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Response Language/Gephardt Letter [Fast Track]

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RICHARD A. GEPHARDT
MISSOURI
DEMOCRATIC LEADER

4-206 U.S. CAPITOL
202-225-0100

Congress of the United States
House of Representatives
Office of the Democratic Leader
Washington, DC 20515-6537

October 8, 1997

The Honorable Robert T. Matsui
2308 Rayburn House Office Building
Washington, D.C. 20515

Dear Bob:

Today the Ways and Means Committee is scheduled to mark up legislation to grant the President fast track trade negotiating authority. I am writing to urge you to vote against Chairman Archer's proposal.

The question isn't whether we trade. The question is what are the terms and who benefits. The Archer plan would continue to limit the ability to deal effectively with workers rights and environmental issues as part of trade agreements. Rather than being a force for progress, the Archer plan would validate the status quo.

Fast track is an extraordinary grant of Congressional power. Without the ability to fully debate and amend an agreement when brought back to Congress, we must be very specific about how we define "success." What's at stake are two very different competing ideological approaches to globalization.

The debate over fast track boils down to this: A majority of Democrats want proper treatment and enforcement of environmental and labor laws to be as integral to the negotiations as issues like intellectual property and protections for capital. We are demanding that people and the environment be given the same protections and enforcement in trade treaties as copyrights. Why is that considered an insurmountable hurdle? Because Republicans argue that the environment and workers rights rate less consideration than protecting intellectual property and therefore should not be part of an agreement.

Including and enforcing worker and environmental protections in the core treaty would help to begin to build a consuming class in the countries we're doing business with. It's the right thing to do -- and it's economically smart. More people would be able to buy more of our

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NSC LEGISLATIVE

003/008

10/09/97 11:12 ☎202 395 4656

USTR CONG AFFRS

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and old middle class. Environmental enforcement would reduce global pollution. And

companies wouldn't continue to chase low wages and lax environmental enforcement, exporting jobs overseas simply to reduce their costs.

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Trade policy has to focus on more than short-term profits, no matter what the costs in terms of pollution, income distribution and social concerns. This is a decisive choice — and the alternative we're fighting for is truly freer trade and long-term prosperity in a world that respects human rights, workers rights and the environment. To achieve that, we have to expand the debate, not limit it to an unconditional fast track which is the wrong road to freer trade.

So far, the benefits of more open trade have not trickled-down to middle class citizens and workers struggling to get into the middle class. The profits of trade will not simply "trickle-down" to everyone. The experience with NAFTA, bears this out. The income gap in Mexico is increasing, not decreasing. A United Nations report describes the same phenomenon on a wider stage: "As trade and foreign investment have expanded, the developing world has seen a widening gap between winners and losers...The greatest benefits of globalization have been garnered by a fortunate few."

Bill Archer has argued that I will never support fast track. He's wrong. I will never support *his* fast track and I doubt that a majority of Democrats would. I've supported fast track in the past and am prepared to do so again. But the Archer plan is fatally flawed. It's bad for America.

I have attached a staff analysis of the specific flaws in the Archer plan. Let me, however, summarize them here:

- It specifically limits progress on labor and environmental issues. Action on these issues must be "directly related" to trade -- a term that the Congressional Research Service has said is *designed to "limit the President's discretion."* To quell any doubt, the Archer plan adds additional language requiring that action on labor and the environment must also be "necessary" to the operation of the trade agreement.
- A country could actually lower its labor and environmental protections if they benefit domestic and foreign companies and assist that country's "macroeconomic development."
- Efforts to promote labor and the environment would have to be dealt with outside of free trade agreements -- at the ILO -- and fast track would not be available for action on these issues.

Amend
Consultations with the business community are now required as to whether labor and the environment should be dealt with in new trade agreements. Consultations with the Labor Sector Advisory Committee -- created under the law -- are excluded from this process under the Archer plan.

- It calls for new criminal penalties on intellectual property -- sound recordings, movies and the like -- but could allow child labor to continue.

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Page 3

These are just a few of the flaws in the Archer plan. I urge you to vote against it. We must not rush to pass fast track. Let's do what's in the best interests of our farmers, workers, consumers and businesses.

Yours very truly,



Richard A. Gephardt

enclosure

RAG:mrw

Staff Analysis
Republican Fast Track Proposal
"Reciprocal Trade Agreement Authorities Act of 1997"
H.R. 2621
October 8, 1997

The greatest flaw is the limitation on the ability to enforce labor and environmental laws if they are viewed as fairly and equally applied or simply ignored. In essence, if a country refuses to enforce its labor and environmental laws against both domestic as well as foreign-owned firms, nothing is required under this proposal and, indeed, action would be prohibited under Archer's plan.¹

And, the Archer plan indicates that if a country's policies can be excused simply because of their stage of economic development, that's fine. If they're a poor country, anything in the area of labor and the environment could be justified under the Archer plan as being acceptable.²

In terms of labor and the environment, the Archer plan limits the discretion of the negotiators to achieve results only on matters that are "directly related" to trade³. In analyzing similar language, the Congressional Research Service stated:

*"The language in the bill contrasts with the previous fast-track authorization, which provided for fast-track consideration of provisions that are 'necessary and appropriate' to the President's discretion to negotiate trade agreements that include areas that are not specified in the fast-track authorization. The purpose of the proposed changes was to limit the President's discretion to negotiate trade agreements that include areas that are not specified in the fast-track authorization."*⁴

The Archer plan includes additional limiting language: Not only must the language be directly-related, but it also must now be necessary for the operation or implementation of the trade agreement. The President would be precluded from achieving more than allowed for under the Archer plan and having those provisions being considered under the fast track.⁵

but all
one of
these

¹ Section 102(b)(7).

² Section 102(b)(7).

³ Section 102(b)(7).

⁴ "Fast track authority: Objectives for Future Trade Negotiations," Library of Congress, Congressional Research Service, Updated May 27, 1997 (CRS-97-229-B). Page 6.

⁵ Section 103(b)(3)(B).

Staff Analysis
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Page 2

The Archer plan would only allow for actions relating to governmental practices. Private sector actions to limit labor rights or environmental protections would not be addressed.⁶

Also, the Archer plan adds a new requirement that specifically gives the business community the ability to participate in determining how labor and environmental provisions are to be treated by the negotiators in each trade agreement. Labor and environment are put in a separate category where consultations are required with the private sector and the Ways and Means and Senate Finance Committees. These Committees -- on their own -- can preclude or limit negotiations on these matters. The legislation requires the President to consult with the business community. But the legislation eliminates the Presidentially-appointed Labor Advisory Committee, established under the law, from this consultation requirement.⁷

The Archer plan tries to artfully address the issue of child labor, an issue that Democrats have demanded be addressed. Yet the Archer plan allows exploitative child labor to continue if it is continued on a "nondiscriminatory" basis and is "consistent with sound macroeconomic development." Thus, if a country wants to attract investment to stimulate its economy and allows child labor to continue for domestic and foreign firms, that would be allowed under the plan. And, progress on "exploitative child labor" is shuffled off to be dealt with at the International Labor Organization rather than being a subject of our trade negotiations under the fast track. It's specifically excluded from being eligible for fast track treatment.⁸

The Archer plan also goes farther than any previous fast track authority by requiring that intellectual property rights be aggressively enforced with the possibility of criminal sanctions being imposed.⁹ And the Archer plan requires that any future trade agreement partner adopt standards at least as strong as those in the NAFTA for intellectual property.¹⁰ Yet, in other areas, the proposal does not call for any standards.

⁶ Section 102(b)(7).

⁷ Section 104(a)(2)(A). The principal trade negotiating objective referred to as section 102(b)(7) is the negotiating objective relating to "labor, the environment, and other matters."

⁸ Section 102(b)(7)(B) and 102(c)(1)(C) as limited by Section 103(b)(3)(B).

⁹ Section 102(b)(4)(A)(iv).

¹⁰ Section 102(b)(4)(A)(i)(III).

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The Archer plan could jeopardize our food safety by changing the standard by which we protect public health possibly requiring additional scientific justification for the measures food safety experts here in the U.S. have adopted to protect our citizens.¹¹ *No including said word in URAA*

The Archer plan accelerates a number of negotiations -- eliminating the historical Congressional evaluation of negotiating objectives and targets for each separate agreement. So, Congress' ability to address Chile's prohibition on the importation of U.S. wheat and enforcement of the Wine Equity Act, the current dumping of Chilean Salmon into the U.S. market, and other important sectoral issues, could be dramatically limited.¹² ?

The Archer plan limits the public's participation in the review of trade agreements. His plan allows the President to classify trade reports at his discretion. Previous language allowed the President to classify information only when necessary to protect national security or trade secrets.¹³ *25 here*

¹¹ Section 102(b)(6)(C)(iii).

¹² Section 106 and, with reference to Chile, Section 106(a)(4).

¹³ Section 103(c)(4).

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

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FAX TRANSMITTAL

To: Linda Edelman

From: Ken Freiberg 395-7305

Date: Monday, Oct 20, 1997 3:27 p.m.

Pages: 4 (including cover page)

MESSAGE

*Draft Sent to
Malone*

Response to Representative Gephardt

Assertion: The House bill will limit progress on labor and environment issues because fast track agreements must be "directly related to trade".

Answer: To the contrary, the House bill includes the most detailed and concrete labor and environmental objectives ever included in fast track legislation. In fact, no previous version of fast track even mentioned environmental issues.

The House bill says that a principal negotiating objective for the United States is to ensure through fast-track agreements that foreign governments do not derogate from or waive their labor, health, safety, or environmental laws to give their products or firms an unfair competitive advantage.

Thus, the bill says that fast track agreements can include provisions that will prevent foreign governments from manipulating their environmental and labor laws to gain an advantage in international trade and investment.

Moreover, the Ways and Means approach envisions that the President may negotiate additional environmental and labor understandings through non-fast-track agreements, something the President has said he will do when appropriate.

In sum, the House bill provides the basis for making meaningful progress on trade, labor, and the environment.

Assertion: A country would be free to lower its labor and environment protections to assist its "macroeconomic development".

Answer: That is a misreading. The bill clearly states that a principal negotiating objective for the United States is to ensure that foreign governments do not manipulate their labor and environmental laws to gain an unfair trade advantage.

The language on "sound macroeconomic development" does not change the instructions to the President in these areas. Rather, it recognizes that the United States has long urged governments to put in place economic policies that make good development sense over the long term, and that in pursuing environmental and labor issues the United States is not departing from this important message.

-- In fact, the two concepts are complementary. It is unlikely that a government's attempt to distort competitive conditions in favor of

local goods or firms by departing from the country's own environmental or core labor standards would be consistent with the country's long-term development interests.

Moreover, the concept of "sound macroeconomic development" embodies the notion that countries will raise their environmental and labor standards over time as they develop, just as we have done.

Assertion: Efforts to promote labor and environment would have to be addressed outside fast track -- at the ILO.

Response: Untrue. As noted, the bill specifically targets those foreign environmental and labor policies and practices that governments can use to give their products and companies an unfair trade advantage.

The bill does not limit the President's authority to address broader labor, environmental, or other issues that have a less specific trade nexus through all other means at his disposal.

- In fact, the bill encourages the President to ensure that trade, environment, and labor policies complement and reinforce each other.
- The President can use his constitutional authority to implement broader agreements along these lines, and if necessary can bring them back to Congress under normal approval procedures.

Assertion: In future trade negotiations, the Administration will consult about labor issues only with industry advisory groups, not with the official Labor Advisory Committee.

Response: Wrong. The bill calls for consultations with all of the trade advisory committees, including the official labor and environmental advisory groups (LAC and TEPAC).

That was the intent behind the bill when it was first introduced and any doubt on that score was eliminated through a clarifying amendment prior to committee action on the bill. The bill thus places all of the advisory committees -- industry, labor, and environment -- on an equal footing.

Assertion: The bill calls for criminal penalties on the infringement of intellectual property rights, but could allow child labor to continue.

Response: False. For the first time in fast track legislation, the bill specifically singles out child labor as a subject for future trade negotiations.

In particular, the bill specifies that the President should negotiate, through fast track, agreements that ensure that foreign governments do not derogate from or waive their laws against exploitative child labor to gain a competitive trade advantage.

- Most governments have laws against child labor. Some governments, however, do not apply those laws, knowing that their manufacturers profit from that failure.
- The bill directs the President to go after that kind of behavior.

NATIONAL SECURITY COUNCIL

FAX COVER SHEET

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Washington, D.C.
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From: Linda Eddleman and Eric Biel

To: Ken Freiberg

Agency:

Fax Number: 53639

Date/Time: 10/16/97 3:35pm

No. of pages to follow: 4

Message:

Response to Gephardt Letter

Assertion: The House bill will limit progress on labor and environment issues because fast track agreements must be "directly related to trade".

Answer: To the contrary, the House bill includes the most detailed and concrete labor and environmental objectives ever included in fast track legislation. In fact, no previous version of fast track even mentioned environmental issues.

The House bill says that a principal negotiating objective for the United States is to ensure through fast-track agreements that foreign governments do not derogate from or waive their labor, health, safety, or environmental laws to give their products or firms an unfair competitive advantage.

Thus, the bill's labor and environment negotiating objective directly addresses the kinds of issues that Rep. Gephardt and other opponents have been raising.

The bill tells the President to try to negotiate ~~deals~~ that will prevent foreign governments from manipulating their environmental and labor laws to gain an advantage in international trade. The inclusion of this language is very important in both trade and labor/environment terms and is precisely the kind of issue that should be addressed through fast track agreements.

Moreover, the bill ~~calls on the President to~~ negotiate ~~broad~~ environmental and labor understandings through non-fast-track agreements. ~~This is a first as well, putting Congress~~ ~~imprimatur on negotiations specifically designed~~ ~~for these purposes.~~

In sum, the House bill ~~provides an opportunity to~~ make meaningful progress on trade, labor, and the environment.

Assertion: A country would be free to lower its labor and environment protections to assist its

something the President has said he will do, what appropriate.

gives direction to

Thus

let it ~~but~~ approach
visions that the

may

additional

Where is this in the bill?

trade agents

Doesn't do this, does it?

the ~~President~~ ~~is~~ ~~ED~~

"macroeconomic development".

Answer:

That is a misreading. The bill clearly states that a principal negotiating objective for the United States is to ensure that foreign governments do not manipulate their labor and environmental laws to gain an unfair trade advantage.

The language on "sound macroeconomic development" does not change the instructions to the President in these areas. Rather, it recognizes that the United States has long urged governments to put in place economic policies that make good development sense over the long term, and that in pursuing environmental and labor issues the United States is not departing from this important message.

*still
vague*

-- In fact, the two concepts are complementary. It is unlikely that a government's attempt to distort competitive conditions in favor of local goods or firms by departing from the country's own environmental or core labor standards would be consistent with the country's long-term development interests. *(is this clear?)*

Moreover, the concept of "sound macroeconomic development" embodies the notion that countries will gradually raise their environmental and labor standards over time as they develop, just as we have done. ✓

Assertion:

Efforts to promote labor and environment would have to be addressed outside fast track -- at the ILO.

Response:

Untrue. As noted, the bill specifically targets those foreign environmental and labor policies and practices that governments can use to give their products and companies an unfair trade advantage.

These are precisely the kinds of issues that it makes sense to address in our trade agreements.

The bill does not limit the President's authority to address broader labor, environmental, or other issues that have a less specific trade nexus through all other means at his disposal.

-- In fact, the bill encourages the President to

✓

*specifically
can be addressed
in.*

ensure that trade, environment, and labor policies complement and reinforce each other.

- The President can use his constitutional authority to implement broader agreements along these lines, and if necessary can bring them back to Congress under normal approval procedures.

Assertion: In future trade negotiations, the Administration will consult about labor issues only with industry advisory groups, not with the official Labor Advisory Committee.

Response: The bill calls for consultations with all of the trade advisory committees, including the official labor and environmental advisory groups (LAC and TEPAC).

False. That was the intent behind the bill when it was first introduced and any doubt on that score was eliminated through a clarifying amendment prior to committee action on the bill. The bill thus places all of the advisory committees -- industry, labor, and environment -- on an equal footing.

Assertion: The bill calls for criminal penalties on the infringement of intellectual property rights, but could allow child labor to continue.

Response: For the first time in fast track legislation, the bill specifically singles out child labor as a subject for future trade negotiations.

False. In particular, the bill specifies that the President should negotiate, through fast track, agreements that ensure that foreign governments do not derogate from or waive their laws against exploitative child labor to gain a competitive trade advantage.

- Most governments have laws against child labor that would be effective if they were fully enforced. Some governments, however, do not apply those laws, knowing that their manufacturers profit from that failure. (clear?)
- The bill directs the President to go after that kind of behavior. (clearly this)

As for the protection of intellectual property rights, the bill calls for the President to ensure that foreign governments have strong enforcement procedures on the books (many still do not). These can be a combination of administrative, civil, or criminal remedies.

Response to Gephardt Letter

Draft

Assertion: The House bill will limit progress on labor and environment issues because fast track agreements must be "directly related to trade".

Answer:

To the contrary, the House bill includes the most detailed and concrete labor and environmental objectives ever included in fast track legislation. In fact, no previous version of fast track even mentioned environmental issues.

By contrast, the House bill specifically calls on the President to negotiate, through fast track agreements, provisions that ensure that foreign governments do not derogate from or waive their labor, health, safety, or environmental laws to give their products or firms an unfair competitive advantage.

- Thus, the bill's labor and environment negotiating objective directly addresses the kinds of issues that Rep. Gephardt and other opponents have been raising.
- The bill tells the President to try to negotiate deals that will prevent foreign governments from manipulating their environmental and labor laws to gain an advantage in international trade. The inclusion of this language is very important in both trade and labor/environment terms and is precisely the kind of issue that should be addressed through fast track agreements.

