previous agreements to keep our market open! No one is openly advocating protectionist measures, but some have proposed that the United States roll back its commitments in existing agreements (e.g., NAFTA) if our trading partners do not support new obligations in those areas. Such actions would reduce foreign access to the US market, could contravene US international obligations, and would impose significant costs on US consumers, industries, and workers.

III. Complementing Fast Track with a Domestic Reform Package

Much of the opposition to fast track legislation reflects broader concerns about the impact of globalization on US production and employment. Although recent comprehensive studies (e.g., Cline 1997) conclude that trade accounts for only part of the adjustment pressures facing US companies and workers, along with the rapid pace of technological change and corporate restructuring, it is the development most visible to average Americans and the one most commonly linked to their concerns about stagnant growth in real wages and increased job insecurity -- despite the dramatic decline in the US unemployment rate since 1992 and some real wage gains in the last 2 to 3 years.

In fact, trade has become increasingly important to the US economy. Over the past decade, US trade policy has focused on expanding US sales to foreign markets to reinforce growth of income and employment at home. In 1987, US merchandise exports totalled only $250 billion and represented 5.3 percent of US GDP. In 1997, the export to GDP ratio climbed to 8.4 percent, and those exports have supported millions of US jobs.

Because it affects the distribution of income in the United States, trade policies are increasingly being considered in conjunction with other domestic economic initiatives. Indeed, some opposition to fast track derives not from a desire to block new trade talks but rather to leverage support for domestic programs to help the disadvantaged, whether their problems stem from technological change, import competition, or something else.

Such linkage has existed since the Trade Expansion Act of 1962, when trade adjustment assistance (TAA) was tied to the trade bill to build support for the Kennedy Round of GATT negotiations. Unfortunately, the experience of a broad range of public labor adjustment policies is not encouraging; the programs have not been very cost-effective and have not lived up to their promise to compensate the "losers" from globalization. The poor performance of the TAA program over the years has undercut the credibility of such an approach in the current fast track debate.

The fact that globalization digs deeper into the American heartland means that broader linkages to domestic programs other than TAA would be required to make this strategy politically meaningful. Promoting urban and community development projects could help build support for US trade adjustment policies in conjunction with improved labor training and education programs. Addressing concerns about the maintenance of health insurance and pensions would reduce the cost of switching jobs and thus facilitate labor mobility. Instituting earnings insurance, as proposed by Litan (1998), could also provide short-term relief for workers shifting jobs in our dynamic economy.

Thus, a third option to increase support for fast track would be to complement the existing trade legislation with support for domestic initiatives that could proceed on a separate legislative track. The objective would be to help workers and industries retrain and retool for competition in the globalized world economy, and to assist communities hard hit by economic change. Indeed, proponents of such policies argue that they are needed whether we have fast track or not. Such an approach would be designed to encourage support by members who have withheld support for new trade talks until parallel progress is made on domestic programs on which they place higher priority.

The goals of such policies are laudable, but the programs and practices deployed to implement them are contentious. Problems arise, not just over differences in political philosophy, but in the practical application of the domestic reforms. In short, can such programs "work"? Can a domestic package be developed in the limited time available for the fast track vote and made to fit within current budgetary constraints?

o Designing an effective trade adjustment or regional redevelopment assistance program is not easy. The Clinton administration labored hard but unsuccessfully to craft a new labor adjustment policy without the flaws of past TAA programs. The basic solution is better education and training, but that is a long term application. In the interim, however, the Congress could consider whether to supplement (or substitute in part) existing TAA programs with new policies, including proposals to extend short-term wage subsidies to encourage workers to shift jobs out of industries adversely affected by new trade pacts.

o Putting together a domestic economic reform initiative, even if it in large measure "repackages" existing commitments to cities and states, would take time and certainly would not be doable in the first few months of 1998. The President could only promise to push such a package in return for support on fast track, but could not guarantee that the Republican majority would not substantially revise his proposals. Adding to the uncertainty would be the "pay-go" problem, which constrains any new spending program.

In light of past experience, and the unmet expectations of past programs, traditional Democratic constituencies will be understandably reticent to embrace new domestic initiatives in return for a positive vote on fast track. However, complementary domestic initiatives could attract some additional votes for fast track authority, if the programs are narrowly focused so as to (1) provide short-term relief to workers changing jobs and (2) maintain budget discipline.

IV. Reviving the November Fast Track Legislation

The final option would be be to pick up where talks left off in November, and try to pull together the requisite majority through more effective education and lobbying. This approach could be called the "play it again" option, since it assumes that the President and the Speaker were close to securing sufficient support to pass fast track in November 1997 and could succeed if they, the business community, and other supporters do a better job in educating the public debate and lobbying members of Congress.

This option recognizes that the Republicans will provide the bulk of the support for fast track legislation but that the President can and should continue to push for a larger Democratic vote. It assumes the President can build a little more support among specific Democratic constituencies representing urban and hispanic districts through narrowly targeted domestic programs that do not run afoul of the problems noted in option 3. It recognizes that none of the previous options holds the prospect of substantially increasing Democratic support for fast track without alienating a large number of Republicans -- with the possible exception of the "WTO-only" option, which would come at the cost of the FTAA and many APEC initiatives.

To be sure, this option depends on the ability of Speaker Gingrich to rally more Republicans to support fast track legislation (if a vote is taken in early 1998) than probably would have been counted last November. Why would Republicans "help" Clinton in a mid-term election year? The short answer is because it supports their trade policy objectives and key objectives of one of their important constituencies, the business community. In addition, fast track authority will be used less by Clinton than by his successor. The delay in reauthorizing the authority means that most trade talks won't progress for several years and are unlikely to conclude before the 21st century.

The fourth option could be called the "play it again" but "play it better" approach. It does not necessarily exclude revisions to fast track legislation that could be considered under options 2 and 3, and posits that a renewed and more integrated effort could help provide the additional support needed to pass fast track legislation.

DRAFT: January 25, 1998

Fast Track:
Options About the Process

I. M. Destler

This paper analyzes options for the *fast-track process*. It leaves to others at this conference the important substantive questions, such as what types of agreements should be covered (FTAs, sectoral, etc.), what matters they should include or exclude (labor? environment?), and what domestic programs should be developed for Americans who are hurt by trade liberalization. Instead, it examines alternative fast-track procedures that are consistent with the essence of the process: the assurance that Congress will vote up or down, within a discrete time period, on agreements and implementing legislation as presented by the President. The reason for that assurance, of course, is to give credibility to US negotiators.

I. *What Fast-Track Involves*

Since the process was invented in 1974, all legislation establishing or renewing fast track has included the following components:

(1) A specification of trade negotiating objectives, and the type of agreement to which the authority applies;

(2) Procedural requirements for the executive branch during the negotiating process, such as notifying Congressional committees of intent to initiate negotiations, consulting those committees and private sector advisory groups about issues under negotiation, and advance notice of the President's intention to conclude an agreement;

(3) A deadline date for conclusion of agreements authorized;

(4) Rules concerning Presidential submission to Congress of the agreement, the draft implementing bill and supporting documentation; and

(5) A procedural commitment on the part of Congress to:
 (a) Introduce the President's draft implementing bill in both houses: and
 (b) Vote on it up or down within a limited time period (up to 90 legislative days), with amendments prohibited.

Changes in the process could involve any of these and still be true to fast track's purpose, provided that the core of (5)--an expeditious up-or-down Congressional vote--is preserved.

II. *Ill-Founded Objections*

The 1997 debate gave rise to a number of arguments against the process that had a certain polemical utility but do not bear up under analysis. For example, in questioning the necessity of fact-track, Public Citizen's Global Trade Watch points (on its web page) to White House claims of "more than 200 trade agreements which were negotiated and implemented without fast track" during the first Clinton administration, compared to only two (NAFTA and GATT) which required this authority. A look at the nature of those "200 agreements" establishes their irrelevance to the debate. A substantial number were protectionist in character: bilateral textile deals in which exporting nations promised to limit their sales to our market. The others were generally agreements where the action was to be taken by our trading partners (e.g., Japan's commitment to enforce opening of its cellular telephone market), or agreements including US concessions that Congress had already authorized.

Of course fast track is irrelevant to agreements which require no new US legislation. But for those that do require such legislation--free-trade agreements like NAFTA, or new multilateral accords where all players commit to substantial reduction in trade barriers--a procedure like fast track remains essential. Other nations simply will not take the domestic political heat for promising to open important markets to the United States if they don't believe that we can deliver on our market-opening commitments to them. And if Congress can dilute or block concessions by amending the implementing legislation, or by simply refusing to vote on it, the United States won't deliver--as was demonstrated by US failure to implement agreements reached before fast-track was in effect.

A more serious argument is that fast-track is an abdication of Congressional power. To quote Public Citizen again, "Congress loses the authority and the ability to shape [trade] issues." This *could* be true, for the legislation undeniably constrains the legislative process. But fast-track in practice has shown Congress not only retaining but using this "authority and ability" time after time: from the setting of guidelines for specific negotiations to Congressional committee sessions which review and revise drafts of Presidential legislation implementing trade agreements.[1] In fact, fast-track originated in Congressional insistence on the power of final action to implement trade agreements involving non-tariff barriers (a power it had relinquished for tariff-reducing agreements). On all the major agreements concluded under fast-track authority, Congress has influenced the substantive priorities and participated actively in writing the laws to carry them out. Congressional fingerprints are everywhere.

But if the critics' main points seem wide of the mark, there are clearly ways that the details of fast track can be crafted to enhance or diminish specific Congressional powers, and to pursue a range of other objectives. Consensus was not achieved by the White House and

[1] I. M. Destler, *Renewing Fast-Track Legislation* (IIE, Policy Analysis No. 50, September 1997), pp. 9-16.

Congressional committee proposals of 1997. Changes in the fast-track process might help bring consensus in 1998.

III. Process Options: How Clearly Does Congress Specify Which Negotiations Are Covered?

Background. The original fast-track authority was designed for one specific negotiation, the Tokyo Round of multilateral trade negotiations under the GATT, which was launched in 1973 and concluded in 1979. The negotiating objectives and timetable were set with its specific nature in mind--multilateral talks to reduce and regulate non-tariff barriers (NTBs)--though the statutory language allowed for the possibility that the talks might yield more than one agreement. In the end, Robert Strauss and his colleagues opted to implement all of the Tokyo Round agreements through a single piece of legislation.

The Tokyo Round implementing legislation enacted in 1979, however, included a provision extending the deadline for fast-track from January 3, 1980, to agreements concluded by January 3, 1988, even though there were no longer any major negotiations planned. In principle, this would have permitted the administration to bring back for fast-track treatment any follow-on multilateral agreement consistent with the statutory negotiating objectives. No major multilateral agreements were reached during this period. But in the Trade and Tariff Act of 1984 Congress authorized application of fast-track to bilateral free-trade agreements, although with a special procedural requirement for deals with any country except Israel: the administration had to notify the Senate Finance and House Ways and Means Committees of its intent to enter any such negotiation, and either committee could veto the application of fast-track to that negotiation by majority vote within sixty days.[2] There was no requirement that Congress as a whole authorize a specific FTA in advance.

In the Omnibus Trade and Competitiveness Act of 1988 Congress extended fast-track authority for the Uruguay Round, setting a new timetable and negotiating objectives. There was little expectation of additional FTAs, but the law was written so that the extension also applied to them--with continuation of the committee veto provision. So when (contrary to everyone's expectations) Mexico sought an FTA, fast track applied to what became the NAFTA negotiations once the Finance and Ways and Means Committees acquiesced. The Congressional vote in 1991 to extend the timetable (see below) necessarily applied to NAFTA as well as the Uruguay Round. When the latter was not concluded by the revised deadline, Congress voted a further extension in 1993 explicitly limited to completion of that negotiation, with April 16, 1994 the new deadline.

[2]In fact, frustrated by perceived administration weakness and lack of consultation on trade policy, Senate Finance came within one vote of blocking the launch of the US-Canada FTA talks in April 1986. But once the agreement was completed, Congress approved it overwhelmingly in 1988.

The 1997 Proposals. The three fast-track bills of September-October 1997[3] generally followed the formula that had evolved, with broad, permissive language allowing negotiations with any countries (or groups of countries). In fact, these bills took a further step by combining the formerly separate procedural tracks for NTB agreements and FTAs "into a single process" with "common notice, consultation, and implementing procedures."[4] The Senate bill included in this process a committee veto like the previous one for FTAs, but required that both Finance *and* Ways and Means disapprove, within 90 days of notification, for fast-track coverage of a negotiation to be blocked. The administration and House versions contained no committee veto. All exempted from the pre-consultation requirement specific negotiations already begun--talks on an FTA with Chile, and certain already-authorized talks within the WTO (e.g., on financial services). Otherwise, the language granting fast-track coverage did not refer to specific negotiations.

An Alternative. The established formula has served trade policy well, giving the executive branch broad leeway on which negotiations to initiate while requiring consultation with Congress and the private sector. However, the fall 1997 debate suggested greater resistance by fast-track critics to certain negotiations (an FTAA) than others (sectoral talks under the WTO). This has generated discussions within the administration about limiting a 1998 fast-track bill to the latter, a proposal which has in turn been criticized by Republican leaders and the business community. A compromise would be a fast-track bill which would:

a) require that Congress approve in statute the specific negotiations (or category of negotiations) to which fast-track would apply;[5]

b) include in the 1998 bill specific authorization to launch sectoral (and perhaps other) negotiations under the WTO, and perhaps a Chile FTA; and

c) provide an expedited procedure under which Congress would vote on future Presidential requests to launch other negotiations, such as the FTAA or steps in that direction.

(In my September 1997 version of this proposal, it was joined to the idea of making the fast-track procedure itself permanent, without expiration date.)

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[3]These were, of course, the Clinton proposal of September 16th, the "Reciprocal Trade Agreements Act of 1997" voted by the Senate Finance Committee on October 1st, and the "Reciprocal Trade Agreements Authorities Act of 1997" favorably reported by the House Ways and Means Committee on October 8th.

[4]"Finance Committee Summary of Fast-Track Bill," reprinted in *Inside U.S. Trade: Special Report*, October 1, 1997, p. 3.

[5]See the proposal for "a two-tiered fast-track authority" in my *Renewing Fast-Track Legislation*, pp. 41-43.

IV. Time Limits and Extension Procedures

Background. All previous fast-track laws have provided time limits, deadline dates by which agreements must be signed if the procedures are to apply. For the Uruguay Round, it was five years after signing of the Trade Act of 1974. The 1979 law extended this to January 3, 1988. The 1988 law set June 1, 1991, with a provision that the President could get a two-year extension (as George Bush in fact did) if he requested it and neither house disapproved within a limited time period. Note that the fast-track deadline has always applied to the date of the agreement. There has never been one for submission of the President's implementing bill.

The 1997 Proposals. On this point the three bills are essentially the same: both Senate and House committees adopted the President's proposal for an initial deadline of October 1, 2001. This could be extended until 2005 if the President so requested at least three months prior to the deadline and neither house adopted an "extension disapproval resolution" before the initial deadline.

Options. One possibility, alluded to earlier, would be to eliminate such "drop-dead dates" for fast-track authority, as part of a package where Congress controlled fast-track's exercise by approving specific negotiations in advance. As argued in *Renewing Fast-Track Legislation*, this author believes that fast-track authority should be permanent and applicable to specific agreements as Congress authorizes.

Another obvious option would be to alter the specific deadline dates proposed.[6]

A more controversial approach would be for Congress to authorize fast track for a limited time and condition its renewal on progress in meeting a trade-related objective which Congress supports but fears will be neglected once fast track is voted. For example, a number of Democratic Representatives want stronger programs to help Americans adjust to globalization--programs for the "trade losers," or for those otherwise left out of the current American prosperity. Others want serious efforts to address labor and environmental issues at the international level, but might recognize that trade negotiations are not a particularly promising venue. Promises to address such problems after fast track was enacted have lacked credibility (since some earlier, NAFTA-related promises were imperfectly kept). One possible means by which advocates could keep the heat on the administration--and on trade supporters within Congress--would be amending the fast-track legislation to:

a) authorize fast-track for a limited time (2 or 3 years), with provisions for extension, much like current proposals; but

[6] If one goes with the established practice of deadline dates, the ones proposed are reasonable: substantially after the Presidential election and inauguration, allowing enough time to complete some negotiations but requiring a new President to seek extension of the authority within his first year.

b) require the President, when he requests fast-track extension, to certify progress on worker opportunity programs[7] in a comprehensive report to Congress submitted at the time of his request; and

c) require an affirmative resolution passed by both houses to extend fast-track, and provide that its wording include language like: "The Congress endorses the President's report of progress on worker opportunity programs for Americans and through this resolution, under section ____ of the _____, authorizes the application of the provisions of Section 151 of the Trade Act of 1974, as amended, to implement bills for trade agreements completed before October 1, 2005."