Moreover, the bill calls on the President to negotiate broader environmental and labor understandings through non-fast-track agreements. This is a first as well, putting Congress' imprimatur on negotiations specifically designed for these purposes.

In sum, the House bill provides an opportunity to make meaningful progress on all three issues -- trade, labor, and the environment.

Assertion: A country would be free to lower its labor and environment protections to assist its

*Conflict of interest / safety
too safety
consequence
Too strong?*

"macroeconomic development".

Answer:

That is a misreading. The bill clearly states that the President should include, in fast track agreements, provisions that will prohibit a government from manipulating its labor and environmental laws to gain an unfair trade advantage.

The language on "sound macroeconomic development" does not change the instructions to the President in these areas. Rather, it recognizes that the United States has long urged governments to put in place economic policies that make good development over the long term, and that in pursuing environmental and labor issues the United States is not departing from this important message.

?
-- In fact, the two concepts are complementary. It is unlikely that an attempt to distort competitive conditions in favor of local goods or firms by departing from a government's own environmental or core labor standards could be justified as sustainable, or wise, macroeconomic policy.

Moreover, the concept of "sound macroeconomic development" embodies the notion that countries will gradually raise their environmental and labor standards over time as they develop, just as we have done.

Assertion: Efforts to promote labor and environment would have to be addressed outside fast track -- at the ILO.

Response: Untrue. As noted, the bill specifically targets those foreign environmental and labor policies and practices that governments can use to give their products and companies an unfair trade advantage.

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The bill does not limit the President's authority to address broader labor, environmental, or other issues that have a less specific trade nexus through all other means at his disposal.

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Response: For the first time in fast track legislation, the bill specifically singles out child labor as a subject for future trade negotiations.

In particular, the bill specifies that the President should negotiate, through fast track, agreements that ensure that foreign governments do not derogate from or waive their laws against exploitative child labor to gain a competitive trade advantage.

- Most governments have laws against child labor that would be effective if they were enforced. Some governments, however, do not apply those laws, knowing that their manufacturers profit from that failure.

- The bill directs the President to go after that kind of behavior.

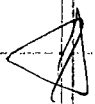
As for the protection of intellectual property rights, the bill calls for the President to ensure that foreign governments have strong enforcement procedures on the books (many still do not). These can be a combination of administrative, civil, or criminal remedies.

Side by Side Comparison
SFC vs Ways Means

Richard Jeller

- Globalization has led to an increasing gap between haves and have nots

- "Progress" in environment must be labor issues must be necessary, directly related to trade. → Places significant limits



Step 2 →
Child labor
would continue
if consistent
w/ sound
macro policy

- A country could lower its labor + env. protection if they benefit from foreign companies + assist in country's macro economic development.

- Custom. penalties on J.P., + child labor.

- Food Safety → could change standards by which US protects public health.

Sound Macro Development

- View
- Report language
- Next Steps

I. Admin View

Types of examples

- Existence of min wage
- Dumping into US

Sound Development - Games rather than that states will improve

2) Intent:

3) Mechanics

Key Representations

- Rps must embrace

→ Could met a std at lower cost

Sound macro must be sustainable.

→ Generally speaking, can't have sustainable social development if harming environment. Long-term pollution could lead to higher cost.

~~Working stds~~

Agreement that workers or delegates have =
Sanction

Indep. panel would say that a country that manipulates laws

Core Labor Stds

± worker or delegate → ~~std~~

Child labor, forced labor, collective bargaining, etc.
are not contingent on development level.

Republishers

Developmental needs of country must be taken into account.

Non core

Min wage; Constant w/min wages
Existing unions?

→ Dependence situation

Formulation

Avoid from core labor stds

Need flexibility $\rightarrow$ # want to impose
our standards.

Eg. Food Safety

~~Need to be careful~~

Intent:

Sound economic policy as intent.

Enu

Disparities in export processing zones.

Different criteria applied in zones.

Mex: Law at exp. Magallanes

Q&A

Country thinks it's better to eliminate
minimum wage

$\rightarrow$ Depends on macro situation $\rightarrow$ maybe
in a serious situation

Examples of excessive state policies.

- Eg. Retirement age 45, full pensions.

$\rightarrow$ Must be sustainable

In US, some firms: env. standards, quality
standards $\rightarrow$ limit flexibility a priori

~~Need to be careful~~

Pipeline Ex. Energy independence.

Need
more
info $\rightarrow$
what
studies
are not
done.
Lowest
level of
target question

Potential partners
must also
be target

Statute:

Report language

Food Safety Follow up

Laws of target countries.

→ "Waiving existing domestic ~~laws~~ measures" ⁷¹
→ "consistent with"

Core labor stds -

≠ derogate

Env. -

Need flexibility

Log History

① Discourage manipulation of labor laws to gain
com. adv. + not consistent

② US always, stood for sound econ. policy
such policy is also sustainable, over time

~~which is also sustainable~~ means increasing std of
living.

Core labor

Definition of Derogation and Intent -
Failure to enforce = derogation.

Actions whose effect is to deny benefits
we have already negotiated.

Concept on trade law (no derogation &
laws).

{ Mig/Alan →. Statemint by ILO; Egg
Exs

Suphardt
litter

Draft language

Tease w/ Thomas + ~~Thurs~~ → Thurs.

Suppose that Swallows rule:

~~The~~ governments

Law simply recognizes that countries

Defined term

→ internationally recognized labor standards - ~~Not a~~ ^{limit} ~~and~~ ^{worker rights}

Freedom of association, bargain collectively, forced/child labor, acceptable conditions of work - (min. wage, safety and health, etc.)

~~Core labor standards~~
Freedom of

Core labor standards

Definition ~~which~~ includes core labor standards

OS includes internationally recognized worker rights. Included in past first trade

→ Problems in WTO - in particular - acceptable conditions of work

Look at Senate and House bill

→ Worker rights = too broad,
↓
core labor standards in more narrow

*first draft***Response to Gephardt Letter**

Assertion: The House bill will limit progress on labor and environment issues because fast track agreements must be "directly related to trade".

Answer: The House bill specifically calls on the President to negotiate, through fast track agreements, provisions that ensure that foreign governments do not apply their labor and environmental laws in a way that gives their products or firms an unfair competitive advantage.

-- This is the first time the environment has ever been addressed in fast track legislation.

-- Both the labor and environment negotiating objectives are more far reaching, and specific, than anything in prior law.

The bill recognizes that the main trade problem we face in these areas area is not the failure of countries to adopt good laws, but their failure to apply them consistently.

-- The bill tells the President to try to negotiate deals that will prevent that. The inclusion of this language is very important in both trade and labor/environment terms.

Assertion: A country would be free to lower its labor and environment protections to assist its "macroeconomic development".

Answer: The bill says that countries should not be prevented from pursuing "sound macroeconomic development". Economic policy can only be successful if it takes fully into account important environment and labor rights concerns. We would expect countries to raising environmental and labor standards as they progress economically is consistent -- as a matter of sound economic development. On the other hand, derogating from or waiving existing levels of labor or environmental protection is rarely wise economic policy.] language?

Assertion: Efforts to promote labor and environment would

have to be addressed outside fast track -- at the ILO.

Response: Untrue. As noted, the bill specifically targets foreign environmental and labor practices that governments are most likely to use to give their products and companies an unfair trade advantage.

These are precisely the kinds of issues that it makes sense to address in a trade agreement.

The bill does not limit the President's authority address broader labor, environmental, or other issues that have a less specific trade nexus -- outside of fast track.

-- In fact the bill encourages the President to do precisely that.

-- The President can use his constitutional authority to implement agreements of that kind, or can bring them back to Congress under normal approval procedures.

Assertion: The Administration will consult about labor issues only with industry advisory groups, not with the official Labor Sector Advisory Committee (LAC).

Response: The bill calls for consultations with all of the official advisory committees, including the LAC and the environmental advisory group.

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Response: For the first time in fast track legislation, the bill specifically includes child labor as the subject for future trade negotiations.

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trade advantage.

- Almost all governments have laws against child labor. The problem is that a few governments do not apply those laws, knowing full well that their manufacturers profit from that failure.
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NATIONAL SECURITY COUNCIL

FAX COVER SHEET

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COUNCIL**

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Washington, D.C.
20504

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From: Linda Eddleman

To: David Marchick

Agency:

Fax Number: 647-0892

Date/Time: 10/15/97 11:15

No. of pages to follow: 12

Message:

RICHARD A. GEPHARDT
MISSOURI
DEMOCRATIC LEADER

H-204 U.S. CAPITOL
202-225-0100

Congress of the United States
House of Representatives
Office of the Democratic Leader
Washington, DC 20515-6537

October 8, 1997

The Honorable Robert T. Matsui
2308 Rayburn House Office Building
Washington, D.C. 20515

Dear Bob:

Today the Ways and Means Committee is scheduled to mark up legislation to grant the President fast track trade negotiating authority. I am writing to urge you to vote against Chairman Archer's proposal.

The question isn't whether we trade. The question is what are the terms and who benefits. The Archer plan would continue to limit the ability to deal effectively with workers rights and environmental issues as part of trade agreements. Rather than being a force for progress, the Archer plan would validate the status quo.

Fast track is an extraordinary grant of Congressional power. Without the ability to fully debate and amend an agreement when brought back to Congress, we must be very specific about how we define "success." What's at stake are two very different competing ideological approaches to globalization.

The debate over fast track boils down to this: A majority of Democrats want proper treatment and enforcement of environmental and labor laws to be as integral to the negotiations as issues like intellectual property and protections for capital. We are demanding that people and the environment be given the same protections and enforcement in trade treaties as copyrights. Why is that considered an insurmountable hurdle? Because Republicans argue that the environment and workers rights rate less consideration than protecting intellectual property and therefore should not be part of an agreement.

Including and enforcing worker and environmental protections in the core treaty would help to begin to build a consuming class in the countries we're doing business with. It's the right thing to do — and it's economically smart. More people would be able to buy more of our

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and low middle class. Environmental enforcement would reduce global pollution. And

companies wouldn't continue to chase low wages and lax environmental enforcement, exporting jobs overseas simply to reduce their costs.

The Honorable Robert T. Matsui
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Trade policy has to focus on more than short-term profits, no matter what the costs in terms of pollution, income distribution and social concerns. This is a decisive choice — and the alternative we're fighting for is truly freer trade and long-term prosperity in a world that respects human rights, workers rights and the environment. To achieve that, we have to expand the debate, not limit it to an unconditional fast track which is the wrong road to freer trade.

So far, the benefits of more open trade have not trickled-down to middle class citizens and workers struggling to get into the middle class. The profits of trade will not simply "trickle-down" to everyone. The experience with NAFTA, bears this out. The income gap in Mexico is increasing, not decreasing. A United Nations report describes the same phenomenon on a wider stage: "As trade and foreign investment have expanded, the developing world has seen a widening gap between winners and losers...The greatest benefits of globalization have been garnered by a fortunate few."

Bill Archer has argued that I will never support fast track. He's wrong. I will never support *his* fast track and I doubt that a majority of Democrats would. I've supported fast track in the past and am prepared to do so again. But the Archer plan is fatally flawed. It's bad for America.

I have attached a staff analysis of the specific flaws in the Archer plan. Let me, however, summarize them here:

- It specifically limits progress on labor and environmental issues. Action on these issues must be "directly related" to trade -- a term that the Congressional Research Service has said is *designed to "limit the President's discretion."* To quell any doubt, the Archer plan adds additional language requiring that action on labor and the environment must also be "necessary" to the operation of the trade agreement.
- A country could actually lower its labor and environmental protections if they benefit domestic and foreign companies and assist that country's "macroeconomic development."
- Efforts to promote labor and the environment would have to be dealt with outside of free trade agreements -- at the ILO -- and fast track would not be available for action on these issues.
- Consultations with the business community are now required as to whether labor and the environment should be dealt with in new trade agreements. Consultations with the Labor Sector Advisory Committee -- created under the law -- are excluded from this process under the Archer plan.
- It calls for new criminal penalties on intellectual property -- sound recordings, movies and the like -- but could allow child labor to continue.

The Honorable Robert T. Matsui
October 8, 1997
Page 3

These are just a few of the flaws in the Archer plan. I urge you to vote against it. We must not rush to pass fast track. Let's do what's in the best interests of our farmers, workers, consumers and businesses.

Yours very truly,



Richard A. Gephardt

enclosure

RAG:mrw

Staff Analysis
Republican Fast Track Proposal
"Reciprocal Trade Agreement Authorities Act of 1997"
H.R. 2621
October 8, 1997

The greatest flaw is the limitation on the ability to enforce labor and environmental laws if they are viewed as fairly and equally applied or simply ignored. In essence, if a country refuses to enforce its labor and environmental laws against both domestic as well as foreign-owned firms, nothing is required under this proposal and, indeed, action would be prohibited under Archer's plan.¹

And, the Archer plan indicates that if a country's policies can be excused simply because of their stage of economic development, that's fine. If they're a poor country, anything in the area of labor and the environment could be justified under the Archer plan as being acceptable.²

In terms of labor and the environment, the Archer plan limits the discretion of the negotiators to achieve results only on matters that are "directly related" to trade³. In analyzing similar language, the Congressional Research Service stated:

*"The language in the bill contrasts with the previous fast-track authorization, which provided for fast-track consideration of provisions that are 'necessary and appropriate' to the President's discretion to negotiate trade agreements that include areas that are not specified in the fast-track authorization. The purpose of the proposed changes was to limit the President's discretion to negotiate trade agreements that include areas that are not specified in the fast-track authorization."*⁴

The Archer plan includes additional limiting language: Not only must the language be directly-related, but it also must now be necessary for the operation or implementation of the trade agreement. The President would be precluded from achieving more than allowed for under the Archer plan and having those provisions being considered under the fast track.⁵

¹ Section 102(b)(7).

² Section 102(b)(7).

³ Section 102(b)(7).

⁴ "Fast track authority: Objectives for Future Trade Negotiations," Library of Congress, Congressional Research Service, Updated May 27, 1997 (CRS-97-229-E). Page 6.

⁵ Section 103(b)(3)(B).

Staff Analysis
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The Archer plan would only allow for actions relating to governmental practices. Private sector actions to limit labor rights or environmental protections would not be addressed.⁶

Also, the Archer plan adds a new requirement that specifically gives the business community the ability to participate in determining how labor and environmental provisions are to be treated by the negotiators in each trade agreement. Labor and environment are put in a separate category where consultations are required with the private sector and the Ways and Means and Senate Finance Committees. These Committees -- on their own -- can preclude or limit negotiations on these matters. The legislation requires the President to consult with the business community. But the legislation eliminates the Presidentially-appointed Labor Advisory Committee, established under the law, from this consultation requirement.⁷

The Archer plan tries to artfully address the issue of child labor -- an issue that Democrats have demanded be addressed. Yet the Archer plan allows exploitative child labor to continue if it is continued on a "nondiscriminatory" basis and is "consistent with sound macroeconomic development." Thus, if a country wants to attract investment to stimulate its economy and allows child labor to continue for domestic and foreign firms, that would be allowed under the plan. And, progress on "exploitative child labor" is shuttled off to be dealt with at the International Labor Organization rather than being a subject of our trade negotiations under the fast track. It's specifically excluded from being eligible for fast track treatment.⁸

The Archer plan also goes farther than any previous fast track authority by requiring that intellectual property rights be aggressively enforced with the possibility of criminal sanctions being imposed.⁹ And the Archer plan requires that any future trade agreement partner adopt standards at least as strong as those in the NAFTA for intellectual property.¹⁰ Yet, in other areas, the proposal does not call for any standards.

⁶ Section 102(b)(7).

⁷ Section 104(a)(2)(A). The principal trade negotiating objective referred to as section 102(b)(7) is the negotiating objective relating to "labor, the environment, and other matters."

⁸ Section 102(b)(7)(B) and 102(c)(1)(C) as limited by Section 103(b)(3)(B).

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Staff Analysis
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The Archer plan could jeopardize our food safety by changing the standard by which we protect public health possibly requiring additional scientific justification for the measures food safety experts here in the U.S. have adopted to protect our citizens.¹¹

The Archer plan accelerates a number of negotiations -- eliminating the historical Congressional evaluation of negotiating objectives and targets for each separate agreement. So, Congress' ability to address Chile's prohibition on the importation of U.S. wheat and enforcement of the Wine Equity Act, the current dumping of Chilean Salmon into the U.S. market, and other important sectoral issues, could be dramatically limited.¹²

The Archer plan limits the public's participation in the review of trade agreements. His plan allows the President to classify trade reports at his discretion. Previous language allowed the President to classify information only when necessary to protect national security or trade secrets.¹³

¹¹ Section 102(b)(6)(C)(iii).

¹² Section 106 and, with reference to Chile, Section 106(a)(4).

¹³ Section 103(c)(4).

1 to the provisions of already existing trade
2 agreements with the United States or by the
3 circumvention by that country of its obligations
4 under those agreements; and

5 (G) otherwise ensuring that countries that
6 accede to the World Trade Organization have
7 made meaningful market liberalization commit-
8 ments in agriculture.

9 (7) LABOR, THE ENVIRONMENT, AND OTHER
10 MATTERS.—The principal negotiating objective of
11 the United States regarding labor, the environment,
12 and other matters is to address the following aspects
13 of foreign government policies and practices regard-
14 ing labor, the environment, and other matters that
15 are directly related to trade:

16 (A) To ensure that foreign labor, environ-
17 mental, health, or safety policies and practices
18 do not arbitrarily or unjustifiably discriminate
19 or serve as disguised barriers to trade.