V. Requirements During Negotiations

Background. In 1974 through 1993, all fast-track legislation required administration negotiators to consult regularly with Congress and with a network of advisory committees representing business and other Americans affected by trade agreements. It mandated the appointment of Congressional advisers to the negotiation, and full sharing of information with them and key staff. The laws have also required that the President notify Congress at least 90 (or 120) days in advance of his intention to enter into a specific agreement, and provide substantive information about its proposed content so that Congress and the advisory committees can express their views. In 1988 a "reverse fast-track" provision was added under which Congress would withdraw fast track in the midst of a negotiation if an administration failed to consult or notify as required.

The 1997 Proposals. All three bills retained these well-established consultation requirements, and carried over the "reverse fast-track" provision of the 1988 law. The House bill adds new consultation requirements regarding agriculture, focusing on comparison of the level of bound US tariffs on agricultural products with those of US trading partners.

Options. The legislation specifically mandates consultation at the beginning of a trade negotiation, and at its conclusion. In between, it provides generally for keeping Congress and advisory committees informed. How effectively this is done, and how much legislative branch representatives can influence agreements *as their substance takes shape* depends on the attitude and skill of executive branch negotiators (and the interest and skill of those on Capitol Hill). If Congress wished to enhance the consultation provisions, the logical time would when their substance was getting serious and decisions were beginning to get made. Alternative means might include:

[7]This approach could be used for any substantive purpose (like parallel labor/environment negotiations), but it seems particularly appropriate for worker opportunity programs, which in the past have tended to rise in priority at the time of trade legislation and recede thereafter.

a) a periodic reporting requirement on progress in specific negotiations, with reports made to committees or Congress as a whole;

b) a special reporting requirement on the state of negotiations on any topic which Congress wishes to single out for special attention; or

c) creation of a new mechanism (a Congressional review panel, a joint executive-congressional consultation body) which would assess progress regularly.

Any such reforms would only be effective if key members of Congress gave them priority and sustained attention. Especially important would be the ongoing attention of the trade committees. In the past, the "best intentions" of many on consultations have been thwarted by the difficulty of getting serious attention and substantive input from legislators when Congressional action on a matter is not imminent.

VI. Requirements Between Signing of an Agreement and Submission of Implementing Legislation

Background. This has been the stage about which trade laws have had the least to say. The President has always been required to notify Congress once an agreement is reached. He has also been required to send to Congress, along with the implementing legislation, a statement of administrative actions to be taken, and documents explaining the legislation, justifying it in terms of the original negotiating objectives, etc. Congress has never limited the time period between the signing of an agreement and the submission of implementing legislation. Nor has it addressed, in law, the procedure by which that legislation is developed--though it has become standard practice for it to be shaped by "non-markup" sessions involving Congressional committees and executive branch officials.

The 1997 Proposals. The White House, Senate and House bills each included all of the above requirements. In addition, they all included a new provision, patterned on an earlier Ways and Means Committee proposal, that the President submit to Congress within 60 days of the agreement "a description of those changes to existing laws. . .required in order to bring the United States into compliance with the agreement." [Sec. 105 (a)(I)(B)][8]

Options. One possibility would be to limit the time between signing an agreement and submission of implementing legislation, but this seems unnecessary. The administration will, in almost all cases, want to move as rapidly as possible, and Congress will frequently slow the action down while specific issues and interests are addressed.

[8] A principal purpose of this provision is to constrain the inclusion, in implementing legislation, of provisions not "required" to comply with the agreement. (The section reference is the same in all three bills.)

More promising, from the Congressional vantagepoint, would be statutory language to reinforce the "nonmarkup" process. There is no way, of course, that legislators can assure that their wishes will be followed in the language of the implementing bill--the fast-track process requires that the administration be the ultimate arbiter of what changes in law are required to carry out an agreement. But Congress could guarantee an opportunity to participate by requiring that:

draft proposals

(a) the administration present implementing legislation for comment by the Congressional committees with jurisdiction; and perhaps also

(b) that it begin this process no less than 45 days before submission of the President's implementing bill.

VII. Rules Governing the Implementing Bill

Background. From the 1974 Act onward, fast-track laws have allowed inclusion in the implementing legislation of matters "necessary or appropriate" to carrying out the agreements signed. This has come to include provisions to conform to Senate and House rules by offsetting any revenues lost to the government from tariff reductions.

The laws have also required that Congress act on the bill, without amendment, within 90 days of its submission (60 days if a non-revenue bill). There are sublimits for committee and floor consideration to ensure that the bill moves expeditiously through each chamber.

The 1997 Proposals. None of the three bills alters the legislative timetable or the no-amendment rule. The main change regarding the bill's substance has been the effort, spearheaded by Ways and Means, to curtail inclusion in the implementing bill of provisions not "necessary" to carry out the agreement. The Clinton bill made a modest concession by requiring that provisions be "necessary or appropriate" *and* be "related to trade." The Senate Finance bill narrowed matters somewhat, limiting the bill to provisions "necessary" for implementation or "otherwise related to the implementation, enforcement, and adjustment to the effects of such trade agreement and are directly related to trade." House Ways and Means was most restrictive, with the primary criterion that provisions must be not only "necessary" for implementation but also "directly related to the principal trade negotiating objectives." The House also allowed "provisions to provide adjustment assistance to workers and firms adversely affected by trade." And all three bills allowed inclusion of provisions necessary for compliance with budget legislation.

Options. The purpose of language restricting the scope of implementing bills was (1) to curb what were perceived as past abuses of the process, using fast-track bills to rewrite sections of trade (and other) law, going well beyond what the agreements required, and (2) for Republicans, to limit the inclusion of labor and environmental provisions not directly related to trade.[9] The second of these is beyond the scope of this paper, albeit central to the larger fast-track struggle of 1997. On the first, the Ways and Means requirement that any provision implement a specific negotiating objective seems overly restrictive. Negotiators may wish to pursue new trade liberalization opportunities, in consultation with Congress, which were not evident when legislation was crafted. However, there are a number of additional ways that the legislation could curb the inclusion of unnecessary (but, to some, desirable) provisions in laws partaking of fast track's procedural privileges. Specifically, Congress could:

a) provide that revenue offset provisions of fast-track bills are subject to amendment;[10]

b) more radically, provide that any provisions not "necessary" to implement the agreement are subject to amendment; and/or

c) require that the President highlight and justify all provisions not strictly "necessary" when he submits his implementing legislation.

It would also be desirable for Congress to shorten the timetable for consideration of fast-track bills once submitted. The current "90 legislative days" seems excessive, since their substance is set, and much of the debate takes place, before the bill is submitted. A shorter period would prevent a committee chairman from delaying Congressional action (as Senator Hollings did with the Uruguay Round bill) or perhaps even preventing such action before a Congress adjourned *sine die*.

VIII. *Why A New Look at the Process Makes Sense*

Central to the fate of fast track are a range of substantive issues, particularly the fate of workers and the environment in a globalizing US economy. Other essays at this conference address these issues. The purpose of this essay has been to highlight *procedural* options, some of which--of course--could be employed for substantive purposes.

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[9]To underscore what was *excluded*, the Senate Finance bill added a subsection on "international economic policy objectives," replicated by Ways and Means, which set forth "the policy of the United States to reinforce the trade agreements process by (A) fostering stability in international currency markets. . .; (B) supplementing and strengthening standards for protection of intellectual property under. . .organizations other than the WTO. . .; C) "promoting respect for workers' rights". . .; and (D) . . ."seeking to protect and preserve the environment." Its concluding sentence specified: "Nothing in this subsection shall be construed to authorize the use [fast-track] procedures. . .to modify United States law."

[10]On this and the following proposal, there would need to be some rule to prevent death or indefinite delay in conference. One would be a limit of the conference to, say, 15 days, with provisions to revert back to the President's proposed language if the two houses could not agree.

The fast-track process has gotten a bad rap from its critics. It stands, in the view of this author, as one of the great innovations of the past quarter-century in executive-legislative policy coordination. But every detail therein is not sacred. There are many ways its specifics could be altered without violence to the core principle of assuring expeditious, up-or-down Congressional action on the substance of trade agreements reducing non-tariff barriers or establishing new free trade areas. This paper has suggested a few such ways, in the hope it may be of some aid in achieving the (thus far elusive) consensus needed to move forward on America's trade liberalization agenda.

Labor and Environmental Issues

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Restarting Fast Track

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Trade is very important for the American economy. Yet fast track negotiating authority was allowed to expire in March 1993 for bilateral agreements and in December 1993 for multilateral agreements. Although the Congress has tried to revive fast track since then, these efforts failed. One reason why the 1997 fast track initiative stalled is that the House Ways and Means Committee's bill (H.R. 2621) was viewed as insufficiently responsive to the concerns of labor and environmental groups.

This chapter discusses the labor and environmental dimensions of fast track. Part I explains what is and is not in the bill. Part II explores ways of making the bill more acceptable to a skeptical public.

I. WHAT'S IN THE FAST TRACK BILL

There are three ways in which fast track legislation interacts with social issues: first, by setting negotiating objectives; second, by approving treaties; and third, by changing domestic law. Each is discussed below.

A. U.S. Negotiating Objectives

Labor

The idea of making labor rights a U.S. trade negotiating objective is an old one. It was first raised by James T. Shotwell in 1933 in a proposal to Cordell Hull

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(Charnovitz 1987, 578–79). But this objective was not included in the Reciprocal Trade Agreements Act. Forty years later, in the Trade Act of 1974, Congress included labor rights in a list of U.S. objectives for GATT revision. Specifically, the Trade Act called for:

> .... the adoption of international fair labor standards and of public petition and confrontation procedures in the GATT (Pub. L. 93-618 § 121(a)(4)).

This objective was pursued by the Carter Administration, but international negotiations were unsuccessful. This 1974 provision has been repealed.

Congressional concern about labor rights continued into the 1980s. In the Omnibus Trade and Competitiveness Act of 1988, Congress made "worker rights" a principal trade negotiating objective. Specifically, the Act directs U.S. negotiators:

> to secure a review of the relationship of worker rights to GATT articles, objectives and related instruments with a view to ensuring that the benefits of the trading system are available to all workers, and
>
> to adopt, as a principle of the GATT, that the denial of worker rights should not be a means for a country or its industries to gain competitive advantage in international trade (Pub. L. 100–4218 §1101(b)(14)).

These objectives were pursued by the Reagan, Bush, and Clinton Administrations, but negotiations were unsuccessful.

In the 1994 Uruguay Round Agreements Act, Congress directed the President to seek a WTO working party to examine the relationship between labor rights and GATT rules. The Act lists several specific objectives, the most important of which are: (1) to examine the effects of the systematic denial of worker rights on international trade and (2) to coordinate the WTO working party with the International Labor Organization (ILO) (Pub. L. 103–465 §131). These objectives were pursued by the Clinton Administration, but WTO negotiations were unsuccessful (Charnovitz 1997a, 154–58).

The 1997 House bill includes labor as among the principal U.S. trade negotiating objectives. The bill intertwines labor and environment. Specifically, U.S. negotiators are directed:

> (A) To ensure that foreign labor, environmental, health, or safety policies and practices do not arbitrarily or unjustifiably discriminate or serve as disguised barriers to trade, and
>
> (B) To ensure that foreign governments do not derogate from or waive existing domestic environmental, health, safety, or labor measures, including measures that deter exploitative child labor, as an encouragement to gain competitive advantage in international trade or investment (H.R. 2621, 9–10).

In addition, a separate section of the bill lists other U.S. priorities which the President "should take into account" in assuring that U.S. trade agreements "complement and reinforce other policy goals." One of these priorities is:

> promoting respect for worker rights and the rights of children and an understanding of the relationship between trade and worker rights . . . . (H.R. 2621, 10–11).

Although the labor rights objectives in the 1988 and 1994 trade laws remain in effect, the Ways and Means Committee may have an intent to repeal them. The Committee report suggests that the new objectives "update" the old ones (House Committee on Ways and Means 1997, 16).

The newly-proposed labor objectives differ from the objectives in the 1974, 1988, and 1993 laws. The 1997 bill does *not* direct U.S. negotiators to seek new rules in the WTO regarding labor rights. Moreover, the 1997 provision manifests a more defensive posture than earlier provisions. The idea that GATT might be reformed to ensure that trade benefits all workers has seemingly been abandoned.

The issue of foreign government waivers of *existing* domestic labor measures points to a different concern than underlies the earlier legislation. The 1974 labor right provision was linked to "international" standards. There is a world of difference between encouraging governments to adopt international standards (e.g., ILO standards), versus encouraging them to maintain their existing idiosyncratic standards.

It is not clear why the Ways and Means Committee wants foreign governments to lock in labor policies that may be inefficient or obsolete. Of course, the 1997 bill notes that this non-waiver provision is not intended to forestall changes to a country's laws "that are consistent with sound macroeconomic development" (H.R. 2621, 10–11). But this exclusion is baffling. How does one prove that a particular labor law amendment is consistent with sound macro policy?

Environment

Although no U.S. trade law declares environment to be a negotiating objective, the Congress has given direction on "trade and the environment." A "sense of the Congress" provision, enacted in 1992, establishes goals for multilateral, bilateral, and regional trade negotiations. Under this provision, the President should seek to:

> (1) address environmental issues related to the negotiations;
>
> (2) modify articles of the GATT to take into consideration the national environmental laws of the GATT Contracting Parties and international environmental treaties;
>
> (3) secure a working party on trade and the environment within GATT as soon as possible . . . . (Pub. L. 102–582 §203).

The Bush and Clinton Administrations pursued these goals.

As noted above, the 1997 House bill includes the environment in the list of principal U.S. trade negotiating objectives. In addition, a separate section of the bill contains a precatory provision noting other U.S. priorities which the President "should take into account" in ensuring that U.S. trade agreements "complement and reinforce other policy goals." Among these priorities are:

> Seeking to ensure that trade and environmental policies are mutually supportive; and
>
> Seeking to protect and preserve the environment and enhance the international means for doing so, while optimizing the use of the world's resources (H.R. 2621, 11).

These two priorities seem to have been copied from the GATT Decision on Trade and Environment of April 1994, and thus do not signify a new position by the United States.

The environmental goals in the House bill are far less specific than the "sense of the Congress" provisions enacted in 1992. For example, the 1997 bill does not contain a directive to modify the GATT as needed to avoid conflict with multilateral environmental treaties. A trade negotiator comparing the 1992 law to the 1997 bill might reasonably infer a diminished Congressional interest in greening the GATT.

In addition, the Ways and Means Committee chose not to put the provision about "protecting and preserving the environment" into the section of the bill listing principal negotiating objectives. Instead, the objectives in this section regarding the environment (and labor) have a commercial rather than ecological motivation. The first provision calls on U.S. negotiators to ensure that foreign environmental, health, and safety policies do not discriminate or serve as disguised barriers to trade. The second provision calls on U.S. negotiators to ensure that foreign governments do not waive environmental measures as an encouragement to gain competitive advantage. The Committee report makes clear that these provisions are addressed to matters that "decrease market opportunities for U.S. exports or otherwise distort trade" (Committee on Ways and Means 1997, 17).

Thus, although the House bill shows a concern about foreign environmental standards, it is a narrow concern. U.S. negotiators should take an interest in whether foreign standards bar U.S. exports and whether foreign standards are bent to gain competitive advantage. But U.S. negotiators need not take an interest in whether foreign environmental standards are so low as to allow damage to our own environment, or damage to the global environment.

Public Participation in the WTO

As noted above, the Trade Act of 1974 called for public petition and confrontation procedures in the GATT. The Senate Committee on Finance explained that "Efforts should be made to provide private persons the opportunity to appear before international economic organizations to present grievances" (Senate Committee on Finance 1974, 84).

The 1997 bill includes "transparency" among the list of principal U.S. objectives. Specifically, the bill seeks "increased openness of dispute settlement proceedings, including in the World Trade Organization" (H.R. 2621, 6). There is considerable interest by business, labor, consumer, and environmental non-governmental organizations (NGOs) in gaining greater access to the WTO, and such interaction would probably be good for the trading system (Esty 1998).

B. Approval of Trade Agreements

Fast-track authority enables Congress to approve trade agreements. Congressional approval of a treaty by statute is a substitute for the more venerable procedure of Senate consent to a treaty by a two-thirds vote (Ackerman and Golove 1995, 61–96). After Congressional or Senate approval, the President takes final action to make the United States a party to the treaty.

The House bill appears to provide a fast track to approve any trade agreement entered into under the new negotiating authority. But the Committee report clouds the point by declaring that "Any side agreements that the President may enter, using his executive authorities, with respect to such matters [involving more general policy goals] would be subject to normal legislative procedures" (House Committee on Ways and Means 1997, 17). When the Clinton Administration negotiated side agreements with Mexico and Canada in 1993, the President asked Congress to authorize U.S. participation in the new trilateral commissions. This was done via fast track.

Congressional action was necessary because the President lacked authority to undertake some of the obligations of the side agreements. If the Ways and Means bill truly does deny the President the opportunity to use fast track to approve side agreements, then the contemplated trade negotiating authority is *narrower* than the authority provided by the Congress in 1988.

Fast track authority needs to be broad enough to cover any agreements that are reached in international negotiations. One can imagine many potential arrangements in a future trade round are not fully multilateral. Are these "side" deals or frontal deals? Are they approvable via fast track? This is not clear in H.R. 2621.

C. Amending U.S. Law

The approval of trade agreements is only one part of implementing legislation. Such legislation also modifies U.S. law to conform to new international agreements. In addition, implementing bills have been used as vehicles to enact provisions unrelated to the international negotiation. Fast track rules permitted any "necessary" or "appropriate" provision -- a very loose test (Destler 1997, 39–40).

The House bill seeks to reduce the scope of provisions includable in trade implementing legislation. The allowable provisions would be:

> A. Provisions approving a trade agreement;
>
> B. Provisions *directed related* to principal trade negotiating objectives if *necessary* for U.S. rights and obligations;
>
> C. Provisions that define, clarify, or relate to provisions of the trade agreement;
>
> D. Provides to provide trade adjustment assistance; and
>
> E. Provisions to comply with U.S. budget laws.

Although the Committee's bill and report are murky, the intent seems to be to make fast track available to enact labor and environmental provisions relating to market access, but to deny fast track to enact labor and environmental provisions related to the precatory goals noted above (House Committee on Ways and Means 1997, 17–23). For example, fast track would not be available to change U.S. law in order to make trade and environment more mutually supportive. Furthermore, even if a labor or environmental provision is included in a trade agreement, that would not in itself make fast track available to transform that provision into domestic law.

According to the Committee's report, its objective is to "tighten up the process so as to avoid including non-trade provisions as well as provisions that may be trade-related but are extraneous to the trade agreement" (House Committee on Ways and Means 1997, 22). The House bill fails to meet this objective however. By permitting non-trade provisions related to the Balanced Budget Act, the Committee sacrifices any possibility of a principled distinction between what is and is not eligible to be in the bill. The eligible provisions include an infinite number of tax increases and entitlement cuts that may be used to "pay" for freer trade. It is difficult to understand why fast track should be available to raise taxes, while normal legislative procedures have to be used to implement a WTO agreement on, say, environmental impact assessment.

Many NGOs sympathize with a reluctance to use fast track to change politically-sensitive domestic laws. The history of fast track demonstrates the potential for rapid lawmaking that evades public scrutiny. For example, the Uruguay Round implementing legislation made changes in U.S. poultry and meat inspection laws without benefit of a public hearing (Pub. L. 103–465 §431(k)(l)). The House bill would allow fast track to be used to amend federal food safety laws if agreed to at the WTO.

II. IMPROVING THE FAST TRACK BILL

Trade is very important to the American economy, and fast track facilitates new trade agreements (Bergsten 1997, 23). Had the Ways and Means bill been enacted in November, that would have been a plus for the United States. But the House leadership did not enough votes to approve the Ways and Means bill.

Basically, there are two tactics for passing fast track. One is to secure more votes through intensified lobbying. The other is to modify the House bill so that more members will be eager to support it. It choosing between these tactics, it should be remembered that a narrowly–approved fast track is vulnerable to being reversed at a later date.

Even apart from the tactical gains from modifying H.R. 2621, its treatment of labor and the environment should be improved on substantive grounds. What I mean here is that a more ambitious negotiating strategy could generate greater gains for Americans than the minimal labor and environmental linkages presumed by the bill. In addition, making the WTO more worker-friendly and nature-friendly could boost public support for free trade.

There has been much debate as to whether adherence to core labor standards should be a requirement of the trading system (Malanowski 1997). Some analysts take a nationalistic view and worry that exploitative labor conditions in exporting countries can injure the domestic economy of an importing country. The evidence for such injury is not strong (Bhagwati 1997). Other analysts take a global view and posit that workers producing goods for international commerce should be protected by core ILO standards. Either view can justify WTO attention to labor rights.

The linkage between trade and the environment is more grounded in economics. In the presence of market failures, such as improper prices, consumers may receive subpar gains from trade liberalization. Trade liberalization can amplify environmental harm by increasing the scale of production. In some instances, trade itself can cause environmental harm -- for example, by providing a market for endangered species. Many analysts who have examined the ecological effects of trade have concluded that there is a need to incorporate environmental policy into the world trading system (e.g., Gore 1992, 343; Esty 1994). Just as the GATT recognized that protection of intellectual property rights makes international trade more beneficial, the WTO needs to recognize that property rights in environmental services need greater delineation and protection. Environmental issues should also be considered in regional trade negotiations, particularly when geographic proximity leads to cross-border pollution (Dua and Esty 1997).

Another way the House bill could be improved is to add measures to help Americans adjust to globalization. There are a number of constructive steps that could be taken to boost productivity -- such as better retraining and transportation infrastructure (Competitiveness Policy Council 1993) -- that would attract support from labor and environmental groups. The WTO could also be enlisted into a new international effort on combating unemployment (Charnovitz 1995, 224–25).

It is difficult for analysts living outside the Washington beltway to make precise recommendations concerning legislative language because we do not know the vote elasticities of particular amendments. Therefore, I will only be able to give a rough sketch of how the House bill might be improved. I will start with U.S. Negotiating Objectives, and then discuss Amending U.S. Law.

U.S. Negotiating Objectives

Upon comparing the labor and environment objectives in the House bill to those in previous Congressional enactments, it is easy to see why public interest groups were unhappy. NGOs were expecting the new fast track to *build* upon the labor and environmental integration in the NAFTA. Instead, the Ways and Means bill looks like a retreat.

The list of U.S. objectives has little legal significance, but does have political significance as a signal to foreign trade negotiators. The section listing objectives is the wrong place to lay out specific proposals for how the GATT might be amended. But it is the place to communicate aspirations about how trade rules ought to interact with environment and food safety laws.

One reason why it has been hard to gain agreement on legislative language is that there is miscommunication among business, government, and NGOs. Businesses are particularly concerned about unilateral sanctions that disrupt trade and impair investment in developing countries. Many NGOs want governments to be able to bar products whose production or consumption violates international norms (e.g., norms against indenturing children). It is important to recognize that these are not mutually exclusive positions. There is common ground on which a better fast track can be written. One possibility is to seek improvements in the way the WTO operates. For example, the fast track bill could include a new objective to promote better coordination between the WTO, the ILO, and the U.N. Environment Programme.

Amending U.S. Law

Undertaking new international obligations often requires changes in U.S. law. Fast track provides a mechanism for effectuating such changes. Enacting new laws too rapidly can lead to problems however. Of course, enacting new laws too slowly can also lead to problems. Thus, there will always be a tension between expedited and orderly consideration.

Fast track already contains a number of procedural protections to prevent abuse, but more could be added (Koh 1992). The most important in my view would be to require a waiting period of at least two weeks from the time the President's bill is introduced and printed until the holding of the House vote. During this period, hearings should be held on any changes in domestic law.

The goal expressed by the Ways and Means Committee of keeping "extraneous" provisions out of trade implementing legislation is a laudable one. But current budget rules *necessitate* extraneous provisions, and thus render the Committee's goal unachievable. Given the open door to tax and entitlement changes, the fast track bill should not close the door to changes in labor and environmental laws.

The Bigger Picture

In arguing against the inclusion of labor and environmental objectives in fast track, the trade policy community has tried to articulate reasons why fast track should be reserved for trade (e.g., Committee on Ways and Means 1997, 22–23). These reasons do not make sense on their own terms. Fast track can be fruitfully employed to implement many types of international agreements (Carrier 1996).

Limiting fast track to trade opens the procedure to attack. Protectionists can spin a story about how trade agreements can only be enacted through unique, "anti-democratic" procedures. Thus, fast track -- which is now in a coma -- might get healthier if it wasn't viewed as a trade-only mechanism. For example, making fast track available to approve and implement environmental agreements would give NGOs a greater stake in sustaining the fast track mechanism.

There are a number of pending and potential treaties that could benefit from fast track. For example, fast track would be useful for approving OECD agreements on shipbuilding, bribery, and investment. Fast track could also be useful for implementing the Basel Convention on Hazardous Waste which has been stalled in the Congress for years.

Conclusion

The President needs fast track, but the political outlook remains dim (Charnovitz 1997b, 655). Restoring fast track is the responsibility of the Ways and Means Committee. The Committee should retrofit last year's model so that fast track will be more responsive to public concerns about the social dimension of trade policy.

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Reducing Anxiety About Trade Agreements

by

Robert E. Litan[1]

Paper Prepared For IIE's "Restarting Fast Track" Conference

There were many reasons that fast-track trade authority died in the House during 1997. Without providing a laundry list or speculating about the relative importance of each, I nonetheless believe a contributing factor was that many Members, as well as a sizeable portion of the voting public, blame trade for the generalized anxiety many workers have about the security of their jobs (despite an unemployment rate at a 25 year low), the rising inequality in wages and the deterioration of wages of the least skilled workers in society. Against this background, these same Members -- especially Democrats -- found it difficult to defend a vote in favor of negotiating *new trade agreements* that however much they may benefit consumers generally and some exporters in particular, promised even more dislocation to some of their constituents.

I do not believe the evidence supports the broad fears about trade and "globalization" and demonstrate (along with my co-authors) why this is so in a forthcoming book, *Globaphobia*: *Confrotning Fears About Open Trade* [Burtless, et al]. At the same time, however, I also recognize -- and I believe all supporters of fast-track should also admit -- that new trade

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agreements inevitably will harm some workers in import-competing industries. Policy makers have both a political and moral responsibility to use at least some portion of the "winnings" from freer trade (lower prices and more output) *that far exceed any losses* to compensate the losers.

The key question is how. There are three very different, although not inconsistent, approaches:

- Generic programs aimed at assisting the unemployed and low-income workers
- Policies aimed at easing the dislocations caused specifically by *trade*
- Policies designed to compensate for losses caused by new *trade agreements*

As I discuss below, the first two approaches have been in place for some time and have a number of different policies associated with them. The Administration also has proposed certain supplements to these approaches. The third approach -- compensating losses attributable to specific trade agreements -- has not been tried, but I make the case in this paper that it should be and, at the same time, offer one useful policy, "earnings insurance", for implementing it.

Before fleshing out each of these approaches, it is important to distinguish between the "politics" and the "substance" of the various policies that may be considered (which are also summarized in the attached Appendix). As I will argue below, just because one or more policies may attract some number of swing votes to support fast-track in the House does not mean that those policies may work to address in a cost-effective manner the harms (alleged or real) that new trade agreements may cause, or prevent at least an equal number of Republican Members who now loosely favor fast-track to abandon their support. Conversely, even the best designed policies for addressing those harms, or the anxieties about them, may not offer sufficient political attraction even to gain those swing votes. I hope I'm wrong -- maybe I will be proved to be at this conference -- but fear that I'm not.

Generic Assistance

The federal government already has a number of generic programs in place to ease the pain of unemployment and to support or raise the take-home pay of low-income workers in particular. These programs or policies offer aid *regardless* of the reason why the recipients may need it. The premise is quite simple: people can suffer misfortune for any number of reasons and there is no good reason to single out trade-induced pain for special treatment. Nonetheless, at least in theory, if these general purpose safety net programs were perceived to be sufficient to address anxieties about trade-induced job losses and wage deterioration, it is conceivable that some key swing votes could be converted to the fast-track cause. As I spell out below, the Administration has offered a number of proposals designed to supplement the generic safety net apparently with this objective in mind.

The primary program for addressing job displacement, of course, is *unemployment insurance.* This system, run primarily by the states but with federal support, not only provides workers with essential income protection when they are laid off, but also gives the economy a welcome stimulus during periods when overall unemployment is high (by enabling unemployed workers to maintain their consumption in bad times).[2] Although most Americans agree that

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[2]Each of the 50 states maintains its own unemployment program, but all state programs share important common features (and collectively cover more than 97 percent of wage and salary workers). Workers are eligible for weekly benefits that can last up to about six months or until the workers are reemployed, whichever occurs sooner. The average unemployment check in 1996 was about $190 a week. States with particularly high rates of unemployment offer extended benefits that may add as much as three months to the six months ordinarily available. When the national unemployment rate is high, Congress sometimes authorizes further extensions of benefits that can add two to four additional months to the period of eligibility.

unemployment insurance is an essential part of the safety net, the program nonetheless reduces pressure on workers to accept a new job. This can be a good thing if it gives workers the luxury of rejecting bad job offers and continuing to look for better prospects. But the weekly unemployment check creates adverse incentives when it allows workers to postpone serious search for a new job or encourages them to reject good job offers -- a problem that the proposed system of "earnings insurance" I discuss below explicitly addresses.

Government education and training programs offer a second line of defense to some workers who are thrown out of a job. In particular, the federal government has established a number of programs to finance worker training, though most of the funds are earmarked for low-income workers or workers in specific target groups, including the welfare population. In comparison with the tens of millions of workers who lose their jobs (but are reemployed) each year, however, the programs are quite modest in size. Spending by the Labor Department of Labor on training programs amounted to about $5 billion in 1997, of which $1.3 billion was devoted to providing assistance to experienced workers dislocated as a result of plant closings or mass layoffs.

The Administration has proposed a *GI Bill for America's Workers* that would consolidate the various government training programs and offer recipients vouchers so that they will have much greater freedom to choose those programs, whether in the private or public sectors, that best suit their needs. This reform is long overdue and could be implemented without spending any additional money on training overall. Whether "voucherizing" general-purpose training assistance is sufficient to attract any additional supporters for fast-track, however, is doubtful at best. The Administration has been pushing its voucher plan for some time and it doesn't seem to have affected many potential votes in the House during 1997, and it is unlikely to do so again this year.

The Administration has proposed two other "generic" policies aimed at addressing fears associated with rapid economic change, brought about for any number of reasons. One of these proposals is designed to ease the anxiety of older workers in particular by allowing them to *purchase Medicare insurance*, at a non-subsidized rate, as early as at age 55. Putting aside the question whether this proposal will lead to subsidized health care later on (and thus add to Medicare's financial problems), even the Administriation admits that it will reach a relatively small number of workers precisely because the non-subsidized annual cost of such insurance will be substantial (over $3000 annually). It is doubtful, therefore, that this proposal alone will induce fence-sitters in the House to jump to the support of fast track.