20 (B) To ensure that foreign governments do
21 not derogate from or waive existing domestic
22 environmental, health, safety, or labor meas-
23 ures, including measures that deter exploitative
24 child labor, as an encouragement to gain com-
25 petitive advantage in international trade or in-

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1 vestment. Nothing in this subparagraph is in-
2 tended to address changes to a country's laws
3 that are nondiscriminatory and consistent with
4 sound macroeconomic development. ✓

5 (8) WTO EXTENDED NEGOTIATIONS.—The
6 principal negotiating objectives of the United States
7 regarding trade in financial services are those set
8 forth in section 135(a) of the Uruguay Round
9 Agreements Act (19 U.S.C. 3555(a)), regarding
10 trade in civil aircraft are those set forth in section
11 135(c) of that Act, and regarding rules of origin are
12 the conclusion of an agreement described in section
13 132 of that Act (19 U.S.C. 3552).

14 (c) INTERNATIONAL ECONOMIC POLICY OBJEC-
15 TIVES.—

16 (1) IN GENERAL.—The President should take
17 into account the relationship between trade agree-
18 ments and other important priorities of the United
19 States and seek to ensure that the trade agreements
20 entered into by the United States complement and
21 reinforce other policy goals. The United States prior-
22 ities in this area include—

23 (A) seeking to ensure that trade and envi-
24 ronmental policies are mutually supportive;

Response to Gephardt Letter



Assertion: The House bill will limit progress on labor and environment issues because fast track agreements must be "directly related to trade".

Answer: The House bill specifically calls on the President to negotiate, through fast track agreements, provisions that ensure that foreign governments do not apply their labor and environmental laws in a way that gives their products or firms an unfair competitive advantage.

-- This is the first time the environment has ever been addressed in fast track legislation.

-- Both the labor and environment negotiating objectives are more far reaching, and specific, than anything in prior law.

The bill recognizes that the main trade problem we face in these areas area is not the failure of countries to adopt good laws, but their failure to apply them consistently.

-- The bill tells the President to try to negotiate deals that will prevent that. The inclusion of this language is very important in both trade and labor/environment terms.

Assertion: A country would be free to lower its labor and environment protections to assist its "macroeconomic development".

Answer: The bill says that countries should not be prevented from pursuing "sound macroeconomic development". Economic policy can only be successful if it takes fully into account important environment and labor rights concerns. We would expect countries to raising environmental and labor standards as they progress economically is consistent -- as a matter of sound economic development. On the other hand, derogating from or waiving existing levels of labor or environmental protection is rarely wise economic policy.

Assertion: Efforts to promote labor and environment would

have to be addressed outside fast track -- at the ILO.

Response: Untrue. As noted, the bill specifically targets foreign environmental and labor practices that governments are most likely to use to give their products and companies an unfair trade advantage.

These are precisely the kinds of issues that it makes sense to address in a trade agreement.

The bill does not limit the President's authority address broader labor, environmental, or other issues that have a less specific trade nexus -- outside of fast track.

-- In fact the bill encourages the President to do precisely that.

-- The President can use his constitutional authority to implement agreements of that kind, or can bring them back to Congress under normal approval procedures.

Assertion: The Administration will consult about labor issues only with industry advisory groups, not with the official Labor Sector Advisory Committee (LAC).

Response: The bill calls for consultations with all of the official advisory committees, including the LAC and the environmental advisory group.

That was the intent behind the bill when it was first introduced and any doubt on that score was eliminated through a clarifying amendment prior to committee action on the bill.

Assertion: The bill calls for criminal penalties on the infringement of intellectual property rights, but could allow child labor to continue.

Response: For the first time in fast track legislation, the bill specifically includes child labor as the subject for future trade negotiations.

In particular, the bill specifies that the President should negotiate, through fast track, agreements that ensure that foreign governments do not derogate from or waive their laws against the exploitation of child labor to gain a competitive

trade advantage.

- Almost all governments have laws against child labor. The problem is that a few governments do not apply those laws, knowing full well that their manufacturers profit from that failure.
- The bill directs the President to go after that kind of behavior.

As for the protection of intellectual property rights, the bill calls for the President to ensure that foreign governments have strong enforcement procedures on the books (many still do not). These can be a combination of administrative, civil, or criminal remedies.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

600 17th Street NW
Washington, DC 20506
tel (202) 395-3417
fax (202) 395-3911

*Added
other Q & A*

FAX TRANSMITTAL

To: Eric Biel

From: Ken Freiberg 395-7305

Date: Monday, Oct 13, 1997 2:00 p.m.

Pages: 4 (including cover page)

MESSAGE

Per your request.

Updated response to Gephart
to Bk 10-14 am

Response to Gephardt Letter

Assertion: The House bill will limit progress on labor and environment issues because fast track agreements must be "directly related to trade".

Answer: The House bill specifically calls on the President to negotiate, through fast track agreements, provisions that ensure that foreign governments do not derogate from or waive their labor, health, safety, or environmental laws to give their products or firms an unfair competitive advantage.

-- The language included in the bill on labor and the environment is much more detailed and concrete than anything in prior law.

-- Indeed, this is the first time the environment has ever been addressed in fast track legislation.

The bill recognizes that the main trade problem we face in these areas is not the failure of countries to adopt good laws, but their failure to apply them consistently.

-- The bill tells the President to try to negotiate deals that will prevent that. The inclusion of this language is very important in both trade and labor/environment terms.

Assertion: A country would be free to lower its labor and environment protections to assist its "macroeconomic development".

Answer: That is a misreading. The language in question does not mean that countries should be free to lower their standards for economic reasons. Rather, the text means that countries should be free to change the mechanisms they use to protect the environment and promote core labor standards based on rational economic decision-making. For example, here in the United States we are considering whether it makes economic sense to lower pollution levels through a market-based approach rather than through direct government regulation.

still goes
to

The bill language does not say that governments

can lower their labor or environment standards. Rather it says that in achieving a particular level of protection for its workers and the environment governments can look at the overall economic cost and benefits of the various approaches available to them.

[The critics do not mention that the bill says countries should not be prevented from pursuing "sound macroeconomic development". Economic policy is sound only if it takes fully into account important environment and labor rights concerns. We expect countries to raise their environmental and labor standards as they progress economically -- as a matter of sound economic development. On the other hand, derogating from or waiving existing levels of labor or environmental protection is not wise economic policy.] [IMF has also embraced.]

Efforts to promote labor and environment would have to be addressed outside fast track -- at the ILO.

Response:

Untrue. As noted, the bill specifically targets those foreign environmental and labor policies and practices that governments are most likely to use to give their products and companies an unfair trade advantage.

These are precisely the kinds of issues that it makes sense to address in our trade agreements.

The bill does not limit the President's authority to address broader labor, environmental, or other issues that have a less specific trade nexus through all other means at his disposal.

- In fact the bill encourages the President to ensure that trade, environment, and labor policies complement and reinforce each other.
- The President can use his constitutional authority to implement broader agreements along these lines, and if necessary can bring them back to Congress under normal approval procedures.

Assertion:

In future trade negotiations, the Administration will consult about labor issues only with industry

Part of sound
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the ability to maintain labor
+ env. standards to gain
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advisory groups, not with the official Labor Sector Advisory Committee (LAC).

Response: The bill calls for consultations with all of the official advisory committees, including the LAC and the environmental advisory group.

That was the intent behind the bill when it was first introduced and any doubt on that score was eliminated through a clarifying amendment prior to committee action on the bill. *(Matter whose)*

Assertion: The bill calls for criminal penalties on the infringement of intellectual property rights, but could allow child labor to continue.

Response: For the first time in fast track legislation, the bill specifically singles out child labor as a subject for future trade negotiations.

In particular, the bill specifies that the President should negotiate, through fast track, agreements that ensure that foreign governments do not derogate from or waive their laws against exploitative child labor to gain a competitive trade advantage.

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RICHARD A. GEPHARDT
MISSOURI
DEMOCRATIC LEADER

H-204 U.S. CAPITOL
202-225-0100

Congress of the United States
House of Representatives
Office of the Democratic Leader
Washington, DC 20515-6537

October 8, 1997

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2308 Rayburn House Office Building
Washington, D.C. 20515

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The question isn't whether we trade. The question is what are the terms and who benefits. The Archer plan would continue to limit the ability to deal effectively with workers rights and environmental issues as part of trade agreements. Rather than being a force for progress, the Archer plan would validate the status quo.

Fast track is an extraordinary grant of Congressional power. Without the ability to fully debate and amend an agreement when brought back to Congress, we must be very specific about how we define "success." What's at stake are two very different competing ideological approaches to globalization.

The debate over fast track boils down to this: A majority of Democrats want proper treatment and enforcement of environmental and labor laws to be as integral to the negotiations as issues like intellectual property and protections for capital. We are demanding that people and the environment be given the same protections and enforcement in trade treaties as copyrights. Why is that considered an insurmountable hurdle? Because Republicans argue that the environment and workers rights rate less consideration than protecting intellectual property and therefore should not be part of an agreement.

Including and enforcing worker and environmental protections in the core treaty would help to begin to build a consuming class in the countries we're doing business with. It's the right thing to do — and it's economically smart. More people would be able to buy more of our

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The Honorable Robert T. Matsui
October 8, 1997
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So far, the benefits of more open trade have not trickled-down to middle class citizens and workers struggling to get into the middle class. The profits of trade will not simply "trickle-down" to everyone. The experience with NAFTA, bears this out. The income gap in Mexico is increasing, not decreasing. A United Nations report describes the same phenomenon on a wider stage: "As trade and foreign investment have expanded, the developing world has seen a widening gap between winners and losers...The greatest benefits of globalization have been garnered by a fortunate few."

Bill Archer has argued that I will never support fast track. He's wrong. I will never support *his* fast track and I doubt that a majority of Democrats would. I've supported fast track in the past and am prepared to do so again. But the Archer plan is fatally flawed. It's bad for America.

I have attached a staff analysis of the specific flaws in the Archer plan. Let me, however, summarize them here:

- It specifically limits progress on labor and environmental issues. Action on these issues must be "directly related" to trade -- a term that the Congressional Research Service has said is *designed to "limit the President's discretion."* To quell any doubt, the Archer plan adds additional language requiring that action on labor and the environment must also be "necessary" to the operation of the trade agreement.
- A country could actually lower its labor and environmental protections if they benefit domestic and foreign companies and assist that country's "macroeconomic development."
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enclosure

RAG:mrw

Staff Analysis
Republican Fast Track Proposal
"Reciprocal Trade Agreement Authorities Act of 1997"
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In terms of labor and the environment, the Archer plan limits the discretion of the negotiators to achieve results only on matters that are "directly related" to trade³. In analyzing similar language, the Congressional Research Service stated:

*"The language in the bill contrasts with the previous fast-track authorization, which provided for fast-track consideration of provisions that are 'necessary and appropriate' to the President's discretion to negotiate trade agreements that include areas that are not specified in the fast-track authorization. The purpose of the proposed changes was to limit the President's discretion to negotiate trade agreements that include areas that are not specified in the fast-track authorization."*⁴

The Archer plan includes additional limiting language: Not only must the language be directly-related, but it also must now be necessary for the operation or implementation of the trade agreement. The President would be precluded from achieving more than allowed for under the Archer plan and having those provisions being considered under the fast track.⁵

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The Archer plan also goes farther than any previous fast track authority by requiring that intellectual property rights be aggressively enforced with the possibility of criminal sanctions being imposed.⁹ And the Archer plan requires that any future trade agreement partner adopt standards at least as strong as those in the NAFTA for intellectual property.¹⁰ Yet, in other areas, the proposal does not call for any standards.

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Here

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¹³ Section 103(c)(4).

Response to Gephardt Letter

Draft

Assertion: The House bill will limit progress on labor and environment issues because fast track agreements must be "directly related to trade".

Answer: To the contrary, the House bill includes the most detailed and concrete labor and environmental objectives ever included in fast track legislation. In fact, no previous version of fast track even mentioned environmental issues.

By contrast, the House bill specifically calls on the President to negotiate, through fast track agreements, provisions that ensure that foreign governments do not derogate from or waive their labor, health, safety, or environmental laws to give their products or firms an unfair competitive advantage.

- Thus, the bill's labor and environment negotiating objective directly addresses the kinds of issues that Rep. Gephardt and other opponents have been raising.
- The bill tells the President to try to negotiate deals that will prevent foreign governments from manipulating their environmental and labor laws to gain an advantage in international trade. The inclusion of this language is very important in both trade and labor/environment terms and is precisely the kind of issue that should be addressed through fast track agreements.

Moreover, the bill calls on the President to negotiate broader environmental and labor understandings through non-fast-track agreements. This is a first as well, putting Congress' imprimatur on negotiations specifically designed for these purposes.

In sum, the House bill provides an opportunity to make meaningful progress on all three issues -- trade, labor, and the environment.

Assertion: A country would be free to lower its labor and environment protections to assist its

→

"macroeconomic development".

Answer:

That is a misreading. The bill clearly states that the President should include, in fast track agreements, provisions that will prohibit a government from manipulating its labor and environmental laws to gain an unfair trade advantage.

The language on "sound macroeconomic development" does not change the instructions to the President in these areas. Rather, it recognizes that the United States has long urged governments to put in place economic policies that make good development over the long term, and that in pursuing environmental and labor issues the United States is not departing from this important message.

-- In fact, the two concepts are complementary. It is unlikely that an attempt to distort competitive conditions in favor of local goods or firms by departing from a government's own environmental or core labor standards could be justified as sustainable, or wise, macroeconomic policy.

Moreover, the concept of "sound macroeconomic development" embodies the notion that countries will gradually raise their environmental and labor standards over time as they develop, just as we have done.

Assertion: Efforts to promote labor and environment would have to be addressed outside fast track -- at the ILO.

Response: Untrue. As noted, the bill specifically targets those foreign environmental and labor policies and practices that governments can use to give their products and companies an unfair trade advantage.

These are precisely the kinds of issues that it makes sense to address in our trade agreements.

The bill does not limit the President's authority to address broader labor, environmental, or other issues that have a less specific trade nexus through all other means at his disposal.

-- In fact the bill encourages the President to

ensure that trade, environment, and labor policies complement and reinforce each other.

- The President can use his constitutional authority to implement broader agreements along these lines, and if necessary can bring them back to Congress under normal approval procedures.

Assertion: In future trade negotiations, the Administration will consult about labor issues only with industry advisory groups, not with the official Labor Advisory Committee.

Response: The bill calls for consultations with all of the official trade advisory committees, including the official labor and environmental advisory groups (LAC and TEPAC).

That was the intent behind the bill when it was first introduced and any doubt on that score was eliminated through a clarifying amendment prior to committee action on the bill. The bill thus places the labor and environmental advisory committees on an equal footing with the official industry advisory groups.

Assertion: The bill calls for criminal penalties on the infringement of intellectual property rights, but could allow child labor to continue.

Response: For the first time in fast track legislation, the bill specifically singles out child labor as a subject for future trade negotiations.

In particular, the bill specifies that the President should negotiate, through fast track, agreements that ensure that foreign governments do not derogate from or waive their laws against exploitative child labor to gain a competitive trade advantage.

- Most governments have laws against child labor that would be effective if they were enforced. Some governments, however, do not apply those laws, knowing that their manufacturers profit from that failure.

- The bill directs the President to go after that kind of behavior.

As for the protection of intellectual property rights, the bill calls for the President to ensure that foreign governments have strong enforcement procedures on the books (many still do not). These can be a combination of administrative, civil, or criminal remedies.

In addition, section 102(b)(7)(B) provides that the United States should seek to ensure that foreign governments do not derogate from or waive their existing domestic environmental, health, safety, or labor measures, including those that deter exploitative child labor, to gain an unfair competitive advantage in trade or investment. The objective is intended to address such behavior and envisions the inclusion in appropriate fast track agreements of provisions guarding against this type of trade or investment distortion.

The provision also states that: "Nothing in this subparagraph is intended to address changes to a country's laws that are consistent with sound economic development." The language on "sound macroeconomic development" does not in any way affect the scope of the negotiating objective; rather, it simply clarifies that this objective is not intended to preclude foreign governments (or the United States) from making changes in law for sound macroeconomic reasons.

The reference to "sound macroeconomic development" is consistent with longstanding United States Government policy urging governments to put in place economic policies that make good development sense over the long term. A government's attempt to skew competitive trade or investment conditions in favor of local goods or firms by departing from the government's otherwise applicable environmental or core labor standards would be inconsistent with the country's long-term development interests. Indeed, in the Committee's view the twin objectives of promoting sound macroeconomic development and discouraging the selective, trade-distortive application of domestic policy standards are mutually reinforcing. Moreover, the concept of "sound macroeconomic development" embodies the notion that environmental, labor, health, and safety standards will rise as countries develop economically.

USTR
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Strengthening the Roles of Workers and Their Trade Unions

Sustainable development is not possible without a productive labor force that is free to bargain for safe working conditions, fair wages, and benefits. Moreover, smoothly functioning labor markets which balance flexibility with protection from external shocks and downturns are necessary as nations adjust to constantly changing levels of development and new technology. Recognizing the role that labor has played in addressing change and protecting workers, chapter 29 of *Agenda 21* calls for the active participation of labor, supported by increased training and capacity building, in promoting sustainable development.

Progress since Rio

The Bank attaches considerable importance to improvements in labor market performance and, since 1992, has expanded its role in supporting workers and trade unions. *World Development Report (WDR) 1995: Workers in an Integrating World* provides the analytical underpinning of the Bank's labor force strategy, which the Bank has sought to implement through its lending activities, economic and sectoral work, and research, and through strengthening its partnerships with major trade unions and related organizations.

To promote labor mobility, employment, and worker welfare, the Bank lends for a wide set of labor activities including labor code revision, employment creation in public works schemes, and retraining unemployed or potentially redundant workers. Other labor lending promotes labor market information and monitoring,

microenterprise development, employment services, improved conditions for female workers, and compensation for workers laid off in adjustment programs.