An alternative or supplement to the Administration's Medicare proposal would address the problems that unemployed workers in particular may face in paying for their health insurance. Even though employers who provide insurance are now required under a 1985 law to offer their laid-off employees continued coverage under their plan (usually with a much higher premium), many may have financial difficulties paying for the insurance, not to mention the fear that when they find a new job it may not provide as generous health benefits as they had before. While it would require some sort of universal health care plan to address the second problem -- something far beyond the scope of this paper -- the unemployment insurance program could be expanded to subsidize the cost of health insurance that unemployed workers with incomes below a certain threshhold (say, $75,000) purchase during the first 18 months after they lose their jobs. The cost of this improvement in unemployment protection could be covered by a small increase in the federal unemployment insurance tax on employers.

Substantively, an expansion of unemployment insurance in this fashion would address a very real problem. But whether it would help pass fast-track is hardly clear. Fence-sitting Democrats may find this supplemental assistance insufficient to garner their votes, while many Republicans would be sure to oppose, on principle, any proposal that requires even slightly higher taxes.

The other Administration proposal, announced by the President in only broad outlines in his State of the Union address. apparently would assist local communities where a large plant has closed (again for any number of reasons) to attract new business. It is not clear yet how many communities will be eligible for this assistance, how much assistance will be involved or even on what terms, but from the sketchy media reports available thus far, this community aid program may be significantly larger than the current Trade Adjustment Assistance (TAA) program for trade-displaced workers (discussed further below).

From a purely political perspective, this kind of program may be just what the fast track doctor ordered, provided fence-sitting Members can be assured that their districts will receive at least some of the funds. But community aid is not a sure cure because House Republicans may object strongly to yet another new spending program, especially if they cannot be assured that their districts would qualify for the aid.

Moreover, there are substantive problems with the proposal. Just as the Model Cities program in the 1960s was originally designed to assist only a few localities but eventually expanded to support a much larger number, a new community aid program could easily become the same thing. But if that happens, then it is unlikely that any particular community would be eligible for any more than a few million dollars: a generous total budget of $500 million, for example, that was spread across 100 cities (assuming the eligible number could be held that low) would yield only $5 million per city. While this may mean something to very small localities, it is difficult to believe it would make much difference in most areas of the country, especially if localities simply used the federal money to reduce their local taxes.

Then there is the question of how the criteria for eligibility will be set and how the money actually will be distributed. Even with objective criteria, such as plant closings of a certain size in cities with unemployment rates above a certain level, someone in some department will have to make judgment calls about who gets the money. The danger is that the program, however well designed initially, would degenerate into yet another pork barrel.[3]

Furthermore, one of the reasons why the United States has been so much more successful than other industrialized countries in generating new jobs is that we have a highly flexible labor market, one where two million jobs turn over *each month* and in which a relatively large number of workers move from one location to another. To the extent that the promise of community-based aid delays the movement of displaced workers to other locations where jobs may be more plentiful, the program would impede adjustment to change. Some workers may thus forego better paying jobs they may never be induced to discover.

Nonetheless, because it offers such a tempting way to buy votes for fast track, a community aid program may be the only real shot for rescuing the bill. If that is the case, my

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[3]Inded, even many smaller communities don't need the money. A recent *Time* cover story (December 8, 1997) celebrated the increasing movement of Americans from suburbs to small towns. While in principle a community aid program could be designed only to assist those communities in real need of the aid, there is a real danger that much of the aid will be distributed based on political rather than objective criteria.

substantive advice to address the dangers just outlined would be to require local matching (at least a dollar of local funds for every dollar of federal aid) as a condition for a locality to receive funding. In addition, the funds should be distributed according to objective criteria and then channelled through locally-based public-private consortia to ensure that the private sector has a significant say in how the monies are spent. The worst outcome would be to have federal bureaucrats micromanaging the use of the funds by approving individual projects (as is now the case with assistance provided by the Economic Development Administration).

Finally, the federal government has two significant policies aimed at addressing the problem of growing wage inequality, which is another source of concern about new trade agreements. One such policy is the Earned Income Tax Credit (EITC), which supplements the income of low-wage workers, providing up to $3,556 a year to low-income workers who support two or more children and smaller amounts to childless workers and workers who support one child.[4] Although introduced during the Reagan Administration, the EITC nonetheless has been attacked in recent years by many current Republican Members for inviting fraud. In addition, any meaningful expansion of credit could be quite costly. Accordingly, in the context of fast track, making the EITC more generous or extending it to a broader population almost surely would lose more Republican votes than any Democratic votes it would gain (assuming there would be any at all).

The President announced in his State of the Union a second way to boost the wages of the least-skilled workers: raising the minimum wage. This comes on the heels of an increase voted during the last Congress, but only after a divisive debate over the impact on employment a

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[4]The credit begins to phase out as earnings exceed $11,610.

higher minimum wage would have. On substantive grounds, the proponents of the last increase so far seem to have the carried the day: there does not appear to have been any great jump in unemployment among the least skilled, despite the warnings of many to the contrary. Whether an additional increase in the minimum wage now would hurt employment depends largely on its amount. The political impact of the increase on the fast-track debate, meanwhile, is unclear: while the idea could help provide some "cover" to fence-sitting Democrats to favor fast-track, it could also turn off some Republicans who are already supportive of freer trade.

Professor Edmund Phelps has outlined a radical alternative to the minimum wage that would further boost the fortunes of low wage workers: a federal tax credit to employers to ensure that full-time workers receive a guaranteed minimum wage of $7-8 per hour [Phelps, 199_]. Phelps' idea, in principle, should appeal to both conservatives and liberals, since it relies on the market to set actual wages, while using the government to fill the gap between what the market determines a worker's worth is and what society deems to be a decent minimum income. The rationale for the credit, meanwhile, is not to provide charity, but instead to recognize that higher wages for the least-skilled would provide significant positive returns to society as a whole by helping to reduce crime, drug use, and illegitimacy -- and all of the costs related thereto.

The clear political obstacle to enacting something like the Phelps subsidy is cost -- which he pegs at roughly $120 billion annually -- even if one accepts the argument that the federal government, at the same time, could save tens of billions of dollars by eliminating the EITC (about $30 billion), federal training programs, and reduced expenditures on crime and drug prevention, prisons, and so on.[5] Furthermore, it is not clear that even so radical a plan as Pehlps'

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[5]For a more optimistic view on this question, see [Miller 1998].

would significantly alter the political environment on trade. While the plan no doubt would help ease anxieties of low-wage workers about trade, it would do nothing to address the politically more influential anxieties of middle class workers. Nonetheless, for reasons having nothing to do with trade, the Phelps initiative -- or something similarly bold -- deserves to be on the political agenda.

Trade Adjustment Assistance

The second broad approach to addressing anxieties associated with trade has been to address them directly. Firms in industries that are subject to "serious injury" on account of imports are eligible for temporary protection under Section 201 of the Trade Act.[6] When granted, after an affirmative finding by the International Trade Commission and a green light from the President, Section 201 or "escape clause" relief also can benefit workers in the affected industries as well (to the extent it prolongs their employment at the firms where they are working). Nonetheless, the availability of Section 201 relief is part of the status quo. Firms that now may be benefitting from trade protection (such as those in the textile and apparel industry) presumably could lose it under new trade agreements. Therefore, Section 201 relief, almost by definition, provides the House Members who represent their districts essentially no political cover for an affirmative vote on fast-track.

The other trade-specific compensation program is Trade Adjustment Assistance (TAA), which since 1962 has provided extended unemployment insurance payments (called Trade Readjustment Allowances or TRA) beyond the 6-month limit applicable to regular insurance

[6]Under the recent Uruguay Round agreement, Section 201 was modified to limit import protection for an industry to just four years initially, with a possible extension to a maximum of eight years.

payments (up to a total of 18 months). TAA also pays for job search assistance, worker retraining, and relocation expenses. In 1988, the program was reformed to require for the first time that workers certified as eligible for cash allowances complete training or be enrolled in a training program as a condition for receiving weekly benefits. Over the more than twenty years TAA has been in effect, about 2 million workers have been certified as eligible for benefits, although not all these workers actually received assistance because many of them found jobs before they became entitled to collect benefits under the program.

While the goals of the current TAA program may be worthy, the nature of the assistance it provides is seriously flawed in the following respects:

- Because the program simply extends regular UI benefits, it provides workers with additional incentives -- beyond those already present in the UI program itself -- to *delay* finding a job. Many analysts who have studied the impact of a lengthy unemployment spell on the chances a worker will find a job conclude that employers tend to discount the qualifications of a job applicant the longer the unemployment spell lasts.

- The TAA program does not address the main problem associated with losing a job: the possibility, if not likelihood, that workers will be forced to accept a cut in pay in order to become reemployed. Indeed, experienced workers displaced from long-tenure jobs have been found to suffer eventual losses of as much as 25 percent of their previous pay [Jacobson, et al, 1993; Jacobson, et al., 1992].

- Although, in theory, the training requirement introduced in 1988 could reduce the wage losses workers may suffer, in practice, economists have found little evidence that government-sponsored training has had this effect [Decker and Corson, 1995; Leigh, 1991].

Many displaced workers are understandably skeptical, therefore, that they will benefit from additional *education or classroom training* (as opposed to training on-the-job at a new job).[7]

For all these reasons, pouring more money into the TAA program is not a good investment, and may in fact be counterproductive to promoting more rapid adjustment of workers adversely affected by trade (At this writing it is not clear if the Administration is proposing additional funding for TAA in connection with its push for fast-track approval). Furthermore, adding more money to the program runs the risk of turning off some Republican supporters of fast-track. Meanwhile, since its introduction several decades ago, the TAA program does not appear to have blunted the opposition of organized labor to new trade agreements. In part, this may be because of the requirement that workers first be certified as "trade-displaced" in order to receive assistance. It also may be because the program does not address the major harm workers suffer if they lose their job: the erosion in their future earnings.

Earnings Insurance For Workers Displaced By Trade Agreements

A third approach to compensation is not to provide aid to workers harmed by *trade*, but instead tie the aid to the adverse impact of *new trade agreements* in particular. This approach accepts the critique of those who say that trade is no different from technological change, shifts in demand patterns or any number of other factors that can lead to displacement or earnings erosion so there is no reason to craft a special compensation program just for trade-related impacts. But *new trade agreements* arguably are different: unlike innovation or even trade

[7]TAA also pays for special job search assistance to workers displaced by trade. There is stronger evidence that this kind of help can be of tangible benefit to experienced laid-off workers. Well-designed job search programs can speed up job finding, especially among workers who have not had much recent experience looking for a job.

generally, which are part and parcel of the workings of any economy, trade agreements represent *specific, identifiable policy measures* that may cause harm to some, but provide larger total benefits to society overall. It is precisely under such circumstances that economists have adovcated compensating the "losers" from some of the "winnings" of a policy measure so that its adoption will not be defeated.

The trick is to craft a targeted compensation program without the flaws of the TAA program just listed. *Time-limited earnings insurance* fits the bill. The proposed program would have the following features:

- Earnings insurance would provide "eligible workers" (defined below) with monthly or quarterly earnings supplements to compensate them for a percentage of the wage loss they suffer as a result of displacement *when they get a new job*. So, if the replacement ratio were 50 percent, an eligible worker whose monthly wage dropped from $2,000 to $1,500 would receive a monthly check of $250. The replacement or compensation ratio could be the same for all eligible workers, or it could vary with a worker's age or previous job tenure.[8] The total amount of compensation provided in any year to a worker would be capped at a ceiling amount, say $10,000. This would avoid situations in which highly compensated workers receive extraordinary insurance payments.

- The insurance payments would be limited to two years from the date the worker first lost his or her job. Workers who found new jobs early in the two-year period would be

[8]There is a good case on equity grounds for providing better insurance to older workers. These workers often find it harder than younger workers to land a new job. They are also more likely to be forced to accept a large and permanent cut in their hourly wage.

eligible for larger total payments than workers who delayed accepting a new job.[9] This provides workers with a strong incentive to search energetically for a new job and to accept one promptly. It also encourages workers to face the consequences of permanent job loss immediately after displacement occurs. One of the main reasons that dislocated workers delay serious job search is their failure to accept the fact that the job loss is permanent. By encouraging workers to accept this fact-right away, earnings insurance would induce workers to take constructive action to become reemployed as fast as they can.

- While the purpose of earnings insurance is to compensate workers for part of the wage loss they suffer as a result of losing their job on account of a new trade agreement, it is not designed to subsidize a reduction in workers' weekly hours of employment. Accordingly, it would be justified to restrict compensation payments only to full-time workers (those working at least 35 hours a week) in both their previous and new jobs. However, since for some workers a new part-time job may be the only one available, the program could offer a sharply lower compensation ratio to workers who once had full-time jobs but then accepted new part-time jobs.

- Separate time-limited wage insurance programs would be established *for each major trade agreement requiring Congressional authorization*. The legislation embodying each new trade agreement would identify the industries likely to be most adversely affected by the agreement and thus automatically pre-qualify all workers in that industry who lose their jobs involuntarily over a specified period (say, three years) following implementation of the

[9] Wage insurance would be paid only while an worker remains employed. If a displaced worker obtained a new job but then quit or was laid off, the insurance payments would cease. They could only resume when the worker became reemployed, and they would continue to be limited to the fixed period of eligibility (say, two years after the date of initial displacement).

agreement. This could make the program overly generous -- because some workers may lose their jobs during this period for other reasons -- but it would also remove the cumbersome and essentially non-administrable process of determining whether individual workers are displaced because of the agreement or some other cause. If Congress were concerned about the cost of such a broad eligibility criterion, it could keep the cause-related requirement (similar to one now present under the TAA program), shorten the period of compensation or reduce the compensation ratio (or some combination of all three).

- Ideally, the program should be an entitlement for workers deemed to be eligible, since workers potentially displaced by trade agreements must have confidence that any assistance promised to them will be available if needed. Given the relatively small cost of the program -- which I anticipate not exceeding an average of $500 million annually (and conceivably much less, depending on the number and nature of agreements requiring Congressional authorization) -- any number of PAYGO offsets could technically finance the program (including savings in existing entitlement programs, minor tax law changes and the like).[10] If Congress didn't want to wait to until new trade agreements have been negotiated to begin funding the program, it could start depositing a minimum amount (say, $200 million) in a special fund to be drawn on in the future when needed (appropriations in the future would be

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[10]With a 50% compensation ratio and an average wage loss of $5000, $500 million could fund aid for 200,000 workers per year ($2500 per worker x 200,000). By contrast, according to the Department of Labor, over the nearly four years from January 1994 through mid-August 1997, 220,000 workers had petitioned the Department for adjustment assistance under legislation enacted at the time the trade deal was signed. Of this total, 136,000 workers -- or an average of about 40,000 workers per year -- were certified as eligible for assistance (under both the more general trade adjustment assistance program and the special one created as part of NAFTA). Even this figure overstates NAFTA's true impact because to be eligible workers need only to show that "imports" have contributed to their losses, *and not NAFTA specifically.*

unnecessary if each program were truly an entitlement, although PAYGO offsets would be required for each agreement-related program).

- The earnings insurance program would be administered by state unemployment insurance offices, while the federal government would pay for benefit payments and administrative costs. Workers would be required to regularly submit pay stubs or other documentary evidence from their current and previous employers to state unemployment offices in order to obtain timely payment of earnings insurance. However, the pay stub information would be subject to verification using the individual earnings records maintained by state unemployment insurance systems. (Earnings of individual workers are reported once every calendar quarter by employers covered by the unemployment insurance system.) State unemployment insurance offices, in turn, would mail out checks to eligible workers on a monthly or quarterly basis.

The advantages of earnings insurance over the current TAA program should be clear. Earnings insurance provides tangible help to a larger percentage of workers who suffer displacement. It provides compensation for a more important economic loss -- the reduction in wages. It offers better incentives because workers obtain maximum benefits only by rapidly landing new jobs. In contrast, TRA allowances provide an incentive for workers to delay searching for a job. And by encouraging workers to quickly take new work, earnings insurance provides the most effective form of training of all: *on-the-job training* (where if classroom attendance is required, it is specifically aimed at helping workers adjust to their new job rather than to learn some abstract skill that may or may not land them a job, as is the case in government or private sector training program).

One could characterize the earnings insurance proposal just oulined as "Phelps-lite, but with a twist". It is "lighter" than Phelps' ambitious proposal because it is aimed only *wage losses* suffered by workers adversely affected by new *trade agreements* rather than at longstanding wage shortfalls suffered by a broad class of workers. And it is different from Phelps in that, as outlined here, earnings insurance provides the greatest benefits to middle class workers, who are in a position to suffer much greater absolute reductions in wages than low-wage workers.[11] In contrast, Phelps' program is aimed only at improving the lot of low wage workers, a worthy objective in its own right, but one which arguably may do less to ease the opposition to new trade agreements than an earnings insurance program that mainly benefits the middle class, which comprises a much larger fraction of the voting public.

Still, I will readily concede that Members in districts with heavy concentrations of low-wage workers will not see much benefit to earnings insurance. Nor will Members from districts facing major plant closings, since by encouraging faster adjustment, earnings insurance may actually promote quicker migration of workers to jobs in new locations (which I believe is a substantive "plus" for the program, but clearly a political "minus" for some Members).

Conclusion

Given the current political climate, it would be presumptuous to claim that an effective compensation program would provide sufficient cover for fence-sitters on fast-track to move to

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[11]This is not a deficiency of the proposal, however. Unemployment insurance payments are also pegged to a worker's previous salary, and higher wage workers receive more generous weekly benefits. The purpose of the insurance is to replace part of the earnings lost as a result of the event that is insured against. Complaining that higher wage workers receive more favorable treatment than the first is a little like criticizing auto insurance because larger settlements are paid when a car is totaled than when it is dented.

the affirmative column. But, in my judgment, it certainly would help. The one disappointing caveat is that the compensation program that could have the greatest chance of advancing passsage of the trade bill -- a generic community-aid program -- is also one that could have major substantive flaws. In contrast, a program of earnings insurance targeted specifically to workers displaced by new trade agreements is, in my opinion, a superior policy on substantive grounds, but one which may be less likely to garner sufficient votes to pass fast-track. Even so, I strongly believe the idea is both humane and meritorious on economic grounds -- and therefore worthy of Congressional consideration in its own right.

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Appendix
Substantive and Political Assessment of Various Approaches To Compensation

	Substance	Fast-Track Politics
Generic Programs Aimed At Dislocation		
Unemployment insurance	Worthy objective, delays adjustment	Status quo (no effect)
GI Bill For America's Workers	Excellent	Little effect
Medicare to 55+	Ambiguous	Little effect
Health insurance subsidy for unemployed workers	Good	Uncertain
Communit aid	Weak	Potentially Very helpful
Generic Programs Aimed At Low Income Workers		
Expanding EITC	Potentially Meritorious	Probably no effect
Increase the Minimum Wage	Ambiguous	Uncertain
Phelps wage subsidy	Interesting	No effect
Trade-Specific Compensation (TAA)	Weak	Weak (even More money)
Earnings Insurance For Displacement Due to Trade Agreements	Strong	Moderately Helpful

INSTITUTE FOR INTERNATIONAL ECONOMICS

RESTARTING FAST TRACK

Tuesday, February 3, 1998

2237 Rayburn House Office Building
Washington, DC
9:00 am - 5:00 pm

Host: C. Fred Bergsten
Institute for International Economics

Luncheon Speaker: David Lipton
Department of the Treasury

Discussants:

David Dreier
US House of Representatives

Robert Matsui
US House of Representatives

Phil English
US House of Representatives

Byron Dorgan
US Senate

Charles Rangel
US House of Representatives

Barney Frank
US House of Representatives

Philip Crane
US House of Representatives

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James Moran
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SECRETARY OF LABOR
WASHINGTON

December 19, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: **ALEXIS M. HERMAN**

SUBJECT: **FAST TRACK AND LABOR ISSUES**

In preparation for the resumption of our effort on fast track authority, I wanted to give you my thoughts on the "labor" issues, and our suggestions on how we might move forward. In my view, opponents of fast track were successfully tapping into at least two concerns: (1) that those workers and communities negatively impacted by trade aren't being helped sufficiently; and (2) that trade agreements permit U.S. companies to relocate production abroad to take advantage of poor labor conditions (and low wages). The second round of the fast track debate creates an opportunity to tell positive stories about the Administration's record on dealing with worker dislocation, engaging other countries on labor standards issues, and highlighting more clearly the positive impacts of trade.

TRADE AND JOB ANXIETY

Despite very low unemployment, workers remain deeply anxious about potential displacement due to international trade (and other factors that get interpreted as international trade or globalization). Reinforcing this impression, there is a disproportionate impact from trade competition on those with lower levels of skills. These concerns were reflected repeatedly in the congressional fast track debate. The following charts depict aspects of that anxiety. Of particular note is Chart 7 which underscores why the UAW and Mine Workers unions were the most vocal opponents.

Perceptions

- A Washington Post poll conducted in the summer of 1996 found 72% of non-college graduate workers think the economy is not doing better than it is because companies are sending jobs overseas, while only 6% of economists think this is true (see Chart 1). And a Yankelovich poll (February 1996) found that 51% of Americans thought trade agreements were mostly bad for U.S. workers, but 58% thought they were mostly good for U.S. companies (see Chart 2).

Economic Reality

- To some extent, the anxiety is rooted in the wage stagnation and growing income inequality of recent decades, which also gets attributed to international trade -- although other factors may be more important. College graduates went from making 29% more than high school graduates in 1979 to 69% more in 1996. For male high school dropouts the real median weekly earnings fell 30%, and for high school graduates by 18% for that same period (see Chart 3).

- It is lower-skilled workers, often in high-paying production jobs, who are more likely to suffer the negative impacts of trade competition. (see Chart 4). The Economic Policy Institute released a report in September that found job loss impacts from trade competition are disproportionately higher for those with a high school education or less, and lower for those with more education (see Chart 5).

- Displaced workers typically suffer permanent earnings losses of 15 to 25 percent, and the losses are even greater for less educated or unionized workers in such sectors as primary metals, mining, transportation equipment and automobiles (see Chart 6).

The Debate Was Framed by Opponents

- Although many factors help to explain these trends, opponents of fast track have succeeded in portraying trade -- and NAFTA specifically -- as the most important causes. Opponents of fast track also argued that the Administration has done too little to counter the negative impacts of our expanded economic relationship with Mexico, particularly in border communities and sensitive sectors such as apparel and transportation equipment. The tools put in place to address these concerns, such as the NADBank, NAFTA trade adjustment assistance and the labor and environmental side agreements, are also criticized as inadequately implemented or flawed in design.

  During October we did develop additional initiatives and made further commitments to respond to many of the concerns expressed, but in some ways it was perceived as too little, and too late. Confidence in these commitments was also weak because they were made in the context of minds having already been made up, skepticism based upon a sense that the Administration "wasn't in touch," and after bad memories of being promised NADBank, but seeing it largely inactive.

Reframing the Debate

- Having the Administration placed in this position was unfortunate given our strong record on programs to empower all workers to benefit in the new economy. Going forward, I believe we should confine ourselves to three basic themes where I think we have a much better story to tell than was able to get through and which involve central points used against fast track authority.

These relate to (1) our record with dislocated workers and increased commitment to do more, i.e.: community adjustment assistance; (2) tools to support lifelong learning, including out-of-school youth initiatives; and (3) our international labor standards agenda.

DISLOCATED WORKER PROGRAMS

In arguing for new trade agreements, it is most difficult to deal with the economic pain and anxiety of workers who lose their jobs to international competition or who believe they might. While we can't argue that no workers will ever lose their jobs because of trade liberalization, we should be able to argue that those adversely affected are not left in the cold and that this Administration has a strong record of assisting workers manage the tough transition to get new jobs -- "manage the change."

Dislocated workers are not left out in the cold.

- **Title III of the Job Training Partnership Act (JTPA).** One clear statement in this regard is the Administration's commitment to triple the funds provided to assist dislocated workers get reemployed and retrained. The Department of Labor's JTPA dislocated worker program now serves some 500,000 -- which we estimate to be less than twenty-five percent of workers dislocated each year. Moreover, of the workers who completed their training last year, States report nearly three quarters of them were reemployed at an average of 94% of their previous wage when surveyed 13 weeks after leaving the program. Indeed, we have a rather compelling series of visual success stories that we could put forward to illustrate our case.

  Improvements are still needed. The Department is currently undertaking administrative actions to improve assistance under Title III, including --

  - enhanced early intervention through rapid response assistance for all workers being dislocated as a result of a plant closure or substantial layoff -- regardless of the reason for the layoff, such as trade impacted layoffs, to provide information to workers regarding all types of community services available to assist in the adjustment process;

  - targeted assistance for secondary workers (those workers who are employed by supplier firms to directly affected trade dislocations but who are not eligible for trade benefits) and to reaffirm the Secretary's commitment to serve those workers;

- **Trade Adjustment Assistance (TAA) and TAA-NAFTA programs.** Incorporating the same commitments as stated above for dislocated workers.

- **Community Adjustment Assistance.** Enhanced readjustment and rapid response assistance through linkage with economic development initiatives in local communities (Base Closure Model).

Lifelong Learning

To pursue lifelong learning goals, the Administration also makes available several other tools for many workers who want to return to school. These give many more working Americans the financial means to go back to school if they want to choose a new career or upgrade their skills. We need to emphasize the tools related to this issue.

- Student financial aid includes *Pell Grants* and *student loans*. Eligible low-wage workers can apply for Pell Grants to cover tuition and related education expenses, and any qualified worker can seek direct loans, enabling them to invest in themselves with repayment based on their ability to pay.

- New tax benefits include:

  - Through the *"Hope Scholarship" Tax Credit*, students enrolling in college or vocational school will receive a 100 percent tax credit for their first $1,000 of tuition and required fees, and a 50 percent tax credit on the second $1,000.

  - The *Lifetime Learning Tax Credit* is targeted to adults who want to go back to school, change careers, or take a course or two to upgrade their skills (and to college juniors, seniors, graduate and professional degree students).

  - The new tax law extends *Section 127* of the tax code for three years, allowing workers to exclude up to $5,250 of employer-provided education benefits from their income.

  - *Out of school youth initiative.* Invest in young people so that they are able to take advantage of new jobs created by trade.

International Labor Standards

Another much debated area was the Administration's record on assuring that we do more to protect labor (and environmental) standards as we engage in the global economic process. In fact, this Administration has done more than any in history to bring the labor standards agenda into the trade integration process.

- *NAFTA labor issues.* The NAFTA labor agreement set an important precedent of linking labor standards to a trade agreement. Despite the criticisms of the agreement made during the recent debate, we have a good record on using the agreement to press Mexico to move forward on a number of labor issues, and as a vehicle to consider public complaints alleging Mexican labor law violations. And although we can't oversell its success, it has arguably contributed to reinforcing the trends towards democratization in Mexico, including union democratization. Independent Mexican unions and human rights groups have brought cases to the DOL under the agreement. We certainly have frustrations with the amount of progress that has been made with Mexico on labor issues, but can tell a positive story for the NAFTA labor agreement.

- *Building international consensus on labor standards.* Moreover, since 1993, the Administration has taken the lead in developing an international consensus that a group of core labor standards (freedom of association, the right of collective bargaining, prohibitions on forced labor and exploitative child labor, and non-discrimination in employment) are not dependent upon a country's level of economic development -- and should be applied by all countries.

  We have also taken several other labor standards initiatives that complement each other: (1) brought the relationship between trade and labor standards to the WTO, the OECD and the ILO; (2) pressed to have labor issues considered in the Hemispheric integration process; (3) encouraged better labor standards internationally through the Apparel Industry Partnership; and (4) worked hard to raise the issue of child labor exploitation around the world.

Although it can always be argued that we could do more -- and we ought still consider ways of how we could do more -- our record is stronger on labor standards (including the linkage of labor standards and trade) than was generally recognized during the fast track debate.

NEXT STEPS

In order to build support for a renewed fast track effort, we believe that it would be useful for DOL, in conjunction with White House Legislative Affairs, to begin immediately after the new year to build a congressional outreach strategy to make the case on what has been done and what is being done in terms of worker assistance and international labor standards. I have talked with several Members who still believe we were engaged in "rhetoric for the moment," but not a planned, serious commitment. We will need to state our message on worker issues repeatedly if we are going to succeed in making some incremental progress in the weeks ahead. The sooner we begin the better our chances for some level of success.

There are also several media strategies than can be used to balance the negative stories about trade impacts by highlighting positive stories such as workers getting new jobs in export-oriented facilities, new openings of plants to produce products for export, and the Department's response to plant closings.

Generating Positive Trade Stories

- *The human face of export jobs.* Press coverage of trade impacts has focused on painful and personal stories of job losers. The positive story of trade-related job growth has been left to the experts to discuss using impersonal statistical data. As a result, the positive story does not resonate as being relevant to real people in real jobs. If we want to balance the debate effectively, workers in new export jobs must become familiar characters.
- *Plant openings.* We should create press coverage of export-oriented or other plant openings to highlight newly created jobs and focus on the individuals who now have new jobs, including those who received training to help them quality for the new jobs.

- *Successful transition into new jobs.* We should also highlight success stories of workers who successfully move through training programs into new sustainable jobs.

We have had a good internal follow-up discussion, primarily through the NEC process, where I've shared some of these thoughts. But since you asked me for my thoughts, I wanted to give you the benefit of my thinking in writing.

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Attachments

Chart 1. Public Perception on the Economy Differs Markedly From Economists'

	Non-College Grads	College Grads	Economists
Trade Agreements between the U.S. and other Countries are:			
Good for the economy	50%	71%	89%
Won't make much difference	16%	9%	6%
Bad for the economy	32%	17%	3%
The Economy is not doing better than it is because companies are sending jobs overseas	72%	53%	6%

Source: Summer 1996 Washington Post/Kaiser/Harvard Survey in Robert J. Blendon et al's "Bridging the Gap Between the Public's and Economist's views on the Economy," 1997 JEP Volume 11, Number 3. Columns may not sum to 100 percent because of rounding error and because "no opinion" responses of 4 percent or less are not reported.