Lending for these relatively new activities increased considerably in the last four years. In fiscal 1996, 73 new projects were approved with one or more labor components, compared with 15 in 1992. By mid-1996, 229 ongoing projects included labor components, of which 28 projects were exclusively concerned with labor markets. In total, in the 1990s, the Bank committed about \$2.4 billion in lending for labor market activities.

The Bank further supports its clients through research and analysis of labor market policy. The work can be country specific (such as trade unions in Jamaica, minimum wages in Mexico, employment security regulation in India), in which case it is invariably undertaken jointly with government or forms part of a broader research program (such as the linkage between labor market institutions and economic performance, the relation between training and productivity, and assessments of labor market discrimination).

The Bank has increased its efforts to improve partnerships with other organizations that share its concerns with labor issues. Such partnerships bring clear benefits through sharing of knowledge and experience. The 1995 *WDR*, for example, was prepared in close consultation with the International Labour Organisation (ILO) and international trade union confederations such as the International Confederation of Free Trade Unions (ICFTU) and the World Confederation of Labor (WCL).

had existed." Egypt's government sought to justify the trade union monopoly conferred by law on the Egyptian Trade Union Federation by declaring that it "represents the wish of the workers and corresponds to the needs of many countries, including developing countries." And the Seychelles government told the ILO that the legal monopoly of the National Workers Union was established "after the voluntary dissolution of all trade unions."

In the absence of free unions and collective bargaining, many governments feel obliged to reach out to formal sector workers through labor regulations and special privileges. This is particularly true when the government needs the political support of strong urban groups in order to remain in power. One result is that labor market distortions are particularly severe in many countries that repressed labor unions. Overstaffing in the public sector, high minimum wages, and restrictions on firing—policies introduced in Congo, Kenya, Sudan, Tanzania, and Zambia in the 1960s—reflected political realities for the governments that took power and repressed labor unions after independence. In Egypt in the 1950s and 1960s President Gamal Abdel Nasser, needing the support of the urban middle class, promised their children public sector jobs upon graduation from college. In Bangladesh during the 1980s General Hussain Mohammad Ershad, likewise needing the support of urban labor, negotiated with the country's federation of

labor unions and agreed to increase public sector wages, severance pay, allowances, and nonwage benefits.

Not all countries that repressed unions adopted inefficient labor policies—Korea before 1987 is a notable example—and not all countries that allowed unions to operate freely had good labor outcomes. But the probability of governments passing inefficient labor legislation may be higher when workers' right to representation is not protected. Empirical analysis finds that political liberties, which almost always go hand in hand with the freedom of unions to organize, are associated with less dualism in labor markets and a larger formal sector. Some East Asian countries both restricted union activity and achieved rapid growth in formal employment with only a moderate tendency toward dualism. But they appear to be exceptions.

...

Denial of workers' rights is not necessary to achieve growth of incomes. It is possible to identify the conditions and policies under which free trade unions can advance rather than impede development. Unions are likely to have positive effects on efficiency and equity, and their potential negative effects are likely to be minimized, when they operate in an environment in which product markets are competitive, collective bargaining occurs at the enterprise or the plant level, and labor laws protect the right of individual workers to join the union of their choosing, or none at all.

CHAPTER 13

Dealing with Income Insecurity

Sharp drops in income from work can have a profound impact on the living standards of workers and their families. Unemployment, disability, and old age are all important causes of poverty in industrial and developing countries alike, and of deeper poverty for those already poor. Dealing with these risks is particularly important in transitional economies. Most societies have developed ways of coping with the threat to living standards from both expected and unexpected falls in income. Often this involves

some combination of private saving, informal support mechanisms, and obligations on employers. Governments step in when these informal or private solutions prove insufficient. Households may find it difficult to borrow to cover temporary falls in labor income. Community support mechanisms break down when there is a community- or economy-wide shock, and they tend to decline with urbanization and the diminishing importance of the extended family. Private markets for unemployment and disability insurance and old age pensions are limited or absent, in

Bank partnerships with trade unions are now clearly established. With ICFTU and other international organizations, the Bank sponsored three conferences since Rio with union officials from Europe, West Africa and Southern Africa, the last of which was held in Harare in 1996. The aim of these meetings was to inform unions about work on labor and development issues, and seek their feedback. The Bank also assisted the WCL with a recent conference in Budapest. External training is another area that has recently started to involve trade unions. In 1996, union leaders from five countries participated in an EDI course on labor and development with employers and government officials.

The Bank enjoys close cooperation with the ILO in which both institutions benefit. In addition to regular informal discussions among officials, the two institutions are close to completing a joint study on obstacles to reform of vocational education and training systems. A study on the labor market impact of export-processing zones is also in progress. In addition, the two institutions recently held a joint workshop on labor code reform in West Africa.

Lessons Learned

The Bank's lending experience and analytical work on labor markets are summarized in the 1995 WDR, which stresses the potential benefits to workers of greater international integration through freer trade and greater international capital mobility. Such benefits may accrue through employment and real wage gains but are more likely to be realized if workers and other economic agents are responsive to the changes imposed by globalization. The WDR recognizes that improved labor standards may be desirable in poor countries and strongly opposes child labor and unequal treatment of minorities and disadvantaged groups. It notes, however, that most of the labor force of developing countries lies outside the formal sector so often does not benefit from labor regulations, while excessive standards, if enforced, may raise labor costs and reduce employment. Therefore, the WDR stresses the need to help workers outside the formal sector through job creation schemes and other mechanisms. In transition economies, it notes the wrenching changes faced by many workers and recommends action in three areas: enhancing mobility, reduc-

ing income insecurity, and equipping workers for change. The 1995 WDR also argues that trade unions and collective bargaining may create net benefits through higher productivity and lower costs, although it favors decentralized over centralized bargaining systems.

Challenges Ahead

The past century has been marked by widening international inequality between workers. The past fifteen to twenty years have seen a rapid advancement for large numbers of Asian workers but stagnation or decline for many in Sub-Saharan Africa, Latin America, and the Middle East, and, most recently, the former centrally planned economies of Central Asia and Europe.

- The primary challenge is, and will continue to be, a reversal of that long-run widening inequality. The Bank will continue to assist governments in creating the right environment, in which workers will be able to make the job choices, negotiate the conditions of work, and make the schooling decisions for their children that will improve the welfare of all groups of workers. The aims are robust job creation, rising productivity, and improvements in job quality.
- International assistance will also remain vital in supporting the inclusion of all groups of workers in the global economy. The Bank will therefore continue its support to governments in their efforts to establish frameworks for labor policy that complement informal and rural labor markets, support an effective system of industrial relations in the formal sector, provide safeguards for the vulnerable, and avoid biases that favor relatively well-off insiders. Union officials are likely to participate increasingly in the Bank's training and dissemination activities.
- Finally, the role of key labor standards is likely to become more important internationally. As part of this process, the Bank plans to take a more proactive role in the fight against intolerable forms of child labor. While details remain to be worked out, it is likely that the Bank will lend directly to reduce harmful child labor incidence with the advice and assistance of other key institutions and support these loans with analytical work. With regard to labor standards in general, Bank procurement practices are under review to ensure that its lending meets such standards.

We are also promoting increased *accountability* throughout the Bank Group:

We have developed a corporate scorecard to measure our performance. We are closely monitoring compliance with our policies and continuing to work to improve the inspection process by making it more transparent and effective. And we are designing new personnel policies that explicitly link staff performance to pay and promotion.

We are also emphasizing accountability in the dialogue with our clients. Last year I highlighted the importance of tackling the cancer of corruption: Since then we have issued new guidelines to staff for how to deal with corruption -- including ensuring that our own processes meet the highest standards of transparency and propriety. We have also begun working with a first half-dozen of our member countries to develop anti-corruption programs.

My bottom line on corruption is simple: If a government is unwilling to take action despite the fact that the country's development objectives are undermined by corruption, then the Bank Group *must* curtail its level of support to that country. Corruption, by definition, is exclusive: it promotes the interests of the few over the many. We must fight it wherever we find it.

But key to meeting the challenge of inclusion is making sure not only that we do things right but that we do the right things. Earlier I mentioned the strategic pressure points of change. Let me say a few words about what we are doing in each of these areas.

First, human and social development. We are mainstreaming social issues - including support for the important role of indigenous culture - into our country assistance strategies, so we can better reach ethnic minorities, households headed by women, and other excluded groups. 

We are participating in programs designed by local communities to address pervasive needs -- such as the EDUCO basic literacy program in El Salvador and the District Primary Education Program in India -- and these programs are being replicated by other countries.

We are increasing our support for capacity-building -- particularly the comprehensive program initiated by the African countries last year.

Second, sustainable development: In the rural sector, which is home to more than 70 percent of the world's poor, we have completed a major rethinking of our strategy. Lending is now up after many years of decline, supporting innovative programs such as the new market-based approach to land reform in Brazil. 

We are also supporting our clients' efforts to address the brown environmental issues -- clean water and adequate sanitation -- that are so often neglected but are so important for the quality of the poor's everyday lives. 

And through the Global Environment Facility, the Global Carbon Initiative, and a new partnership with the World Wildlife Fund to protect the world's forests, we are continuing to advance the global environmental agenda. 

Third, the private sector. We are capitalizing on the synergies between the Bank, IFC, and MIGA and coordinating our activities under a single client-focused service "window".

Across the Bank Group, we are building up our work on regulatory, legal and judicial reform designed to help create environments that will attract foreign and domestic private capital. We are using IBRD guarantees to help support policy changes and mitigate risk, and we are expanding IDA's product line to help poor countries develop their private sectors and become full participants in the global economy.

Meanwhile, IFC is working in 110 countries, and in more sectors, employing more financial products than ever before. Last year, saw \$6.7 billion in new approvals in 276 projects. It's Extending the Reach

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WORKERS *in an* INTEGRATING WORLD



WORLD DEVELOPMENT INDICATORS

PART THREE

How Should Governments Intervene in Labor Markets?

GOVERNMENTS INTERVENE in the workplace and in the lives of workers in many ways. But there is a growing debate over whether such interventions are really in workers' best interest. One side calls for aggressive action to protect workers, through regulations on minimum wages, restrictions on firing, and the like. The other side argues against such meddling, because it discourages job creation and helps only a privileged subset of workers, while hurting or, at best, neglecting the most vulnerable. This part of the Report analyzes the role of government in labor markets. Chapter 11 examines labor standards and their impact. Chapter 12 reviews the role of labor unions and their relation to government. Chapter 13 considers policies designed to deal with income insecurity. And Chapter 14 takes up the role of government itself as an employer.

Public Policy and Labor Standards

LABOR MARKETS ARE DIFFERENT FROM MARKETS for commodities. The wages they set and the employment conditions they determine profoundly affect the quality of life of workers and their families, often in ways that may seem harsh or unfair. Not surprisingly, societies, and the governments that represent them, are heavily involved in labor markets the world over. Nearly all governments set workplace standards, such as minimum wages and special protections for working women and minorities. Standards differ in their objectives (Table 11.1). Some aim at protecting vulnerable workers and eliminating injustices, others at helping the market work better. Not all legislated standards achieve their objectives, however. Some end up protecting a group of relatively well-off workers at the cost of limiting employment in the modern sector. In transitional economies some standards introduce rigidities and hinder the redeployment of labor. In many developing countries with limited administrative capacity, standards are often unenforced.

How should governments determine workplace standards? And is linking standards to international trade an efficient way of improving enforcement in low- and middle-income countries? This chapter analyzes the rationale for government intervention in labor markets, the costs and benefits of different types of legislated standards, and the case for international action to improve enforcement.

Why do societies intervene in labor markets?

Societies intervene when unfettered labor markets fail to deliver the most efficient outcomes, or when they want to move market outcomes into line with their preferences and values. Four reasons are often given for intervention: uneven market power, discrimination, insufficient information, and inadequate insurance against risk.

All four reasons raise considerations of efficiency and equity. When market power is uneven, it is usually workers who find themselves in a weak position relative to firms, unable to protect themselves from unjust treatment. This also leads to efficiency losses as workers become less likely to invest in firm-specific skills. Uneven market power becomes an even greater problem for workers belonging to groups that traditionally have had little voice in society—children, women, and ethnic and religious minorities. Dis-

crimination leads to market outcomes that are not only inequitable but inefficient: it limits the contribution of women and minority groups to economic development. Inefficiencies increase when workers and some employers are poorly informed about their work environment, particularly in regard to health and safety hazards. Finally, workers and their families are typically unable to insure themselves adequately against the risk of income loss due to unemployment, disability, or old age.

Societies usually respond to these market failures or injustices in three ways: by establishing informal arrangements, by empowering labor unions to bargain on behalf of workers, and by direct government legislation or intervention. Informal labor market arrangements can be very effective. Although labor contracts rarely offset basic differences in wealth and power between employers and employees, in traditional societies employers usually respect certain norms of justice and avoid exploitative behavior, or face social sanctions. Most informal employment contracts involve some form of risk sharing. For example, sharecropping, in which landless peasants share their output with the landlord, is a common risk-sharing arrangement in Asia and Africa. Informal arrangements can also help provide income security. Private saving is an important mechanism for dealing with risks, such as unemployment, that are not easily insured against. For the poor who have little or no savings, private transfers between households—within extended families or local communities—are often the recourse.

Informal arrangements are by far the dominant solution to labor market problems in low- and middle-income countries. As Table 11.2 shows, over 80 percent of workers in low-income countries, and more than 40 percent of those in middle-income countries are nonwage workers who typically operate in informal and rural labor markets, beyond the reach of trade unions and direct government intervention. Even these figures may overestimate the number of workers covered by formal sector employment protection. Weak administrative capacity and restrictions on trade union freedom mean that, in many countries, labor regulations are not enforced even in large urban firms. But informal arrangements are intrinsically limited. They tend to break down as enterprises grow and as the social and communal links between workers and employers diminish.

Governments intervene in labor markets in a variety of ways.

Table 11-1 Types of government intervention in labor markets

Intervention	Specific guarantees and powers	Examples
Establishment and protection of workers' rights	- Right to associate and organize - Right to bargain collectively - Right to engage in the strike action (strike)	- Workers can form labor unions - Unions can negotiate wages and working conditions with employers. - Workers can strike or use other nonviolent means to achieve their demands
Protection for the vulnerable	- Minimum working age - Equality of wages and employment opportunities - Special provisions for women	- Children under 18 can only be employed in the entertainment industry if the work is hazardous to health, safety, or morals. - No worker can be paid a lower wage than others or be excluded from employment for reasons of gender, race, religion, ethnic background, national origin, or sexual orientation. Affirmative action may be used for disadvantaged groups. - Women workers need to be provided with maternity leave; they may not be compelled to work during the night.
Establishment of minimum compensation for work	- Minimum wages - Minimum nonwage benefits and overtime pay	- Workers are to be paid a minimum hourly wage - Workers are to be provided with housing or medical benefits, a minimum number of holidays in a year, and scheduled overtime wages for work beyond the maximum hours.
Assurance of decent working conditions	- Minimum occupational health and safety - Maximum hours of work	- Workplaces must have proper light and ventilation, and workers must have protection from hazardous activity. - Workers cannot arbitrarily be required to work more than a certain number of hours in a week; they must have at least one rest day a week.
Provision of income security	- Social security - Job security and severance pay - Public works	- Workers who are out of work because of disability, illness, or old age are entitled to transfer payments based on their prior work experience. - Workers have some rights not to be dismissed at will and a right to compensation when laid off. - Temporary employment is provided for those willing to work in times of weak labor demand.

A key problem in modern firms is that of coordinating the actions of a large number of workers to bargain with employers and improve the quality of their workplace. The organization of labor, usually into trade unions, is a response to this problem of collective action. Collective bargaining by labor unions can help solve problems of unequal market power, discrimination, and insufficient information. Unions provide their members with important services, negotiating on their behalf for better working conditions, protecting them from unfair treatment, and dividing the cost of obtaining information among a large number of workers.

Governments have an important role even where there are worker organizations. They set the rules within which formal economic transactions are consummated. For infor-

mal employment these rules are usually implicit, flowing from social custom and the personal character of the employment relationship, whereas formal sector employment is governed by an explicit legal framework that provides the basis for either individual or collective contracts. The rules governing formal labor markets usually define the rights of workers, unions, and employers; the conditions for collective bargaining; and a system for settling disputes (see Chapter 12). Governments also intervene directly in the labor market to achieve particular social goals. Some of the more common interventions include bans on child labor, protection for women and minority workers, setting of minimum wages, and legislation on workplace safety and health standards.

Employment for wages is a less important share of the total in poorer countries.

Table 11.2 Wage employment as a share of total employment by sector and country income group (percentage of total)

Sector	Low-income	Middle-income	High-income
Agriculture	3.6	25.6	35.2
Industry	29.8	46.7	39.7
Services	46.4	63.2	45.6
All sectors	47.1	57.4	54.4

Notes: Data are projected from a sample of countries in each income group. See Appendix tables for countries and years.

Source: ILO, 1986, with ILO data updates.

Child labor

Most countries have laws against child labor. Yet perhaps 100 million or more children in the world below the age of fifteen participate in substantial economic activity at some point during the year. The United Nations Children's Fund (UNICEF) calculates that, in 1991, 80 million children between ten and fourteen years old were engaged in work so arduous for so much of the day that it interfered with their development.

...

A ten-year-old girl in rural Maharashtra State, India, attends primary school. Every afternoon after school she and her two brothers help their father with farm work. The work interferes with their studies, and her elder brother had to repeat seventh grade. Without their work, however, the family could not afford to send them to school.

...

A thirteen-year-old boy working in a Bogotá quarry lives with his parents in a squatter settlement and has never been to school. His job is to separate rocks by size after they have been extracted by bulldozers and explosives and pulverized by mechanical crushers. His parents argue that without his wages the family would starve and that he is better off in the quarry than on the streets, where he would fall into a life of crime and other dangerous activities.

...