Chart 2. Public Perception of Free Trade Agreements

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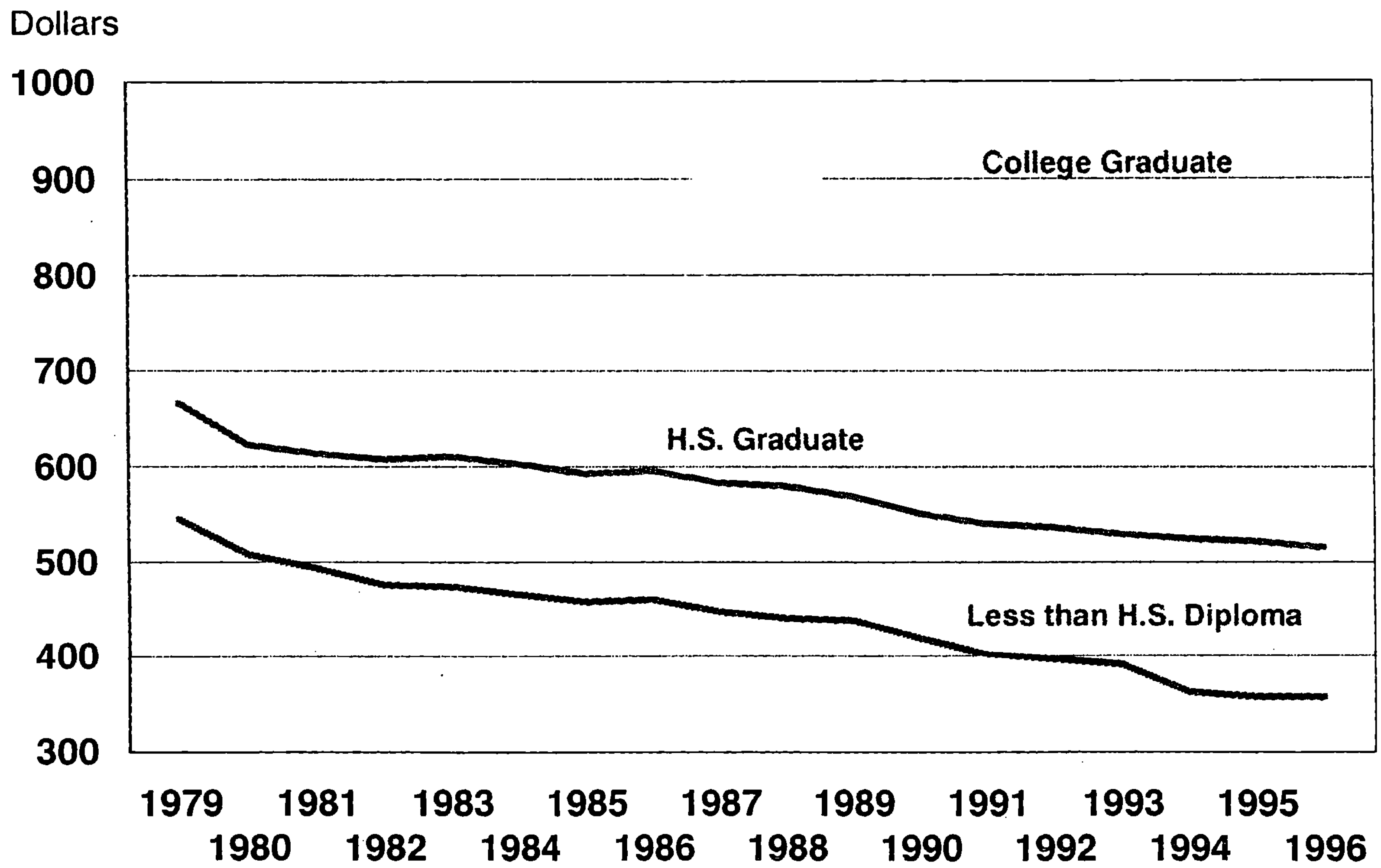
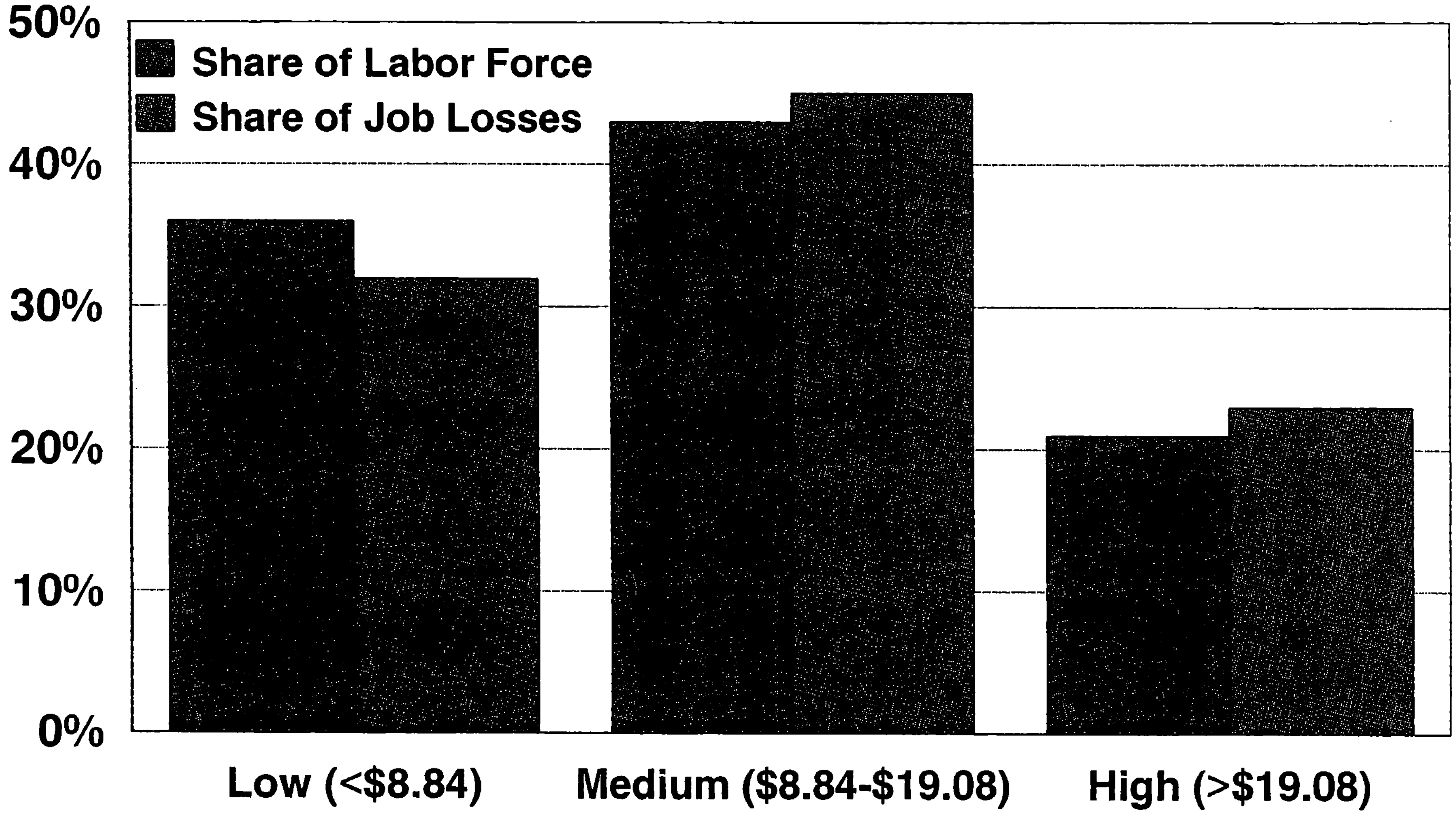
Chart 3. Real Median Weekly Earnings by Education



Source: Bureau of Labor Statistics, 1979 - 1996 Annual Averages

Chart 4. Employment Impacts from Trade -- EPI Estimates of Job Loss by Earnings



Source: Data from the Economic Policy Institute's Issue Brief # 120, September 1997.

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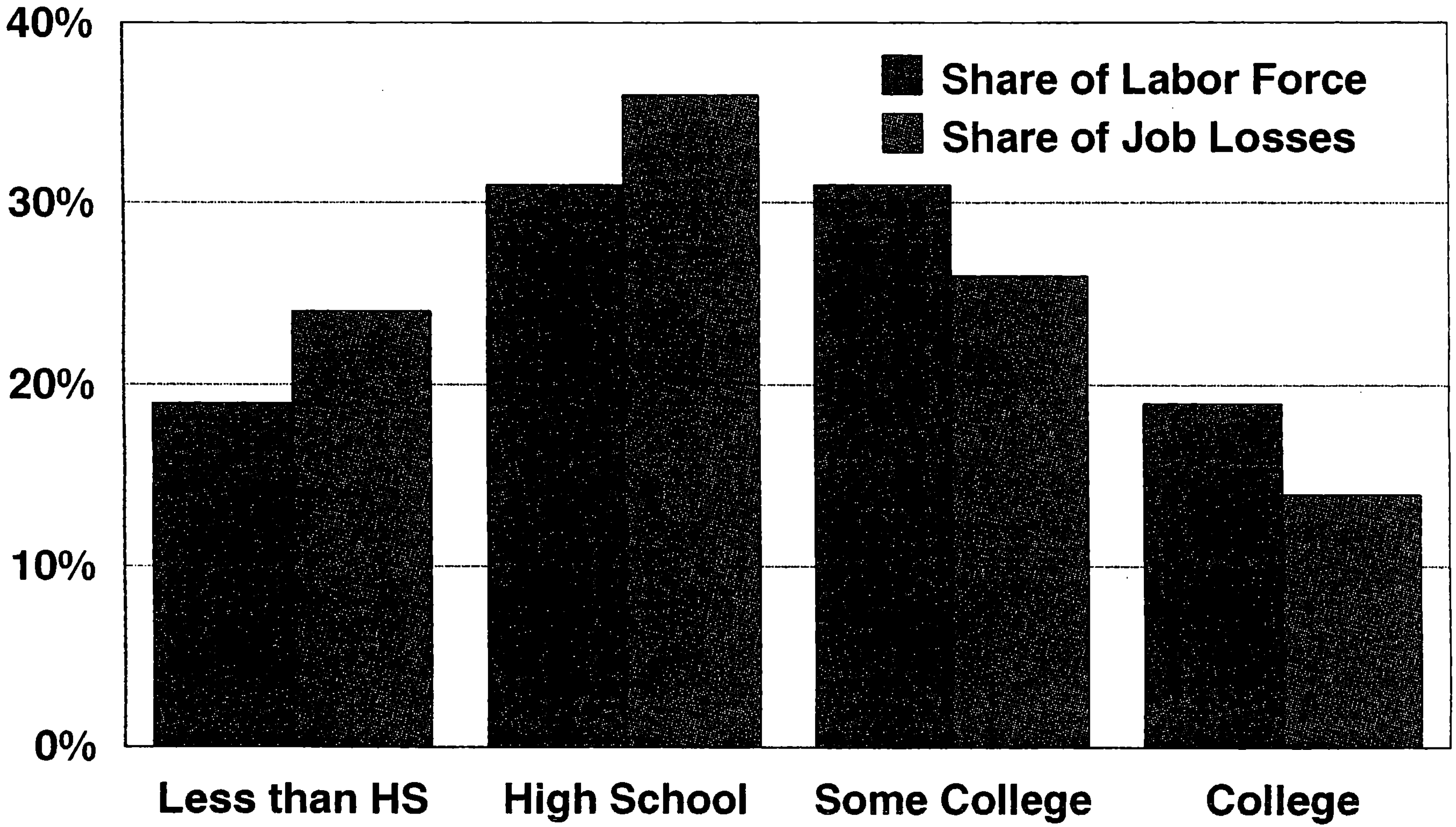

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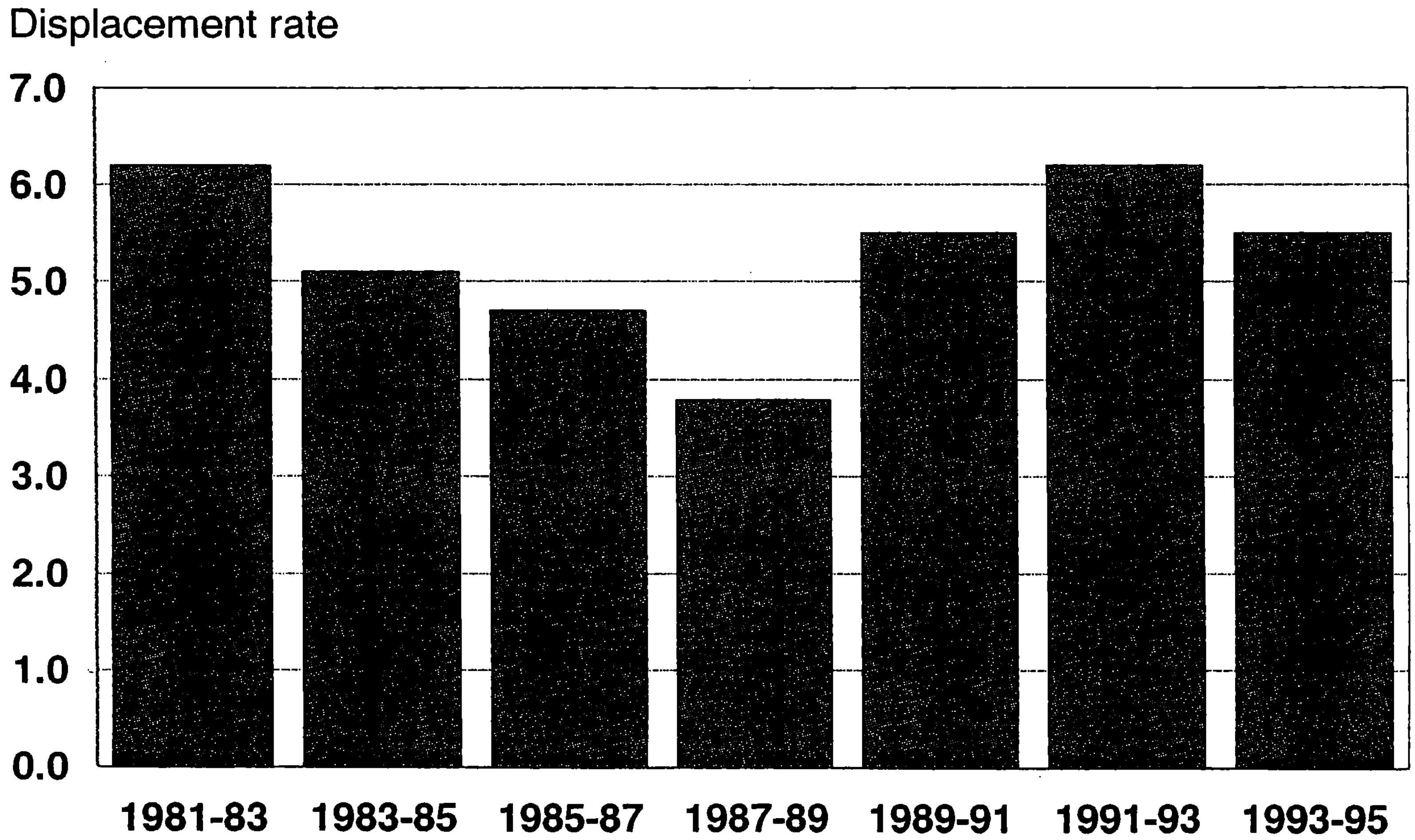
Chart 6. Displacement Rates Highest During the Recessions of 1980's & 1990's



Source: Bureau of Labor Statistics, CPS Displaced Worker, Job Tenure, and Occupational Supplement. Note that displaced workers are persons 20 years and older with three or more years of tenure who lost or left jobs because their plant or company closed or moved, there was insufficient work for them to do, or their positions or shifts were abolished.

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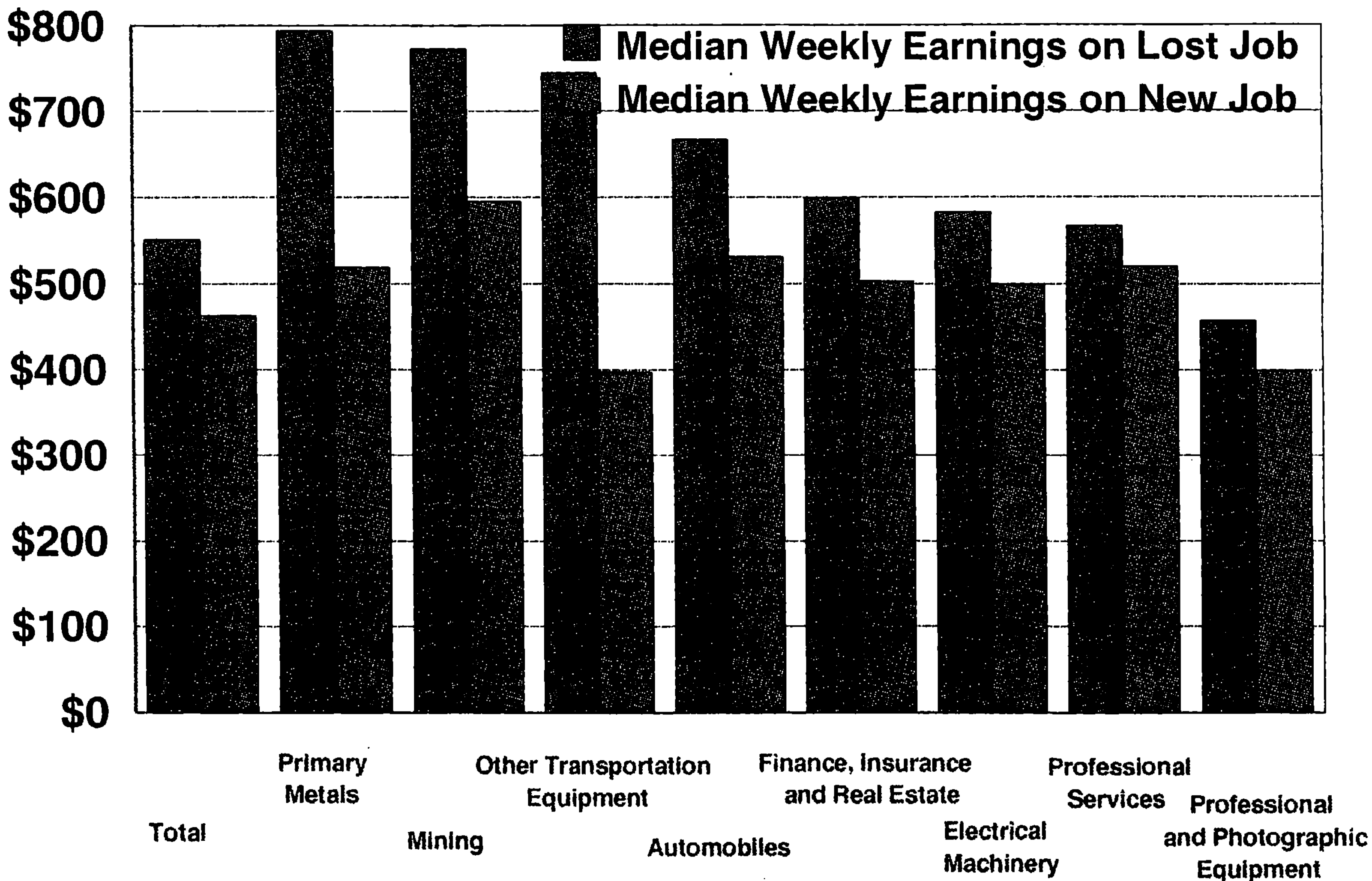

Source: 1994 Displaced Worker Survey, Bureau of Labor Statistics. Earnings data is for workers who lost full-time wage & salary jobs between January 1991 & December 1993 and who had a new job in February 1994.

NOVEMBER 19, 1997

MEMORANDUM FOR SECRETARY HERMAN

FROM: EDWARD MONTGOMERY
Chief Economist

SUBJECT: BACKGROUND INFORMATION ON TRADE AND LOW SKILL WORKERS

CC: KITTY HIGGINS

Since 1979 there has been both a dramatic increase in the level of U.S. foreign trade (exports plus imports) and a deterioration of the labor market for low skilled workers.

- Chart 1 illustrates **that trade was 274 percent higher in real terms in 1996 than in 1979.**

- Chart 2 shows that over this period earnings for college graduates rose relative to those with a high school diploma or less. **College graduates went from making 29 percent more than high school graduates in 1979 to making 69 percent more in 1996.**

- **For male high school drop outs real median weekly earnings fell 30 percent while for high school graduates they declined by 18 percent.** Over the period 1984-1994 the fraction of the male population employed fell by 10 percent for drop outs and 3 percent for male high school grads while rising 1 percent for college grads.

A key question is to what degree are these events linked in reality or in the public's perception.

EXPERT AND PUBLIC PERCEPTIONS DIFFER

- **Both the "experts" and the public think trade agreements are good for the economy. However, while 89 percent of economists think this is true, only 50 percent of non-college graduates agree (Chart 3).**

- **Public perceptions appear to differ substantially from "expert" opinions on the impacts of trade. 68 percent of the public agreed with the statement that companies sending jobs overseas was an important reason the economy was not doing better. Only 6 percent of economist agreed with this statement (Chart 3).**

- **While the public views trade as being good for the economy, they do not necessarily see it as good for workers.** Only 23 percent of the public see trade agreements like GATT or NAFTA as mostly bad for companies and 35 percent see them as bad for consumers, but 51 percent perceived them as mostly bad for workers.

TRADE IS ONLY PART OF THE REASON FOR THE INCREASED PRESSURE ON THE LABOR MARKET FOR LOW SKILLED WORKERS

- **Most economist agree that production or low skilled workers are more likely to be adversely affected by trade than high skill or nonproduction workers.** Numerous studies find that trade played a significant role in the decline in relative demand for production workers, especially in manufacturing. A poll of two dozen economists at a conference at the New York Federal Reserve suggests that "experts" feel that around 10 percent of the rise in wage inequality is due to international trade (Chart 5).

- A recent study by the Employment Policy Institute (EPI) is illustrative of the fact **however that the disemployment effects from trade are concentrated among less educated or skilled workers (Chart 6).**

- **While less educated workers were more likely to suffer job loss from trade, according to a EPI study, not all of these workers were low paid workers (Chart 7).** Academic studies have also found that the impact of trade on the wages and employment of the less educated was greatest in industries which are highly unionized or have only a few large firms.

- **Recent studies have also found that job loss rates are higher today, adjusting for economic growth, than was the case in the early 1980's (Chart 8).** While there has been an increase in job loss rates for more educated workers, it remains true that the less educated are more likely to lose their jobs.

- Whether from trade or other reasons, job loss for workers in unionized or high paying industries is very costly (Chart 9). As jobs in unionized firms tend to pay above average wages, workers who are displaced are far more likely to suffer earnings losses than the average worker. **Studies have found that displaced workers typically suffer permanent earnings losses of 15 to 25 percent and that the losses are even greater for less educated or unionized workers.**

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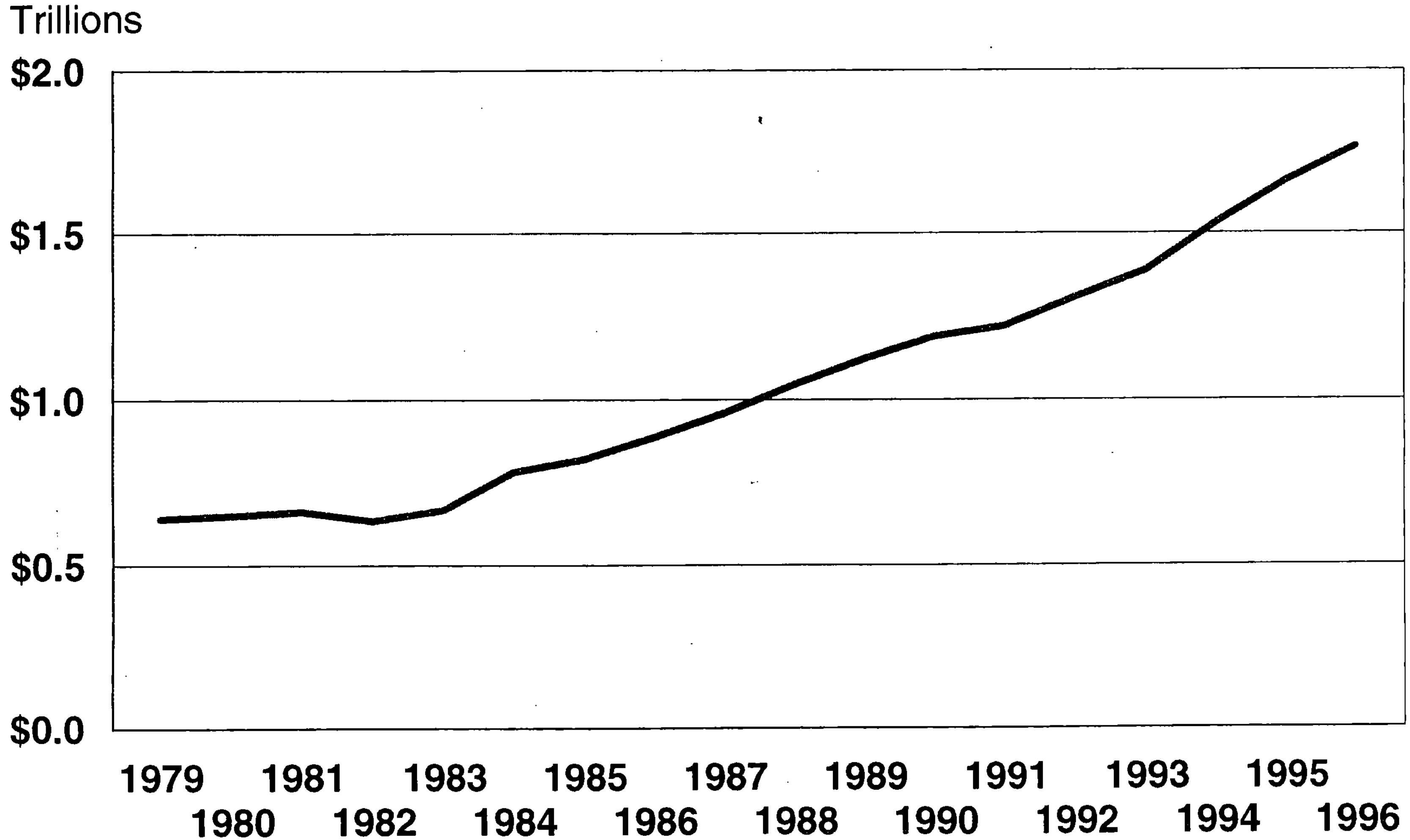
Chart 1. Total U.S. Trade Growth



Source: Bureau of Economic Analysis, National Income and Product Accounts (goods and services only), sum of imports and exports in 1992 chain-weighted dollars.

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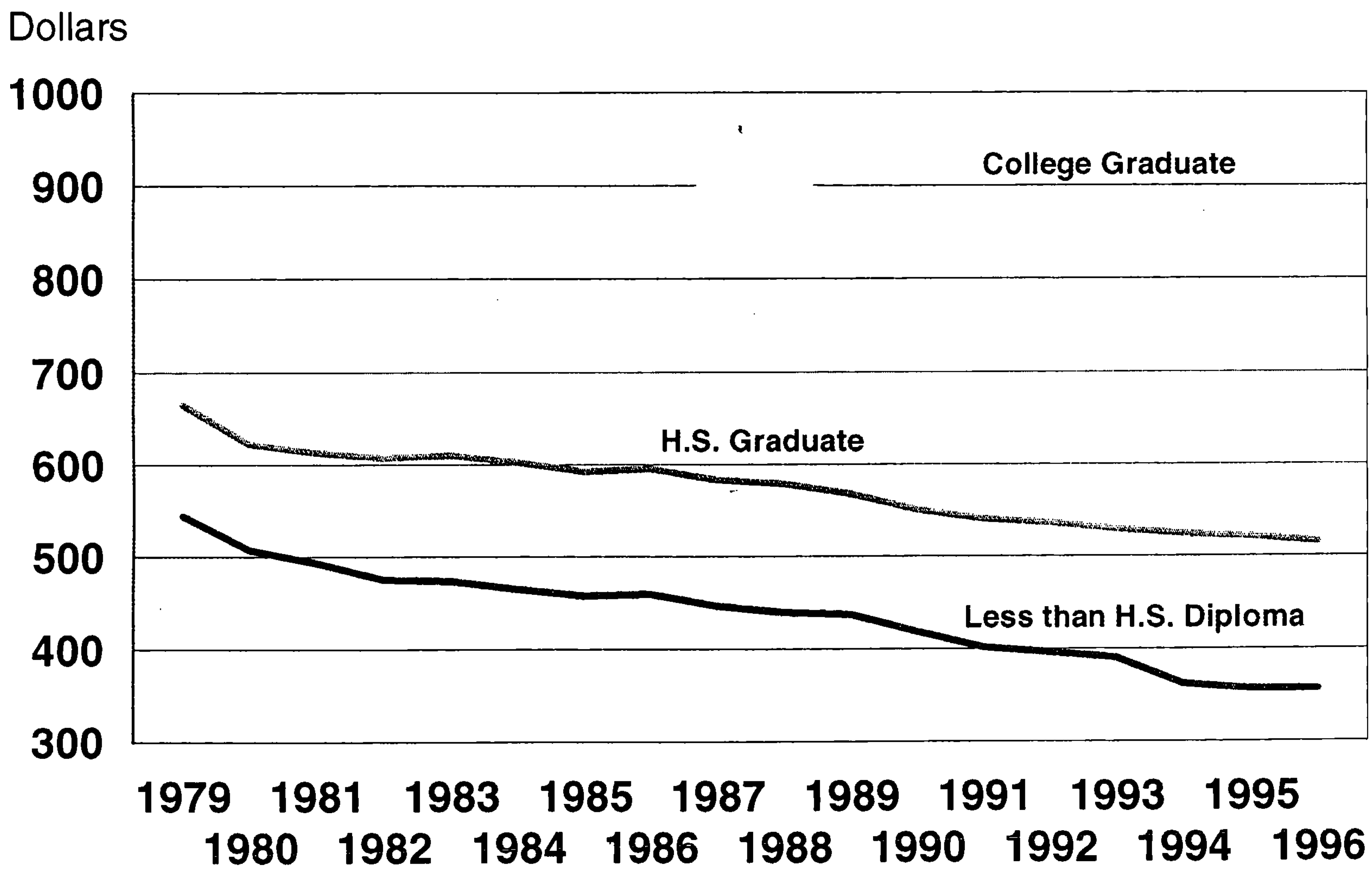

Source: Bureau of Labor Statistics, 1979 - 1996 Annual Averages

Chart 3. Public Perception on the Economy Differs Markedly From Economists'

	Non-College Grads	College Grads	Economists
Trade Agreements between the U.S. and other Countries are:			
Good for the economy	50%	71%	89%
Won't make much difference	16%	9%	6%
Bad for the economy	32%	17%	3%
The Economy is not doing better than it is because companies are sending jobs overseas	72%	53%	6%

Source: Washington Post/Kaiser/Harvard in Robert J. Blendon et al's "Bridging the Gap Between the Public's and Economist's views on the Economy," JEP volume 11, Number 3. Columns may not sum to 100 percent because of rounding error and because "no opinion" responses of 4 percent or less are not reported.

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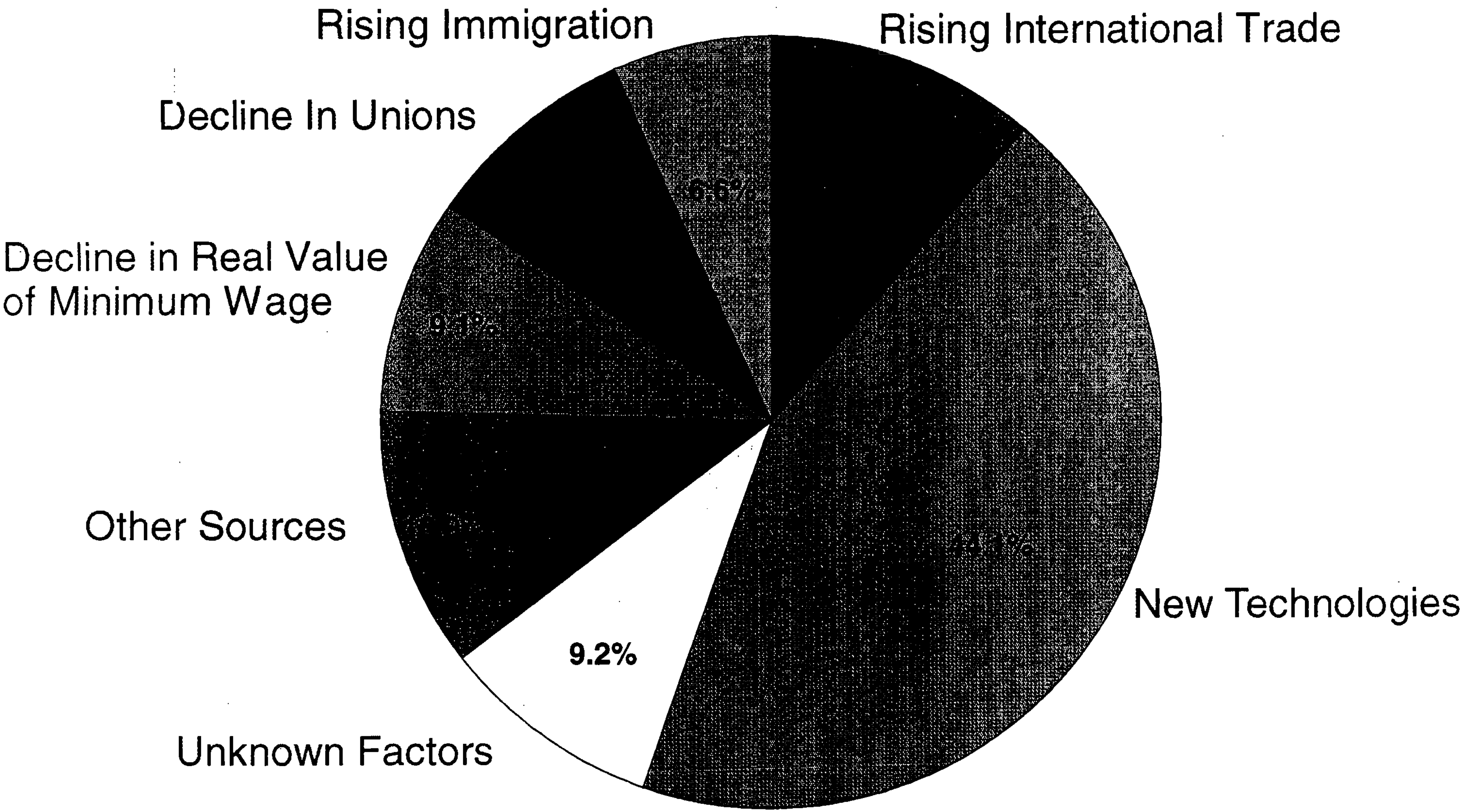
Chart 5. Rise in Wage Inequality Attributable to Different Sources



Source: Survey of Colloquium Participants conducted at the New York Federal Reserve Board, Fall 1995.