Some types of child labor are considered more harmful than others. The girl in Maharashtra and her brothers are representative of the vast majority of working children in the world. They are unpaid helpers on the family farm. Most people would not condemn such work provided the children continue to attend school. The boy in Bogotá is one of a minority of child laborers engaged in casual wage work in urban areas. But most people imagine a child like him when they hear the term "child labor," evoking dis-

turbing images reminiscent of the "dark Satanic mills" of the industrial revolution.

Causes of child labor

A high prevalence of child labor is linked to poverty and to poor quality or availability of education. Children in poor families work because the family needs the extra income, especially if the parents' major source of revenue is uncertain. Surveys in rural India indicate that poor households, with no savings or current assets and unable to borrow, have no choice but to send their children out to work, to minimize the potential impact of a parent's loss of a job or of a failed harvest on the family farm. As parents' incomes rise they are able to send their children to school rather than to work. In Egypt a 10 percent increase in mothers' wages was found to result in a 15 percent decline in labor among children ages twelve to fourteen, and a 27 percent decline among six- to eleven-year-olds. In India the same increase would lower girls' labor force participation by 9 to 10 percent.

Low-cost schooling of good quality can reduce child labor. The Indian state of Kerala provides an example. Around 25 percent of the state's budget goes to education—compared with an average of 17 percent for other Indian states. The state has achieved excellent results. One hundred percent of pupils entering first grade complete the fifth grade, and the state has twice the national literacy rate. Access to education in Kerala is unparalleled in India. Anthropological research in a Kerala fishing village indicates that school attendance does not eliminate child labor, but it does prevent its worst forms, which can be found elsewhere in India. Work can often be coordinated with the school day. This research found that poor village children do attend school but continue to work part-time to help support their families. Their paid out-of-school activities typically include looking after smaller children, foraging, petty trading, domestic chores, and fishing.

Toward eradicating child labor

National legislation and international conventions banning child labor have symbolic value as an expression of society's desire to eradicate this practice. But they cannot deliver results unless accompanied by measures to shift the balance of incentives away from child labor and toward education. The most important ways in which governments can shift this balance are by providing a safety net to protect the poor, expanding opportunities for quality education, and gradually increasing institutional capacity to enforce legislated bans. Programs that provide income security for poor households, such as food-for-work or other public works programs, will have beneficial effects on child labor. Measures to reduce the cost of school attendance (subsidies, construction of schools closer to children's homes) and im-

prove the quality of education (changes in curricula, more and better teachers) could also help. As the incidence of poverty falls and education improves, child labor will decline. That in turn will make enforcement of legislated bans easier, starting with such universally abhorred forms of child labor as prostitution and hazardous work.

Cooperation between local communities, nongovernmental organizations (NGOs), and government can also help. An example of such cooperation involves the deep-sea fishing industry on the Philippine island of Cebu, where large numbers of young boy divers were being hired in an extremely dangerous occupation called Muro-ami fishing. The local community refrained from acting against this practice because parents had no other way to sustain their families. The initiative for change came from national civic groups based in Manila, which applied pressure on the government and mobilized the community. A special Muro-ami task force was created, including representatives of both government and NGOs. Under pressure, employers agreed not to recruit boys less than eighteen years old. To obtain the community's support, and especially that of the children's families, priority was given to creating alternative sources of income through the establishment of soapmaking, weaving, and pig-rearing projects, and the extension of soft loans and training to the boys' mothers.

Standards affecting working women and minorities

Women and ethnic minorities are also protected by special regulations in many countries. Standards to help these workers can be divided into two groups. The first provide women with special rights and protections in the workplace because of their role in bearing and raising children. An example is maternity benefits. The second seek to end discrimination in the labor market by establishing equal pay for work of equal value or prohibiting the exclusion of women or minorities from certain jobs. The use of antidiscrimination standards is not limited to the protection of women workers—in many countries they also cover ethnic and religious minorities.

Workplace protection for women

Nearly all countries have legislation establishing standard periods of maternity leave and other special benefits for women. Typically, such legislation requires employers to provide these benefits to female workers, effectively increasing the cost of hiring them. So there is a risk that legislation aimed at protecting women will end up depressing their wages or discouraging their employment. Sometimes this type of standard has other unwelcome effects. For example, the ILO's committee of experts noted that many Austrian firms employ young women only on fixed-term contracts in order to avoid paying maternity benefits. Some garment manufacturers in Bangladesh hire young women only on a

daily, casual basis for the same reason. Some firms in Latin America take more extreme precautions, requiring women to produce medical certificates attesting to their sterilization before hiring them.

Women in developing countries are often overrepresented in the informal sector (Table 11.3) and are so eager for jobs in the modern sector that they willingly ignore an employer's failure to meet government-legislated standards. Many are not even aware that the standards exist: a survey of female garment workers in Bangladesh found that very few knew that they had a legal right to paid maternity leave. Yet these workers are much better off with jobs in the modern sector than without them—their wages, although low by formal sector standards, are more than double what they could earn in the informal sector or in rural areas. Perhaps more important, having a stable source of income can change their status within the household. Female rural workers in Bangladesh work 5 to 30 percent longer hours than do men, because they have household responsibilities in addition to their work in the fields. These women rarely have a say in the allocation of household expenditures. But surveys indicate that the husbands of garment workers contribute 1.3 to 3.7 hours a day to household work, and that 57 percent of female workers determine how their own salaries are spent. It appears, therefore, that women as a group gain much more from better access to modern sector jobs than from special standards to protect those who already have good employment.

One way to provide women workers with special benefits, without risk of reducing their wages or the number

Women workers tend to be concentrated in the informal sector.

Table 11.3 Shares of men and women workers in nonwage employment

Country	Year	Men	Women
Bolivia	1990	42	49
Costa Rica	1989	41	54
Ecuador	1988	41	53
El Salvador	1991	38	48
Ghana	1989	59	52
Indonesia	1988	43	45
Kenya	1991	43	45
Peru	1990	35	47
Puerto Rico	1990	39	35
Tanzania	1988	34	36
Thailand	1988	34	46
Tunisia	1989	36	51
Turkey	1991	35	30

Source: ILO, various years, World Bank data.

employed, is for society as a whole to bear the cost of those benefits rather than require those employers who hire women to pay the cost alone. This is the approach adopted in many of the former centrally planned economies. Under such a system maternity benefits are usually financed through a payroll tax—although they could also be financed from general revenues. Thus the link between hiring a female worker and paying the cost of providing her with special benefits is broken, removing an important disincentive to hiring women. As long as the payroll tax is the same for all workers, this arrangement in effect transfers resources from men to women. But it will often pose difficulties in practice, especially for low-income countries. Administrative requirements are high, and there are significant risks of abuse. Moreover, a scheme financed by general revenues would partly finance benefits for women employees in the formal sector at the expense of poorer men and women in rural and informal work.

Antidiscrimination policies

DISCRIMINATION AGAINST WOMEN. Standards designed to protect women from job discrimination are often difficult to enforce. Enforcing a standard of equal remuneration for work of equal value, not merely work of the same kind, requires a sophisticated job evaluation system. This has proved very difficult even in industrial countries and is a virtual impossibility for many low- and middle-income countries with limited expertise and resources. In any case, unless accompanied by a prohibition on discrimination in hiring, equal-remuneration legislation is unlikely to have much of an impact. Governments should not give up efforts to end discrimination in the workplace. But the focus of those efforts will need to change, with greater emphasis on policies to improve women's access to modern sector jobs—for example, through merit-based hiring of more women in the public sector.

Egypt provides an example of how government employment policies can help improve women's labor market situation. Although Egypt's policy of guaranteeing employment for graduates has led to an unsustainable growth in government employment and overstaffing, it may have had a positive impact on the role of women in the labor market. Like their counterparts in many other countries, women in Egypt have very limited access to modern sector jobs: the unemployment rate for women with a secondary education or above was estimated in 1988 at 31 percent, compared with 10 percent for men. Moreover, their wages in the private sector are only about half those of comparable males. Public employment policies help offset the impact of this discrimination in two ways. First, government provides more employment opportunities for women than does the non-agricultural private sector. In 1986, 26 percent of all government employees were women, versus only 8 percent in the

private sector. Moreover, nearly 95 percent of female government workers have at least completed secondary school. Second, women in government jobs are paid the same as men.

OTHER TYPES OF DISCRIMINATION. Governments also set standards to eliminate ethnic and religious discrimination. Countries as different as the United States and India are attempting to eradicate discrimination from their labor markets. The U.S. Civil Rights Act of 1964 outlawed all forms of discrimination in employment, including discrimination based on gender or ethnicity. Enforcement depends upon lawsuits against discriminators, which can be quite difficult given the high cost of litigation and the fact that women or minorities excluded from certain jobs rarely are in a position to file a complaint or even know that they have been discriminated against. These difficulties have given rise to affirmative action plans, which focus on results and try to increase the proportion of minorities and women employed in certain positions. However, affirmative action is usually too costly and difficult to implement in the private sector. In the United States, affirmative action plans—generally specifying numerical targets and timetables for hiring—are required of firms with federal government contracts. The Indian government has an affirmative action program in the public sector favoring lower castes. The impact of affirmative action is still being debated. Opponents argue that it generates a backlash against minorities and enmity between social groups. Proponents, however, consider it useful for getting government and its private contractors to hire more women and minority workers.

Minimum wages

Whether or not to set a minimum wage remains one of the most controversial labor market policy dilemmas governments face. Proponents believe that, appropriately applied, minimum wage legislation can raise the incomes of the most poverty-stricken workers at little or no cost to overall employment. Opponents argue that minimum wages make things worse for poor workers by raising production costs in the formal sector and reducing employment. More workers are then forced to seek jobs in the unregulated informal sector, pushing the wages of the working poor lower.

Both sides are partly right. Whether minimum wages have an overall positive or negative impact depends on their effect on employment, which in turn depends on the market structure, the level at which the minimum is set, and government's ability to enforce it. In a fully competitive labor market a binding minimum wage will always reduce employment. But if employers have some market power, a small increase in the minimum wage could actually raise employment. Of course, if the minimum is too high, employers with market power will choose to hire fewer workers. In low- and middle-income countries, raising the mini-

minimum wage often increases employers' and workers' incentive to avoid it, so that there is little effect on employment—or on wages.

Empirical evidence and country experiences

Evidence exists to support either side of the debate. High minimum wages for male workers in Mauritius's export processing zone prior to 1984 may have discouraged their employment. The government eliminated the male minimum wage in December 1984, after noticing that demand for female workers in the zone (for whom the minimum wage was lower) exceeded supply, while male unemployment was high. Male recruitment rose sharply, and more than 95 percent of workers recruited in January 1985 were paid less than the former minimum. On the other hand, recent evidence from the United States supports the view that small increases in the minimum do not hurt employment. The 1992 increase in the minimum wage in the state of New Jersey did not reduce employment in the fast-food industry. Similarly, a cross-state analysis found that the 1990 and 1991 increases in the federal minimum wage did not hurt teenage employment.

It is unlikely that increases in minimum wages would have the same impact on employment in low- and middle-income countries as in the United States. In many countries the minimum is already too high relative to the country's income and to other wages in the economy, so that even a small increase would lower employment. The level of the minimum wage relative to the average income tends to be higher in poorer countries, and to fall as national income rises (Figure 11.1). Some of Bangladesh's sectoral minimum wages are more than double GNP per capita, whereas in Canada, for example, the minimum is only one-fourth of GNP per capita. In Russia the ratio of the minimum wage to the average wage fell from more than 40 percent in 1990 to around 20 percent in 1993. In Kazakhstan the ratio fell from nearly 50 percent to around 20 percent over the same period.

Distributional impact

Minimum wages may help protect the most poverty-stricken workers in industrial countries, but they clearly do not in developing nations. Those affected by minimum wage provisions in low- and middle-income countries are rarely the most needy. Most of the real poor operate in rural and informal markets in such countries and are not protected by minimum wages. The workers whom minimum wage legislation tries to protect—urban formal workers—already earn much more than the less favored majority. Sometimes the differences are extreme—an urban construction worker in Côte d'Ivoire earns 8.8 times the rural wage rate, and a steelworker in India earns 8.4 times the rural wage (Table 11.4). And inasmuch as minimum wage

The relative level of the minimum wage declines as income rises.

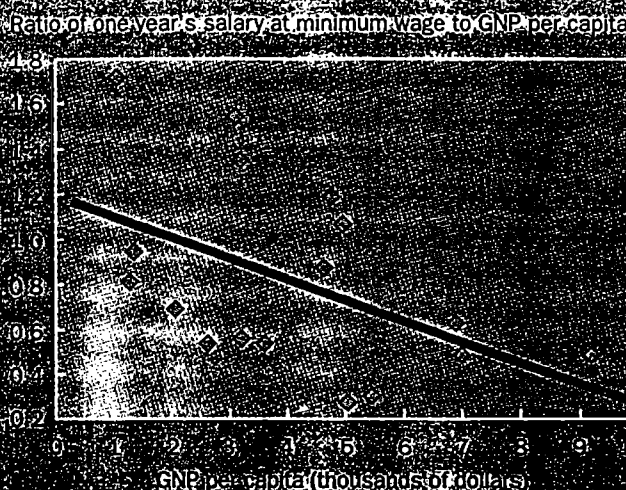


Figure 11.1 The minimum wage and GNP per capita. The sample consists of seventeen developing countries. Years vary by country from 1983 to 1992. Data are in international prices. Source: World Bank data.

and other regulations discourage formal employment by increasing wage and nonwage costs, they hurt the poor who aspire to formal employment. Hence it is difficult to argue for minimum wages in low- and middle-income countries on equity grounds.

Enforceability

Whatever their potential impact, minimum wages in many countries are often not enforced (Figure 11.2). Household surveys indicate that 16 percent of Mexico's full-time male workers and 66 percent of female workers were paid less than the minimum wage in 1988. In Morocco half the firms surveyed in 1986 paid their unskilled workers below the minimum. Few low- and middle-income nations have the administrative capacity to police minimum wage regulations, especially when the minimum is set so high as to discourage hiring—creating strong incentives for employers and workers alike to ignore the regulations. Employers clearly benefit from a lower minimum, which reduces costs. Workers will also gain as long as the wage being offered is above what they could earn in informal sector activities.

When economic and financial crises hit the developing world in the 1980s, most governments let real minimum wages fall rapidly. Between 1980 and 1987 the real minimum wage in Mexico tumbled 43.2 percent and average real wages fell 43.3 percent; meanwhile Chile's real mini-

Urban wages are much higher than rural wages in many developing countries.

Table 11.1 Ratios of wages in selected urban industrial occupations to rural wages

Country	Manufacturing labor	Construction labor
Cameroon	1.52	1.52
Costa Rica	4.09	4.16
Cote d'Ivoire	2.95	2.50
Ethiopia	1.48	1.17
Guinea	3.26	1.76
Madagascar	1.58	1.34
Mali	1.62	1.28
Morocco	1.37	1.38
Niger	1.62	1.14
Philippines	1.98	1.6
United Arab Emirates	2.19	1.02
Tunisia	1.79	1.56

Sources: ILO and World Bank data.

Small firms often disregard labor regulations.

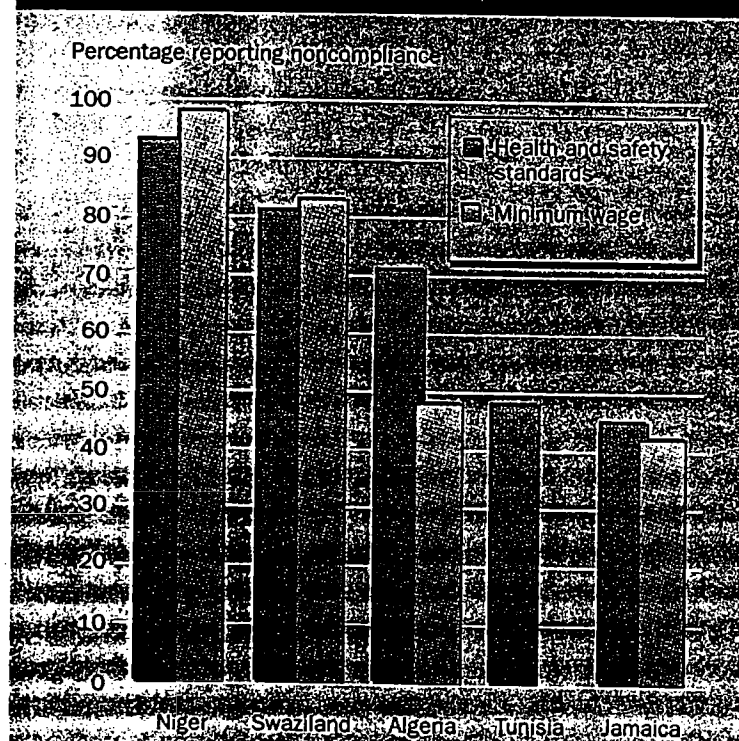


Figure 11.2 Compliance by microenterprises with national labor standards. Data on minimum wage compliance in Tunisia were unavailable. Source: Morrisson, Lecomte, and Oudin 1994.

minimum wage plunged 42.4 percent, but its average real wage fell only 6 percent. In Kenya between 1980 and 1986 real minimum wages fell 41.2 percent and the average real wage 22.8 percent. Falling real wages have welfare costs, but since employers and workers ignore minimum wage regulation when jobs are at stake, attempting to hold the line on minimum wages would have been fruitless. Similarly, in most transitional economies minimum wages have fallen faster than average wages and are unlikely to have impeded labor reallocation. Discussions of minimum wages in transitional economies focus on their impact on the process of economic restructuring and the reallocation of labor from declining sectors to more dynamic ones. Minimum wage regulations could slow adjustments in relative wages and distort market signals during transitions. In practice, however, these regulations did not hinder the adjustment process, especially in the former Soviet Union, because all the transitional economies substantially lowered the real minimum wage.

Safety and health standards

Workers often encounter health risks on the job. The World Health Organization has estimated that nearly 3 percent of the global burden of disease is caused each year by preventable injuries and deaths in high-risk occupations, and by chronic illness stemming from exposure to toxic substances, noise, and hazardous work patterns. According to the ILO, the cost of occupational injuries and deaths in the industrial countries is between 1 and 4 percent of GNP. For low- and middle-income countries these costs are surely greater still, because occupational accident rates are higher. Rates of fatal occupational injuries among construction workers in Guatemala are six times those in Switzerland. Fatalities among workers in the transport industry in Kenya are nine times those in Denmark. And a manufacturing worker in Pakistan is nearly eight times more likely to die in an accident on the job than a worker in France.

...
In 1994 a lawsuit was filed in Texas on behalf of 16,000 farm laborers who claimed that exposure to a pesticide proven to cause reproductive problems had made them sterile. In Costa Rica banana workers and their families suffer from an array of medical problems ranging from cancer to higher than average rates of birth defects; health experts argue that these problems are caused by the potent pesticides used on plantations. The World Health Organization estimates that more than 1 million agricultural workers across Latin America are poisoned every year and that 10,000 die from exposure to chemicals.

...
On March 25, 1911, a fire swept through the Triangle Shirtwaist Company in the Greenwich Village section of New York City. One hundred and forty-six workers, mostly women, died in a burning building whose doors had been locked to

keep employees at their work. A similar accident occurred eighty-two years later, on May 11, 1993, in a toy factory west of Bangkok. One hundred and two workers died, eighty-seven of them women.

Agricultural and other informal sector workers

Most workers in low- and middle-income countries operate in rural and informal markets where legislated labor standards are usually useless for dealing with their health and safety concerns. Societies try to improve health and safety conditions for agricultural and informal sector workers through general policies aimed at improving the overall environment within which they have to work, rather than through labor legislation. The use of dangerous chemicals in agriculture, for example, is usually best controlled by regulations affecting their import or production. Similarly, efforts at providing clean drinking water in rural areas and improving sanitary conditions in villages and urban slums can have a profound impact on the welfare of the majority of workers in low- and middle-income countries.

The Onchocerciasis Control Program in West Africa is one of the most successful programs ever implemented for improving the health standards of rural workers. Onchocerciasis, or river blindness, has long been described as a "plague upon the land" because of its devastating impact on rural workers' health and well-being. Twenty years ago the sight of abandoned villages in West Africa often meant that river blindness had struck and the farmers had fled to unaffected areas. Eradicating onchocerciasis was viewed as the best way to improve rural workers' health standards.

Started in 1974 by seven African countries—later expanded to eleven—with support from over twenty bilateral and multilateral donors, the onchocerciasis program has now succeeded in eliminating the disease-causing parasites in the human population throughout more than 60 percent of the eleven-country area. The program protects more than 30 million people from contracting the disease. Roughly one and a half million people who were infected but not yet blinded have completely recovered. It is estimated that by 1995 the program had prevented over 250,000 more cases of blindness; had freed 25 million hectares of land from the disease, making it available for resettlement and cultivation; and had made 1 million worker-years of additional productive labor available.

Formal sector workers

Nearly all countries legislate minimum safety and health standards aimed at protecting formal sector workers. They are usually justified on the grounds that employers are aware of workplace dangers but workers may not be, and even if workers are aware of occupational risks, they may accept dangerous jobs because they have few or no alternative employment opportunities. Some arguments for stan-

dards thus fall into the category of preventing workers from consciously doing harm to themselves by agreeing to dangerous work. Legislated standards are also defended on the grounds that there are externalities to the risks that workers take—for example, if the costs of medical treatment of those who are injured or fall ill are subsidized by taxpayers.

One difficulty in setting standards is how to determine their level or stringency. Reducing hazards in the workplace is costly, and typically the greater the reduction, the more it costs. Moreover, the costs of compliance often fall largely on employees through lower wages or reduced employment. As a result, setting standards too high can actually lower workers' welfare, but setting them too low may fail to deal adequately with the risk that workers face. The appropriate level is therefore that at which the costs are commensurate with the value that informed workers place on improved working conditions and reduced risk. There is no magic formula. In many countries the determination of this level involves consultations between government, employers, and workers.

Enforcement of health and safety standards is often a problem, particularly in small enterprises in low- and middle-income countries (Figure 11.2). Employers sometimes try to avoid health and safety regulations, and workers in need of a job may accept the risk and tacitly agree to ignore the regulations. In a survey of health and safety conditions in the Philippines, 81 percent of inspected establishments violated one or more standards. In many countries enforcement is so weak that employers have little incentive to comply. Labor departments in low- and middle-income countries often lack the personnel and equipment for regular inspections, and when inspections do occur, they can be occasions for collecting bribes rather than enforcing the law. In 1984 there were only fifty staff members assigned to conduct inspections and enforce labor standards in all of metropolitan Manila, covering nearly 30,000 enterprises.

Toward better enforcement

As a nation's income rises, it is able to devote more resources to building up administrative capacity to ensure that workplace standards are respected. Poorer countries will be unable to enforce labor standards at the same level as richer economies, so they usually need to focus their limited administrative capacity where it will do the most good. For example, standards on the accessibility of fire escapes are simple to develop and monitor. Recent tragedies in Thailand and China might have been avoided if those standards had been enforced. Providing information to workers—and to worker organizations—on the risks of certain toxic chemicals and other workplace hazards is also relatively cheap and can be very effective in helping workers negotiate for better working conditions.

Labor unions in the United States play an important role in enforcing health and safety standards.

Table 11.5. Enforcement of health and safety standards in unionized and nonunionized firms in the United States, by firm size

Firm size (number of employees)	Probability of inspection (percent)		Percent going inspections with employees walkaround	
	Union	Nonunion	Union	Nonunion
1-99	8	14	47.8	27.7
100-249	37	22	59.3	26
250-999	51	19	63.7	26
1000+	95	16	69.8	26

Note: Data are for 1985.

a. In general, around 60 percent of company government inspectors during a tour of the workplace.

Source: Wall, 1991.

Trade unions and other civic organizations can play an important role in enforcing health and safety standards. Individual workers may find it too costly to obtain information on health and safety risks on their own, and they usually want to avoid antagonizing their employers by insisting that standards be respected. The benefits from compliance with standards are not limited to any individual but are enjoyed by all workers. A union can spread the cost of obtaining information on health and safety issues among all workers, bargain with employers on the level of standards to be observed, and monitor their enforcement without putting any individual worker at risk of losing his or her job.

Studies in industrial countries indicate that the role of labor unions in ensuring compliance with health and safety standards is often an important one. If trade union monitoring has a positive impact on compliance in industrial countries where public enforcement capacity is already high, their contribution could be even greater in low- and middle-income countries with weaker administrations. A 1991 study, using U.S. data, found that unions dramatically increased enforcement of the Occupational Safety and Health Act in the manufacturing sector. Unionized firms had a higher probability of having a health and safety inspection, and their inspections tended to be more probing, as employees exercised their "walkaround rights"—the right to accompany a government inspector during a workplace tour (Table 11.5).

Labor standards and international trade

Some members of the international community argue that the present system of developing and monitoring labor standards is inadequate and needs to be complemented with linkages between labor standards and multilateral

trade or lending agreements. Countries that fail to meet a minimum set of standards would sooner or later face sanctions in the form of trade restrictions or reduced access to capital. This chapter has concluded that some standards do make sense within countries. But linking them to international transactions—trade or financial—raises two complex sets of issues: Which standards are basic, and which are a function of the stage of development? And what are the costs of such linkages, both for the economic development of the countries targeted by sanctions and for the workers whom sanctions are intended to help? These are important issues, especially since some of the pressure for sanctions comes from protectionist groups.

Labor conditions, like poverty reduction and overall development, have always been important areas of international concern. Until now, international action to improve labor standards in the developing world has focused on support of domestic efforts, especially through the work of the ILO. Countries have adopted various ILO conventions and have set a wide range of workplace standards, whose implementation the ILO has monitored. But most low- and middle-income countries are unable to enforce all the standards that they have introduced into their legal systems. And in many cases the standards are set so high—at levels more appropriate for a rich country—that even if implemented they could have untoward effects on employment and economic growth.

Failure to ensure implementation of a minimal set of labor standards in poorer nations has prompted several groups to call for international sanctions, to force low- and middle-income countries to monitor compliance with their own labor regulations. Conclusion of the NAFTA accord depended on Mexico's agreement to better enforce its own standards (environmental as well as labor). The international labor confederations, many NGOs, France, and the United States all argued for linking labor standards to the Uruguay Round agreement and for addressing them within the new World Trade Organization.

Proponents of linking labor standards and international transactions distinguish between core standards, which they argue are basic rights and should be subject to linkage, and standards that should rise with development and need not be linked to international transactions. Core standards usually include freedom of association and the right to collective bargaining, the elimination of forced labor (the only area already addressed in GATT), exploitative forms of child labor, and discrimination. It is argued that these basic human rights are absolute moral concerns and that the international community should exert trade pressure on countries that violate them, because those violations reduce the legitimacy of the trading system. Standards whose level typically rises with development include minimum wages and health standards. Many advocates of linkage acknowl-

edge that using trade sanctions to raise this second group of standards could seriously reduce world trade and may actually hurt the very people it aims to help.

Countries that do not respect core standards pose a serious dilemma for the international community. Trade sanctions against them could be justified on moral grounds—and on economic grounds, for example because free trade unions bargaining collectively with employers can help ensure that labor conditions reflect the country's income level. However, such sanctions will hurt the entire global community and not just the country in question, and the cost to the rest of the world will rise with the offending country's size and importance. There is a risk that sanctions will only be applied to small countries, while large violators of basic rights go unpunished.

The real danger of using trade sanctions as an instrument for promoting basic rights is that the trade-standards link could become hijacked by protectionist interests attempting to preserve activities rendered uncompetitive by cheaper imports. The history of antidumping—the practice of retaliating against countries that sell their goods in another country's market at a price below their production cost, or below the price in other markets—shows that discretionary trade protection, even when both rational and well-intended, is highly vulnerable to misuse. Low-cost unskilled labor is the main comparative advantage of poor countries. Differences in endowments are the very basis of international trade and, as was argued in Part Two of this Report, are not a source of general declines in employment in richer countries—even though they may contribute to

changes in employment structure and contraction of employment in certain activities. Where jobs are lost, there is a case for public action, but trade protection is a blunt instrument, taxing others in the society and delaying the structural change that will be the foundation of future growth and jobs.

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Because the formal sector is typically very small and enforcement capacity weak, labor standards in many low- and middle-income countries apply either only to a fraction of the labor force, or not at all. Needy workers in those countries often are not reached by protective labor legislation. They benefit from public action that attempts to improve the working environment in the rural and informal sectors—for example, through the provision of drinking water, improved sanitary conditions, or eradication of infectious diseases. This does not mean that governments should not try to set standards for formal sector workers. But standards that aim at protecting the vulnerable or those who face discrimination—for example, bans on child labor or equal-pay legislation—need to be complemented by other actions such as subsidies for education or greater access for women to modern sector jobs. Health and safety standards can also improve workers' welfare, but compliance increases when it is monitored by labor unions or other civic organizations. Minimum wages may be useful under some circumstances in industrial countries, but they are difficult to justify in low- and middle-income nations. And the costs of trying to link national labor standards to international trade relations will almost certainly outweigh any benefits.

CHAPTER 12

The Role of Unions

FREE TRADE UNIONS ARE A CORNERSTONE OF any effective system of industrial relations that seeks to balance the need for enterprises to remain competitive with the aspirations of workers for higher wages and better working conditions. Unions act as agents for labor, organizing large numbers of workers into a single entity whose collective bargaining power matches that of the employer. Trade unions can also monitor employers' compliance with gov-

ernment regulations (Chapter 11), and they can help raise workplace productivity and reduce workplace discrimination. They have a noneconomic role as well—some unions have contributed significantly to their countries' political and social development. Nations that, usually for political reasons, limit the freedom of unions to organize and operate are left without a mechanism that allows workers and firms to negotiate wages and working conditions equitably. The result has tended to be excessive intervention and reg-

ulation as governments try to pacify workers and gain support for state-controlled unions. But unions can also have negative economic effects. In some countries they behave as monopolists, protecting a minority group of relatively well-off unionized workers at the expense of the unemployed and those in rural and informal markets, whose formal sector employment opportunities are correspondingly reduced.

On balance, do free trade unions help or hinder the functioning of labor markets? This chapter examines the economic and political roles of labor unions and identifies the legislative and broader economic framework under which unions work best.

The economic role of unions

There are two very different views about the economic impact of labor unions. Supporters see them as giving workers a collective voice and enhancing productivity and equality. Opponents see them as monopolists, limiting employment in order to raise members' wages. Do economic analyses and country experiences allow us to make such generalizations? The answer is no. Unions can have positive or negative effects, depending upon the incentives they face and the regulatory environment within which they operate.

Positive effects

IMPROVED PRODUCTIVITY. Trade union activities can be conducive to higher efficiency and productivity. Unions provide their members with important services. At the plant level, unions provide workers with a collective voice. By balancing the power relationship between workers and managers, unions limit employer behavior that is arbitrary, exploitative, or retaliatory. By establishing grievance and arbitration procedures, unions reduce turnover and promote stability in the work force—conditions which, when combined with an overall improvement in industrial relations, enhance workers' productivity.

In many jobs workers are better informed than management about how to improve productivity. They will be more willing to share this information if they are confident of benefiting from any resulting change in organization. The presence of an agent on the workers' behalf, the union, may make them less suspicious that any information they reveal will benefit only management. If the union involves workers in activities that improve efficiency, unionism can be associated with a more productive organization.

Working conditions in some enterprises exhibit the characteristics of nonrival public goods: their "consumption" by one worker does not reduce their availability to another. Job safety is an example. Workers could shop for the level of workplace safety they want by changing jobs until they find one whose conditions suit them, but frequent worker turnover is inefficient and costly for employers as well as for labor. Those costs can be avoided by a union that efficiently communicates workers' preferences.

There are very few studies of the relationship between trade unions and productivity in low- and middle-income countries, but a recent analysis of Malaysian data provides some support for the view that unions can enhance productivity and efficiency (Table 12.1). Unionized Malaysian firms tended to train their workers more and to use job rotation to enhance flexibility and efficiency. They were also more likely to adopt productivity-raising innovations relating to technological change, changing product mix, and reorganization of work.

INCREASED EQUALITY AND REDUCED DISCRIMINATION. Trade unions tend to increase wage disparities between union and nonunion workers, but they usually push for greater wage equality for their own members. When union members are women or belong to ethnic minorities, unions also fight against discrimination. Although sometimes desirable, the compression of wage differences due to union activity may reduce efficiency, by sending wrong signals to

Unionized firms in Malaysia stress the importance of raising productivity.

Table 12.1 Effect of unionization on productivity, enhancing attitudes by firms in Malaysia

Trade Union	Implementation of job rotation policy	Reorganization	Upgrading of technology	Expansion of product range
Plant level	90	29	40	21
Industrial union	31	32	37	26
Nonunion	26	18	26	26

by firms with more than 1,000 workers only

Source: Standing, 1992

workers about which skills are most needed and which industries and occupations have the highest productivity.

The reduction in wage dispersion within unionized firms is well documented for industrial countries, and there are indications that the same effect occurs in low- and middle-income countries as well. A study in the Republic of Korea in 1988–90 found that unions there placed great value on wage equalization and that the degree of wage dispersion in the unionized sector was 5.2 percent lower than in the nonunionized sector. In Mexico union action appears to have helped reduce discrimination. A study using wage data for 1989 concluded that, in the nonunion sector, men enjoyed a 17.5 percent wage advantage over women with identical skills and experience, but the study found no significant wage differential between men and women in the unionized sector. Similarly, the study found a significant wage disadvantage for indigenous peoples in the nonunionized sector but no discrimination in firms covered by trade unions.

Negative effects

MONOPOLISTIC BEHAVIOR. Unions do often act as monopolists, improving wages and working conditions for their members at the expense of capital holders, consumers, and nonunion (unorganized) labor. The higher wages unions win for their members either reduce business profits or get passed on to consumers in the form of higher prices. Either result leads unionized firms to hire fewer workers, increasing the supply of labor to the unorganized sector and depressing wages there. The size of the union wage effect—the difference in compensation between otherwise similar workers that is attributed to union membership—has been studied in several countries. Results indicate that it can reach up to 31 percent in developing countries, 10 percent in Europe, and around 20 percent in North America (Table 12.2).

Where wages for the relatively few workers who are unionized are pushed up, the actions of unions can adversely affect the distribution of income. In most developing economies only a small fraction of the working population belong to trade unions. For example, union coverage is less than 4 percent of the labor force in Pakistan, 5 percent in Kenya, and 10 percent in Malaysia (Figure 12.1). In such settings unions can play an important role in determining pay differentials between workers in the small formal economy and the vast informal and rural working population. If the formal economy is unionized, the distributional outcome is likely to be regressive. Where formal sector production also enjoys trade protection, unions are likely to share the spoils with capital holders at the expense of consumers and the masses of workers in the nonunionized sectors.

But the existence of a union wage premium is not always proof of negative distributional effects, even in developing

Unions are usually able to raise their members' wages above levels prevailing in the overall labor market.

Table 12.2. Union wage premiums in selected countries

Country	Year	Estimated difference between union and nonunion wages (percent)
South Africa ^a	1985	10–24
Mexico	1989	19
Malaysia	1988	18–28
England	1992–93	23
United States	1985–87	20
United Kingdom	1985–87	19
Germany	1985–87	5

^a Black unions only.