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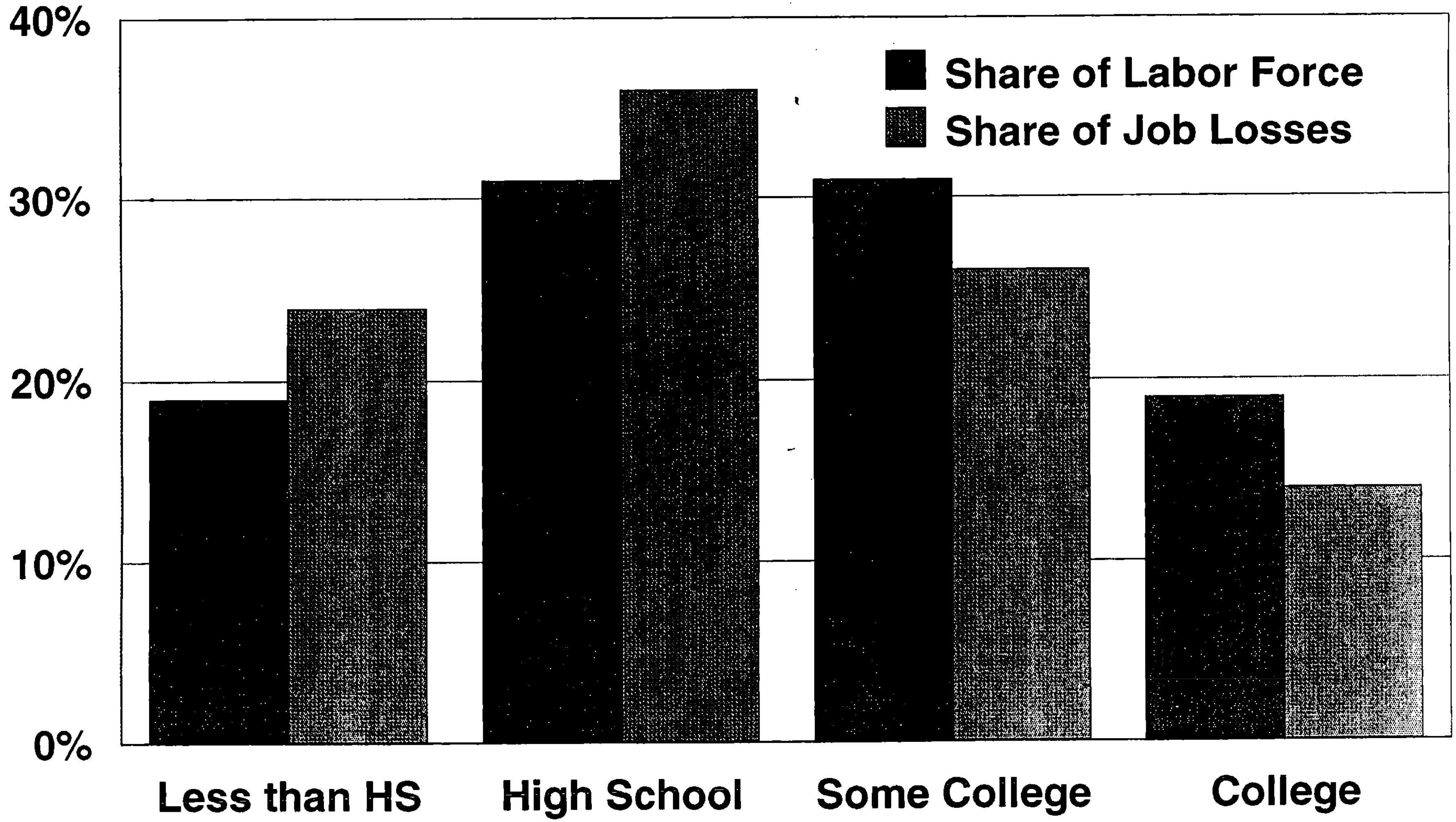

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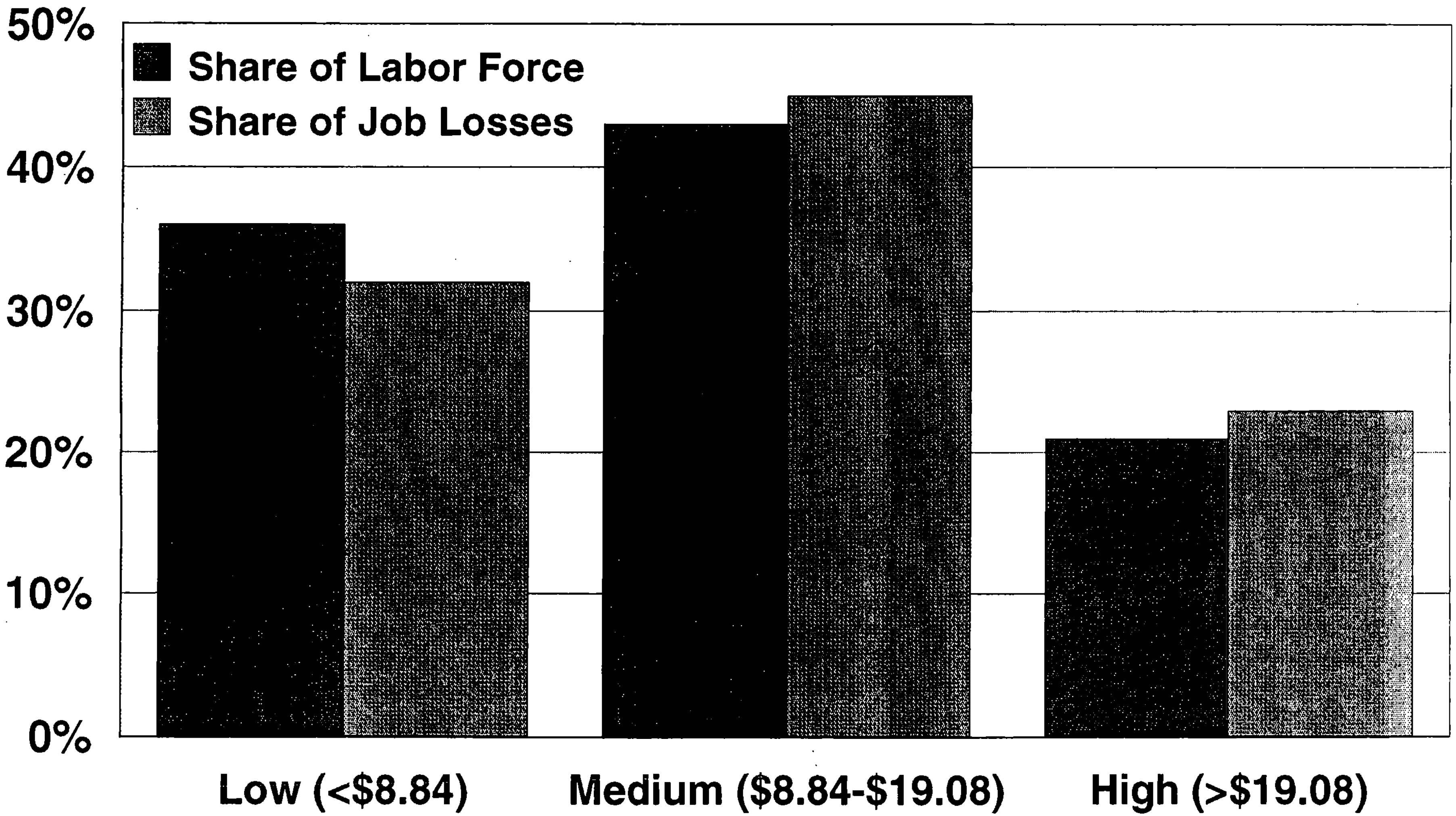

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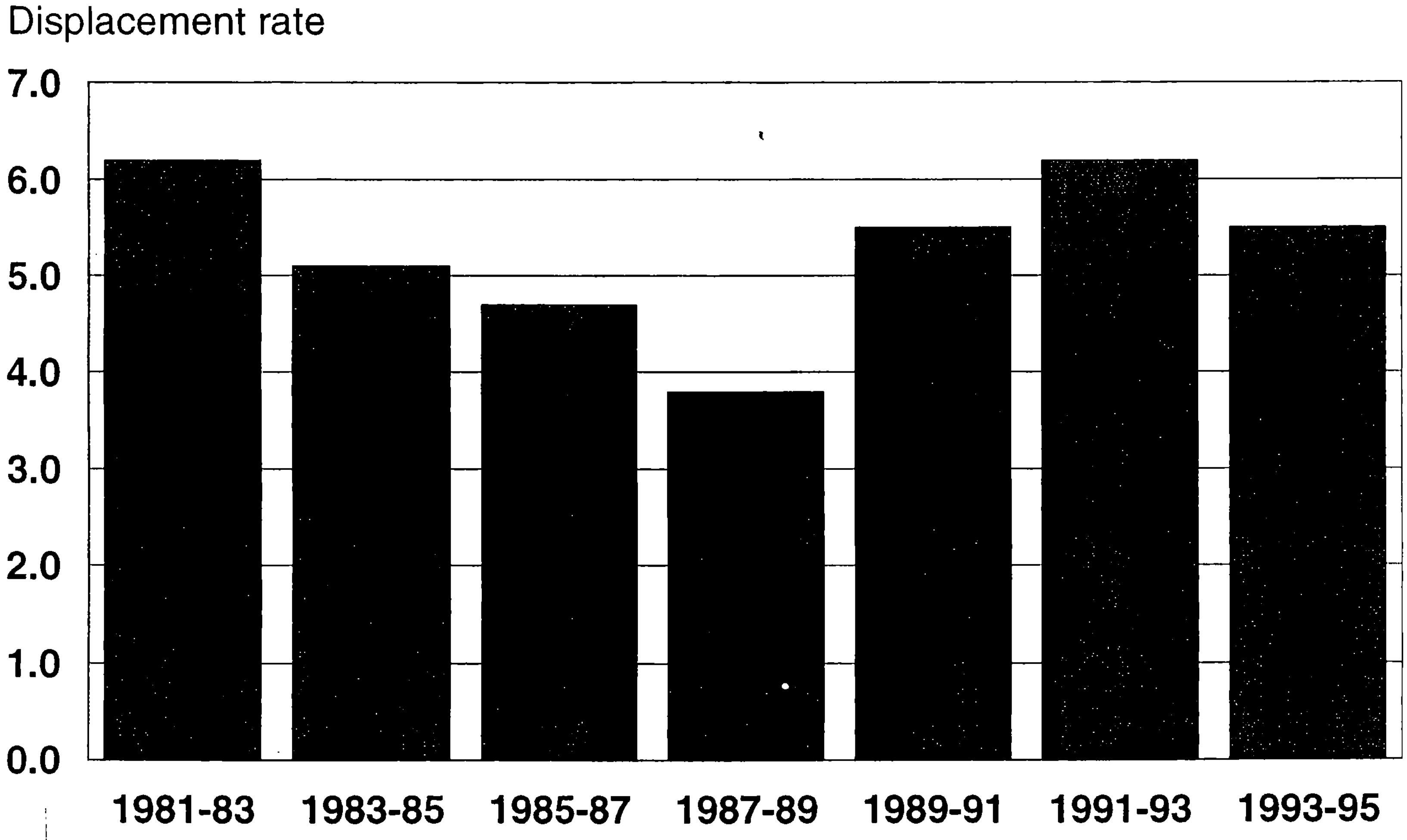

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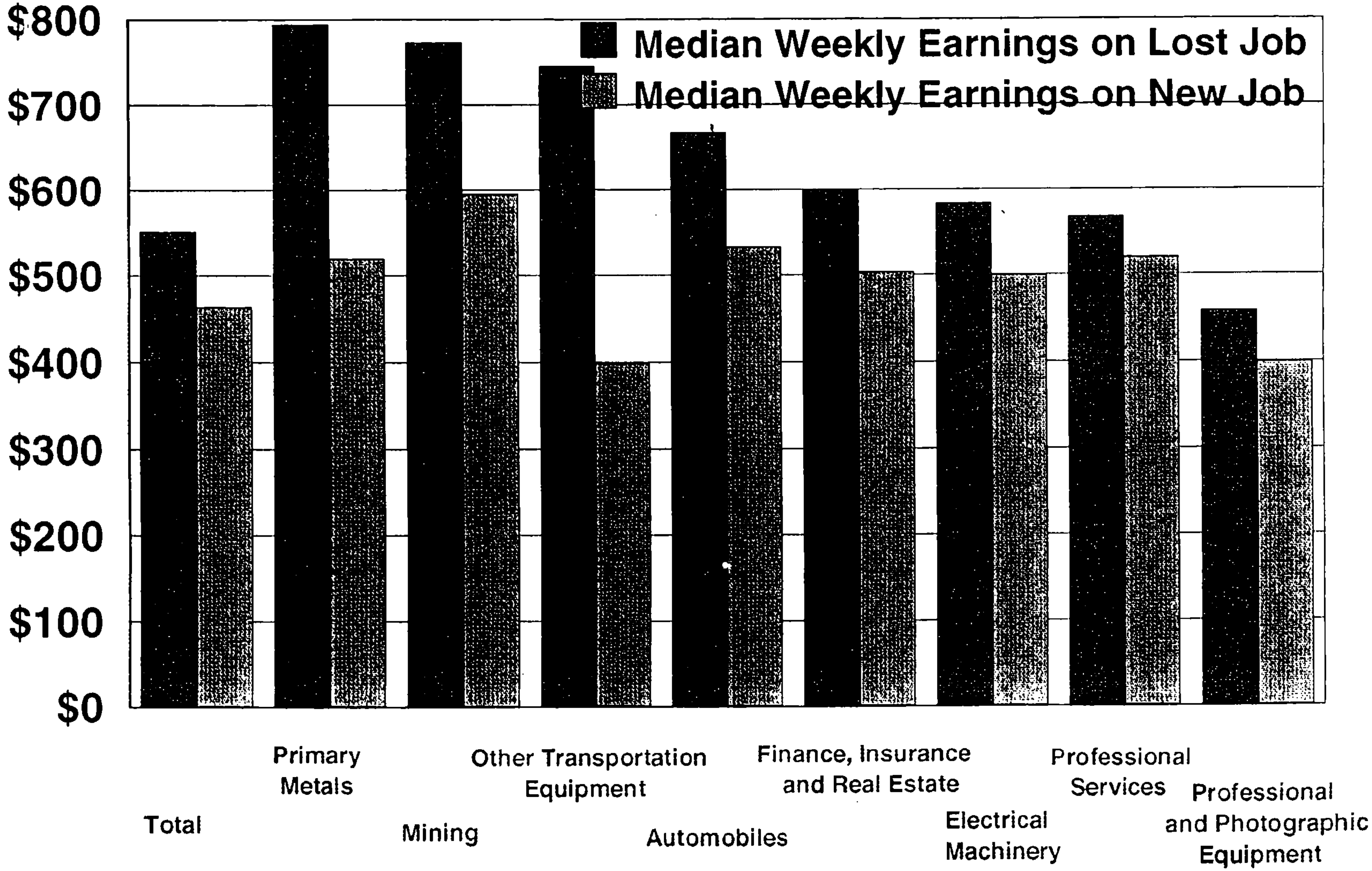

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