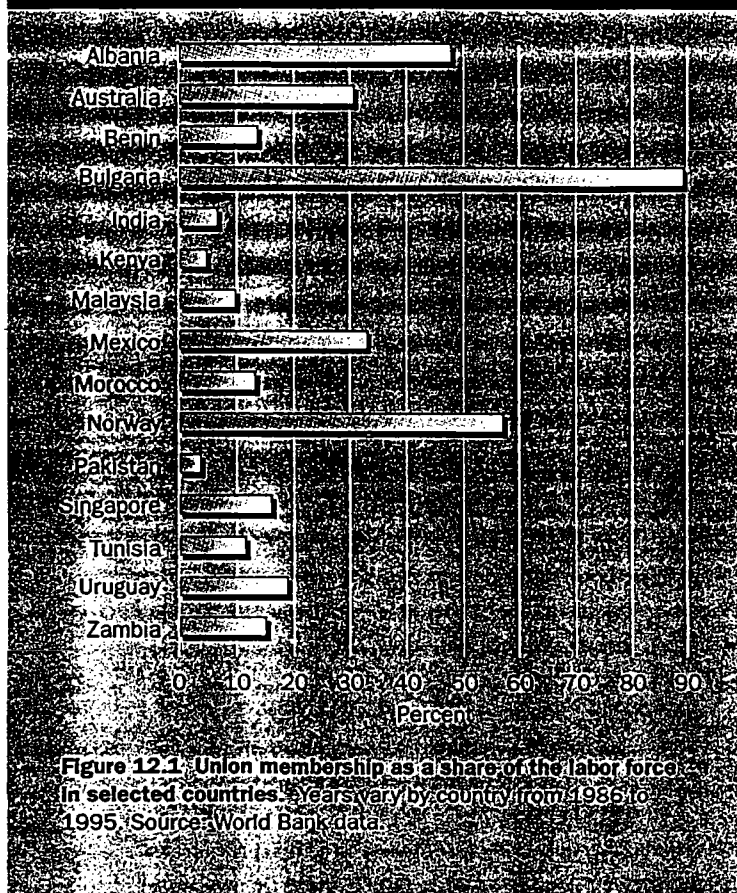
Sources: Branson et al. 1990; Hall 1994; Paragides and Payton 1990; Standing 1992; Bell 1994.

countries. The actions of black unions in South Africa implied a union wage premium of 10 to 24 percent in 1985. But by raising the wages of unionized black workers and bringing them closer to those of white workers, union action may have helped improve the distribution of income.

There are situations where the union wage premium is very small or even nonexistent. A 1991 study in Korea estimated that the wages of unionized production workers were only 2 to 4 percent higher than those of nonunion workers. Failure to detect a strong positive union wage differential is sometimes due to union influence extending beyond the unionized sector—there is often another relatively high-wage sector in the economy that is affected by the unions' wage-setting practices. Obvious examples can be found in some industrial countries, where the coverage of union agreements is automatically extended by law to nonunion workers—in Spain 75 percent of employees are covered by some collective agreement, although only 10 to 15 percent are union members. Where such laws do not exist, nonunionized firms are often under political pressure to pay union-negotiated wages, or they may choose to pay higher wages to head off unionization of their work forces.

OPPOSITION TO REFORM. Trade unions have sometimes wielded their political power against structural adjustment. India's unions continue to criticize the government's recent liberalization efforts, despite the apparent success of many of these initiatives since 1991. The unions have organized nationwide general strikes to oppose incipient industrial restructuring measures aimed in part at increasing India's outward orientation and the reform of state enterprises. India's unions are propping up the part of the economy most in

Trade union membership rarely includes a majority of workers.



need of reform. Latin America also has a long history of union opposition to adjustment. In the 1980s organized labor opposed such comprehensive reform programs as the Cruzado Plan in Brazil and the Austral Plan in Argentina.

Improving the economic impact of unions

How can policymakers create an environment that minimizes the negative effects trade unions can have, while encouraging them to make a positive contribution to economic growth and equity? Experience indicates that such an environment will usually include competitive product markets and regulatory and institutional frameworks designed to protect workers' freedom of association and organization, including their right to join the union of their choice or not to join any union. Many countries' regulations also seek to support the process of collective bargaining in the private and the public sector.

Encouraging unions' positive contributions

COMPETITION ON THE OUTPUT SIDE. Competitive product markets limit unions' ability to obtain higher wages for their

members. Raising wages would force unionized establishments out of business unless the higher wages could be justified by increased productivity. In less competitive environments unions will attempt to capture economic rents and will ally themselves politically with their employers and with politicians who promise to perpetuate those rents. This kind of behavior is evident in industrial countries, where union wage premiums are greatest in regulated sectors and in concentrated industries. In many countries union opposition to trade liberalization and privatization is a rational strategy for maintaining higher wages for unionized workers in the short run at the expense of nonunion workers. Promoting domestic competition and openness to international markets will therefore help curtail these negative effects.

LABOR REGULATIONS AND THE SYSTEM OF INDUSTRIAL RELATIONS. The structure of union organization and the coverage of collective agreements condition union behavior. A key principle in industrial relations is to ensure that the parties engaged in bargaining absorb the costs of their actions rather than shift them to third parties. But in some countries legislation requires that workers be paid even when they are on strike—a clear disincentive to compromise. In contrast, many governments refrain from providing loans or deferring tax payments for firms during strikes or lockouts. Negotiations between unions and public enterprises show starkly how unions are able to achieve distorted outcomes when third parties bear the cost of negotiated agreements. If a public enterprise can turn to the government for subsidies or easy credit when it is in financial difficulty, or if its monopoly status allows it to raise prices at will, the burden of high settlements falls on those who pay the resulting higher prices or higher taxes, not on the workers or the enterprise managers who negotiated the increase.

Legislation in many countries stipulates the right to join a union of one's own choice as a basic human freedom. This is the legal foundation for the emergence of unions that are free and independent. Such unions are able to act as genuine representatives of workers and thus to bargain with employers to the extent that the competitive environment allows. Such legislation usually allows more than one union to be established to represent a given group of workers; this is a strong incentive for established unions to maintain the quality of their services. Legislation of limits on the number of unions per enterprise is viewed as an infringement on workers' rights. Union fragmentation and interunion rivalry are sometimes disruptive, however, and bargaining costs rise if workers have many representatives. These issues are often dealt with through cooperation, with employers offering unions incentives to join together for bargaining. Freedom of association also encompasses the right not to be forced into a union. In economic terms, a competitive nonunion labor market could exert discipline on the mo-

monopolistic wage practices of unionism. If, however, the state encumbers the nonunion sector with regulations on minimum wages and restrictions on hiring and firing, the sector will operate much less effectively as a constraint on unions' wage demands.

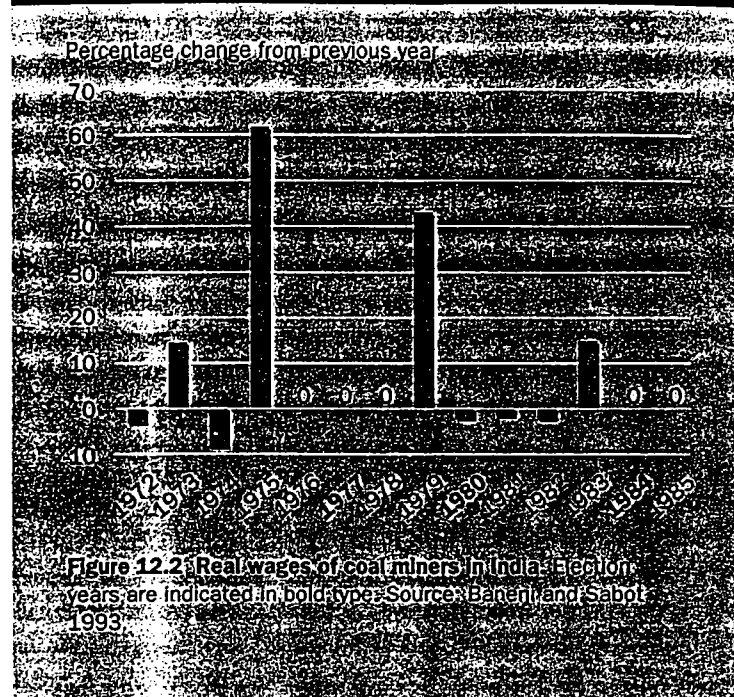
The importance of competitive output markets and of the principle of internalizing bargaining outcomes is illustrated by two contrasting examples. A survey of twenty industrial firms in Brazil found that increased competition in the output market caused those firms to introduce productivity-enhancing techniques and processes such as quality controls and quality circles. Labor, keen to ensure continued competitiveness, did not insist on past privileges but instead cooperated with management in this process. This indicates that there is more to industrial relations than bargaining over wages and other conditions. In many countries labor and management get together to consider ways of increasing competitiveness. Coal miners in India, in contrast, have been shielded from competition ever since the government takeover of the industry in 1973. The highly unionized coal workers exert political pressure to obtain wage increases that are unrelated to market realities. As a result, their wages have been mainly based on political considerations, without regard to the country's economic interests and development objectives: the real wages of coal miners have jumped noticeably in the years just before national elections (Figure 12.2).

Collective bargaining in the private sector

THE LEVEL AT WHICH BARGAINING TAKES PLACE. The experience of several countries indicates that bargaining at the enterprise level can be an appropriate framework for achieving positive economic effects. At the other extreme is bargaining at the national level, common in Northern and Western Europe. Although these systems have fallen out of favor as Europeans grapple with rising unemployment and inflexible labor markets, they are associated with decades of positive industrial relations and good wage and employment outcomes for European workers. But national-level bargaining requires that most workers be covered by union agreements. If they are not, as is the case in most countries, national agreements will benefit the unionized sector at the expense of the unorganized and poorer groups in society. That has been the result in Latin America, where centralized approaches to industrial relations have fared poorly.

If collective bargaining takes place at the enterprise or the plant level, the union's ability to effect monopolistic wage increases is tempered by the strong competitive pressures on the firm from the product market. In Malaysia it has been calculated that the wage premium for plant-level unions is around 15 percent, whereas sectoral, or industry-wide, unions are associated with a wage premium of nearly 20 percent.

Indian coal miners have often seen their wages jump before national elections.



Examples of how decentralized bargaining can achieve good results are found in certain industrial countries (Canada, the United States, and Japan) and in some of the newly industrializing East Asian economies (Hong Kong and Korea after 1987). The system of collective bargaining in transitional economies is still being developed. In Canada and the United States collective bargaining is mostly at the enterprise level, although there are some multiemployer arrangements. There is no tradition of involvement by central organizations in bargaining in most sectors, and there are no central employer organizations. Enterprise unions have been heralded as one of the pillars of industrial relations supporting Japan's economic achievements. In Japan collective bargaining takes place at the enterprise level, but confederations of labor unions play an important coordinating role during the annual bargaining exercises. In Hong Kong unions are also organized along enterprise lines, although as in Japan there is some coordination by trade union federations. Hong Kong's unions operate in an environment of strong competition in the output market, as well as in the labor market because of migration from China. This weakens their bargaining position, and most unions are in the business of providing insurance and social assistance to their members rather than fighting for higher wages.

Recent developments in Korea's system of industrial relations provide useful lessons for other countries. Trade

union freedom increased as part of the process of political liberalization that started in 1987. The number of unions and their membership rose rapidly (Table 12.3). In 1992 Korea had 7,676 firm-level unions and 21 industrial federations. After a chaotic beginning, with conflict-ridden labor-management relations in 1987–89, collective bargaining is now becoming an established institutional arrangement. Bargaining is decentralized and is conducted at the enterprise level, except in a few cases, such as textiles and banking, where bargaining occurs at the industry level or through a multiemployer arrangement. Korean industrial relations are still evolving, but the tradition of enterprise-level bargaining has not been significantly modified in the new collective bargaining experiments since 1987, and a restructuring of bargaining patterns appears unlikely in the near future.

The system of industrial relations in the countries of Eastern Europe and the former Soviet Union is also still evolving. Transitional economies inherited heavily unionized labor markets, with more than 90 percent of workers belonging to unions sponsored and supported by the state and the communist party. Economic and political transformation has led to a decline in union membership, even as unions were gaining their independence. But unionization—estimated in 1990 at around 80 percent in Russia and 60 percent in Poland—remains much higher than in most high-income industrial or developing countries. Unions in transitional economies are still trying to adapt to new realities and to develop their own approach to bargaining. Experiences have been mixed. Countrywide bargaining between unions and employers in the Czech Republic—a relatively small country with a tradition of coordination at the national level—appears to be achieving good results.

This was not the case in Ukraine, however, where centralized bargaining in 1993 led to an unsustainable agreement whereby wages rose faster than inflation.

That plant-level collective bargaining may be better suited to conditions in many countries does not mean that consultations at the sectoral or the national level should not take place, or that national trade union federations have no role. In nearly all of the country examples presented here, enterprise-level bargaining is complemented by sectoral or national coordination. And multiemployer agreements may under certain circumstances be more efficient than enterprise bargaining, as in the construction sector in some areas of the United States, where the nature of the work is such that workers change employers very often. Trade union federations can be important when large-scale structural adjustment and rapid disinflation are needed. In Israel and Mexico, organized labor rallied behind governments committed to adjustment programs and agreed to social pacts that have facilitated stabilization, but instances of this constructive role of labor confederations have been rare. It is difficult to persuade a powerful pressure group to help design and implement a stabilization plan, and eschew general strikes against restructuring measures aimed at increasing the outward orientation and privatization of industry, when the result is likely to be to reduce the relative wages of its members.

SUPPORTIVE LEGISLATION AND THE ROLE OF EMPLOYERS. Decentralized bargaining requires strong guarantees of union rights. A system of industrial relations based on enterprise-level unions can be open to abuse by employers. Some employers try to use their relative market power to discourage the organization of labor unions in their enterprises. Employer abuse can lead to deteriorating industrial relations and unrest, which are hardly conducive to investment and growth. Labor legislation must try to strike a difficult balance, protecting unions' rights while limiting their potential monopoly power.

The content of enterprise-level collective bargaining is usually determined by the parties themselves, obviating the need for legislation to spell out what contracts may or may not cover. If management is willing to enter into agreements about capital-labor ratios, apprenticeship programs, and the conditions under which temporary workers are hired, the law should not forbid it. In a competitive product market the costs of such agreements will fall mainly on the firm and the union, which should deter them from reaching unrealistic agreements.

Nor is there usually a need to legislate a limit of one union per enterprise. If management wants to minimize bargaining costs by having just one union to deal with, it is up to management to persuade the unions to join together for collective bargaining. Allowing other unions to form

The number of Korean trade unions has risen sharply since 1987, with most organized at the firm level.

Table 12.3 Type of labor organization in the Republic of Korea

Year	Total	Industrial federations	Local branches ^a	Firm-level unions
1966	2,634	16	362	2,256
1975	4,024	49	438	3,535
1986	2,833	16	6	2,811
1988	2,752	16	6	2,725
1990	6,462	21	0	6,441
1992	7,696	21	0	7,675

^a Local branches were transformed into individual unions in the 1980 labor law revision.

Source: Krause and Park, 1993. Reprinted with permission.

provides a check against an established union serving only the interests of a small group of workers. Alternatively, some labor regulations—for example, in Bangladesh—stipulate that only one union may act as a “collective bargaining agent” and call for the election of this agent from among all unions in the enterprise at regular intervals.

Unions in the public sector and natural monopolies

Ensuring that unions play a positive role is more difficult when they operate in noncompetitive markets, such as the public sector and natural monopolies (electric utilities, telephone companies, and others). The costs to society of an interruption of work by firefighters, police officers, teachers, nurses, utility workers, or public transport operators can be very high. Consumers have limited scope to look elsewhere for these services. As a result, a large part of the costs of a strike or lockout is borne by parties not represented in the negotiations.

The special features of labor negotiations in the public sector create a difficult dilemma. Should laws protect public sector workers’ rights to freedom of association and organization and their right to strike? Or should they protect the general public’s right to uninterrupted essential services and protect society from being held hostage by a small group of civil servants?

Societies’ responses to these questions vary. Public sector workers in Bangladesh are allowed to form unions but are not permitted to bargain collectively. Salaries and wages of civil servants and workers in public enterprises are determined by government-appointed commissions. However, this arrangement has not stopped public workers from going on illegal nationwide strikes to exert political pressure on the government to raise their wages. In Malaysia collective bargaining is allowed in the public sector, but the central government has the authority to accept or reject the final agreement—in addition, Malaysian public sector unions tend to be less independent from government pressures than unions in South Asia. Federal workers in the United States were denied the right to form unions until 1962, and even now they do not have the right to strike. In many U.S. states, state workers are also prohibited from going on strike. Spanish public workers, on the other hand, are allowed to form unions, bargain collectively, and strike, provided they continue supplying a minimum level of “essential services,” defined by law.

Dealing successfully with the problems raised by public sector unions depends upon the quality of labor legislation and dispute settlement procedures. Effective labor legislation for the public sector tries to set up alternative mechanisms to strikes and lockouts for the settlement of disputes—arbitration by third parties is an obvious example. Chile’s labor law provides for a special type of arbitration to deal with disputes involving public workers. Called “final

offer arbitration,” the arrangement requires the arbitrator to choose either management’s final offer or the union’s final offer. This encourages the two parties to present reasonable demands and thus to design their own contract.

Unions and politics

All pluralistic societies consider freedom of association and organization a basic human right, and organized labor is often in the vanguard of the movement toward greater political openness and democracy. But many countries still restrict trade union activities. How have constraints on freedom of association and organization affected labor market outcomes? In countries without free unions, collective bargaining is unavailable to determine wages and other working conditions; governments therefore perceive a need to intervene and set those conditions administratively. As a result, many countries that have repressed unions have had highly distorting labor policies.

Polish workers’ struggle for freedom in the 1980s was a dramatic reminder that free labor unions are mostly democratic institutions. Solidarity’s leaders believed that pluralistic labor unions could be the catalyst for a pluralistic political system and that free trade unions were a prerequisite for a free society. Negotiations in the city of Gdansk in August 1980, which focused on labor issues, led to the creation of the first free trade union in a communist country. But it quickly became obvious that authoritarian rule and a free trade union could not coexist: the communist leadership outlawed Solidarity in 1982.

South Africa’s black labor unions, like Solidarity, gave powerless people a chance to make their voices heard. Although the unions were concerned mainly with organizing workers to bargain over workplace issues, their political activities have received far more attention. The South African government’s original intention was to develop a pluralistic system of industrial relations that confined unions to workplace issues and left political issues to political parties. But South Africa’s experience also showed that free trade unions are inconsistent with nondemocratic practices—the black union movement became a leader in the struggle against apartheid.

Many governments continue for political reasons to exercise strict control over labor movements. Although a large number of nations have ratified Convention 87 of the ILO guaranteeing freedom of association and organization, its full application has proved elusive. Many countries deny workers the right to organize outside officially recognized and controlled structures. Responding to ILO inquiries, governments have given different explanations for this situation, not all of them convincing. A Nigerian government argued that its imposition of a single trade union center “responded to the desires of the workers to amalgamate the many trade unions and four central organizations which

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THE WORLD BANK GROUP

The Challenge of Inclusion

Annual Meetings Address

by
James D. Wolfensohn
President
The World Bank

Hong Kong SAR, China, September 23, 1997

Prepared For Delivery

I. Introduction

Mr. Chairman, Governors, Ladies and Gentlemen:

I am very pleased to welcome you to these Annual Meetings of the World Bank Group and the International Monetary Fund. I am also delighted to be in Hong Kong. This beautiful and bustling city which I have visited regularly for forty years, exemplifies the openness, dynamism, and optimism of so much of Asia today. And so does our meeting here in this magnificent conference center where everything has been done impeccably. I would like to express my thanks to our hosts, the Government of China. And the authorities here in Hong Kong. It is impossible to imagine greater courtesy, generosity and efficiency. We look forward to your continued progress.

China's success has been truly remarkable. Less than a generation ago, eight in ten Chinese eked out an existence by tilling the soil for less than a dollar a day. One adult in three could neither read nor write. Since then, 200 million people have been lifted out of absolute poverty and illiteracy has fallen to less than one in ten. China is our largest borrower, one of our most valued shareholders and home to more than a quarter of our clients. I am delighted that our partnership continues to strengthen.

Mr. Chairman, this is the third time that I address you as President of the World Bank Group - the third time I have the opportunity to express my deep gratitude to my friend Michel Camdessus, whose collaboration over the last 2-1/2 years has been so invaluable to me. We work ever more closely together and I continue to benefit from his great experience and judgement.

From the beginning, one of my priorities has been to take the pulse of development firsthand. I have now visited almost 60 countries. I have met with governments, parliamentarians, and the private sector. I have talked with national and international NGOs on subjects ranging from women's issues to the environment, from health to the impact of macroeconomic reform.

Wherever I go, I continue to be impressed by the people we serve - by their strength, their energy and their enterprise - even in the most abject conditions. By the hundreds of thousands disadvantaged by war, by the millions of children without families condemned to live on the streets, by the disabled shut out from any kind of social support. By the plight of the poorest.

Today our clients number 4.7 billion people in over 100 countries. Three billion live under two dollars a day. A billion three hundred million live on under one dollar a day. One hundred million go hungry

Meg -
Some recent
quotes on
environment
from Wolfensohn
See dog-eared
pages.
- Mark R.

every day; 150 million never even get the chance to go to school.

But whether they live on the plains or in the valleys, whether they live in slums or isolated villages, whether they speak hindi, swahili, or uzbek. They have one thing in common: They do not want charity. They want a chance. They do not want solutions imposed from without. They want the opportunity to build from within. They do not want my culture or yours. They want their own. They want a future enriched by the inheritance of their past.

I have learned that people are the same wherever they are - here in this room and across the world. We all want the best for our children and our families. We all want peace and economic and physical security. We all want to live in a supportive community. We all want personal dignity.

This was vividly brought home to me six months ago when I visited a large water and sanitation project which the Bank is supporting in the favelas in Brazil. The project, which is now self-sustaining, brings together the local community, the private sector, and NGOs.

With my host, the Vice Governor of the State of Rio, I went from one makeshift home to the next, talking with the women who live there and who used to carry the water on their shoulders from the bottom of the hillside, to their dwellings at the top. One after the other, they proudly showed me their running water and flushed their toilets and told me how the project had transformed their lives.

And as I walked around, more and more of the women came up to me displaying pieces of paper showing charges and receipts for 5 or 7 cruzeiros a month. I watched and listened to this until the Vice Governor, said, "What they're showing you, Jim, is that this is the first time in their lives that their name and address have appeared on an official notice. This is the first time their existence has been officially recognized. This is the first time that they have been included in society. With that receipt they can get credit to purchase goods, with that receipt they have recognition and hope."

As I walked back down the hill from that favela, I realized that this is what the challenge of development is all about - inclusion. Bringing people into society who have never been part of it before. This is why the World Bank Group exists. This is why we are all here today. To help make it happen for people.

II. The State of Development *Circa* 1997

Where are we in terms of "making it happen" in 1997? In many ways, this is the *best of times* for developing countries: Output grew last year by 5.6 percent - the highest rate in 20 years. Foreign direct investment exceeded \$100 billion - the most ever; private capital flows now total \$245 billion - five times Official Development Assistance. And developing countries are projected to enjoy continued strong growth over the next 10 years.

Social indicators are also improving. Life expectancy has risen more in the last 40 years than in the previous 4,000. And freedom is blossoming. Today nearly two in three countries use open elections to choose their national leadership and five billion people live in a market economy - up from 1 billion, ten years ago.

There is also much good news regionally: Reform programs in Eastern European and Central Asian countries continue to advance, and prospects for accession to the European Union now look promising for several countries in the region. There is real progress in Sub-Saharan Africa, with new leadership and better economic policies. 4.5 percent GDP growth in 1996, up from 2% two years ago.

In the Middle East and North Africa, despite political problems, efforts continue to boost regional trade and investment, improve competitiveness, and expand economic opportunity. In Latin America - countries have emerged from the tequila crisis, with their earlier gains against hyperinflation fully intact.

In East Asia, despite recent turbulence in financial markets, we still expect long-term growth and poverty reduction to be strong. And in South Asia, home to 35 percent of the developing world's poor, growth rates over the past several years have approached 6 percent.

This all adds up to much to celebrate; but there is also much to lament. Yes the glass is half full, but it is also half empty. Too many people are not enjoying the fruits of success.

Here in East Asia where, despite the "miracle", inequities between rural and urban areas and between the skilled and the unskilled are becoming more widespread. In the countries of the Former Soviet Union, where the old and the unemployed have become more vulnerable amidst the turbulence caused by the transition from command to market economies.

In parts of Latin America, where problems of land-ownership, crime, drug-related violence, unequal access to education and health care, and enormous disparities in income hinder progress and threaten stability. And in many of the world's poorest countries, where population growth continues to run ahead of economic growth, eroding living standards.

And the deeper tragedy is that the glass is almost totally empty for too many. Indeed, for too many, it is the *worst of times*, as huge disparities persist across and within countries.

In too many countries, the poorest 10 percent of the population have less than one percent of the income, while the richest 20 percent enjoy over half. In too many countries, girls are still only half as likely as boys to go to school. In too many countries, children are impaired from birth because of malnutrition, inadequate health care, and little or no access to early childhood development programs. In too many countries, ethnic minorities face discrimination and fear for their lives at the hands of ethnic majorities.

Mr. Chairman, what we are seeing in the world today is the tragedy of exclusion.

III. The Challenge Ahead

Our goal must be to reduce these disparities across and within countries, to bring more and more people into the economic mainstream, to promote equitable access to the benefits of development regardless of nationality, race or gender. This - the Challenge of Inclusion - is the key development challenge of our time.

You and I and all of us in this room - the privileged of the developing and the developed world - can choose to ignore it. We can focus only on the successes. We can live with a little more crime, a few more wars, air which is a little bit dirtier. We can insulate ourselves from whole sections of the world for whom crisis is real and daily but which to the rest of us is largely invisible.

But we must recognize that we are living with a time bomb and unless we take action now, it could explode in our children's faces.

If we do not act, in 30 years the inequities will be greater. With population growing at 80 million a year, instead of 3 billion living on under \$2 a day, it could be as high as 5 billion. In 30 years, the quality of our environment will be worse. Instead of 4 percent of tropical forests lost since Rio, it could be 24 percent.

In 30 years, the number of conflicts may be higher. Already we live in a world which last year alone saw 26 inter-state wars and 23 million refugees. One does not have to spend long in Bosnia, or Gaza or the lakes district in Africa to know that without economic hope we will not have peace. Without equity we will not have global stability. Without a better sense of social justice our cities will not be safe and our societies will not be stable. Without inclusion, too many of us will be condemned to live separat, armed and frightened lives.

Whether you broach it from the social or the economic or the moral perspective, this is a challenge we cannot afford to ignore. There are not two worlds, there is one world. We breathe the same air. We degrade the same environment. We share the same financial system. We have the same health problems. AIDS is not a problem that stops at borders. Crime does not stop at borders. Drugs do not stop at borders. Terrorism, war and famine do not stop at borders.

And economics is fundamentally changing the relationships between the rich and the poor nations. Over the next 25 years, growth in China, India, Indonesia, Brazil and Russia will likely redraw the economic map of the world, as the share in global output of the developing and transition economies doubles. Today these countries represent 50% of the world population but only 8% of the GDP. Their share in world trade is a quarter the European Union's. By the year 2020, their share in world trade could be 50% more than Europe's.

We share the same world and we share the same challenge. The fight against poverty is the fight for peace, security, and growth for us all.

How then do we proceed? This much we know: No country has been successful in reducing poverty, without sustained economic growth. Those countries that have been most successful -- including most notably many here in East Asia -- have also invested heavily in their people, have put in place the right policy fundamentals, and have not discriminated against their rural sectors. The results have been dramatic: large private capital inflows, rapid growth, and substantial poverty reduction.

The message for countries is clear: educate your people, ensure their health, give them voice and justice, financial systems that work, and sound economic policies, and they will respond and they will save and they will attract the investment, both domestic and foreign, that is needed to raise living standards and fuel development.

But another message is also emerging from recent developments. We have seen in recent months how financial markets are demanding more information disclosure, and how they are making swift judgments about the quality and sustainability of government policies based on that information. We have seen that without sound organization and supervision a financial system can falter, with the poor hurt most. We have seen how corruption flourishes in the dark, how it prevents growth and social equity, and how it creates the basis for social and political instability.

We must recognize this link between good economic performance and open governance. Irrespective of political systems, public decisions must be brought right out into the sunshine of public scrutiny. Not simply to please the markets but to build the broad social consensus without which even the best-conceived economic strategies will ultimately fail.

IV. The Development Community

Mr. Chairman, how can we in the broader development community be most effective in helping with the enormous task ahead?

It is clear that the scale of the challenge is simply too great to be handled by any single one of us. Nor will we get the job done if we work at cross purposes or pursue rivalries that should have been laid to rest long since. Name calling between civil society and multilateral development institutions must stop. We should encourage criticism. But we should also recognize that we share a common goal and we need each other.

Partnership, I am convinced, must be a cornerstone of our efforts. And it must rest on four pillars.

First and foremost, the government and the people of developing countries must be in the driver's seat - exercising choice and setting their own objectives for themselves. Development requires much too much sustained political will to be externally imposed. It can *not* be donor-driven.

But what we as a development community can do is help countries by providing financing, yes; but even more important, by providing knowledge and lessons learned about the challenges and how to address them.

We must learn to let go. We must accept that the projects we fund are not donor projects or World Bank projects - they are Costa Rican projects, or Bangladeshi projects, or Chinese projects. And, development

projects and programs must be fully owned by *local* stakeholders if they are to succeed. We must listen to those stakeholders.

Second, our partnerships must be inclusive - involving bilaterals and multilaterals, the UN, the European Union, regional organizations, the WTO, labor organizations, NGOs, foundations, and the private sector. With each of us playing to our respective strengths, we can leverage up the entire development effort.

Third, we should offer our assistance to all countries in need. But we must be selective in how we use our resources. There is no escaping the hard fact: More people will be lifted out of poverty if we concentrate our assistance on countries with good policies than if we allocate it irrespective of the policies pursued. Recent studies confirm what we already knew intuitively - that in a good policy environment, development assistance improves growth prospects and social conditions; but in a poor policy environment, it can actually retard progress, by reducing the need for change and by creating dependency.

I want to be very clear on this point: I am not espousing some Darwinian theory of development, whereby we discard the unfit by the wayside. Quite the contrary. Our goal is to support the fit, and to help make the unfit fit. This is all about inclusion.

In Africa, for example, a new generation of leaders deserves our strongest possible support for the tough decisions they are taking; they have vast needs and a growing capacity to use donor funds well in addressing them. We must be there for them. It is an economic and a moral imperative.

However, where aid cannot be effective because of bad policy, or corruption or weak governance, we need to think of new ways of helping the people. Not the old technical-assistance approaches of the past that relied too heavily on foreign consultants. But helping countries help themselves: by building their own capacity to design and implement their own development.

Finally, all of us in the development community must look at our strategies anew.

We need that quantum leap that will allow us to make a real dent in poverty. We need to scale up, to think beyond individual donor-financed projects to larger country-led national strategies, and beyond that to regional strategies and systemic reform.

We need approaches that can be replicated and customized to local circumstances. Not one agricultural project here or one group of schools there. But rural and educational country strategies that can help the Oaxaca's and the Chiapas' of this world as well as the Mexico Cities.

We need to hit hard on the key pressure points for change - adequate infrastructure in key areas, social and human development, rural and environmental development, and financial and private sector development.

And we need to remember that educating girls, and supporting opportunities for women - health, education and employment - are crucial to balanced development.

In the struggle for inclusion, this all adds up to a changed bottom line for the development community. We must think results - about how to get the biggest development return from our scarce resources. We must think sustainability - about how to have enduring development impact within an environmentally sustainable framework. We must think equity - about how to include the disadvantaged. We must focus not on the easy projects, but on the difficult - in Northeast Brazil, in the Gangetic Plain in India, and in the horn of Africa. Projects there will be riskier, yes. But success will be worth all the more in terms of including more people in the benefits of development -- and giving more people the chance of a better life.



V. The World Bank Group

How is the Bank Group responding to the Challenge of Inclusion?

Last year, I said that if the Group were to be more effective, it needed to change - to get closer to our clients' real needs, to focus on quality, and to be more accountable for the results of our work. This year, I want to tell you that it is happening. The Bank is not only changing, but the need for change is now fully accepted.

I know - and you know - that the Bank has tried to change before. But there has never been this level of commitment and consensus. We are building on the mission statement articulated by my predecessor, Lew Preston, whose untimely death made it impossible for him to implement his plans.

Earlier this year, we launched an action program - the Strategic Compact - to renew our values and commitment to development, and to improve the Bank's effectiveness.

I believe the Compact is historic. Not because there is agreement on every paragraph of the document; but because staff, management and shareholders -- with terrific support from our Executive Directors -- are now united on the future direction of the institution.

And while we still have a long way to go, and while change is painful -- and some people are undoubtedly feeling that pain -- implementation is well underway.

I really believe that this time we can succeed. And we will succeed because of our truly remarkable and dedicated staff. I do not believe a better development team exists, nor one with more experience in fighting poverty.

But the Compact is not primarily about our organization and internal change, it is about our *clients* and meeting their needs more effectively. To take this beyond rhetoric, we have decentralized aggressively to the field. By the end of this month, 18 of our 48 Country Directors with decision-making authority will be based in the countries they serve - compared with only 3 last year.

We have speeded up our response time and introduced new products such as the Single Currency Loan and loans for innovative projects of \$5 million or less that can be implemented very quickly.

Working with Michel and our colleagues in the IMF -- as well as with many other partners -- we have prepared debt reduction packages worth about \$5 billion, for 6 heavily indebted countries under the HIPC Initiative. Not bad for an effort that did not even have a name 18 months ago. And we are moving speedily ahead to help other HIPC countries.

The New Bank is committed to *quality*.

We have put in place reinvigorated country management teams, with 150 new managers selected over the last six months -- and rigorous training and professional development programs have been introduced for all staff. IFC has also made major changes in management and is decentralizing to the field.

We have improved the quality of our portfolio, and, as a result, our disbursements reached a record level last year of \$20 billion.

And the quality of *all* our work is being enhanced by the progress we have made toward becoming a "Knowledge Bank". We have created Networks to share knowledge across all regions and all major sectors of development. Our Economic Development Institute, is playing a leading role in this area. Last June, in Toronto, working with the Canadian Government and many other sponsors, EDI brought together participants from over 100 countries, for the first Global Knowledge conference.

My goal is to make the World Bank the first port of call when people need knowledge on development. By the year 2000, we will have in place a global communications system with computer links, video-conferencing and interactive classrooms, affording our clients all around the world full access to our information bases - the end of geography as we at the Bank have known it.

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We are also promoting increased *accountability* throughout the Bank Group:

We have developed a corporate scorecard to measure our performance. We are closely monitoring compliance with our policies and continuing to work to improve the inspection process by making it more transparent and effective. And we are designing new personnel policies that explicitly link staff performance to pay and promotion.

We are also emphasizing accountability in the dialogue with our clients. Last year I highlighted the importance of tackling the cancer of corruption: Since then we have issued new guidelines to staff for how to deal with corruption -- including ensuring that our own processes meet the highest standards of transparency and propriety. We have also begun working with a first half-dozen of our member countries to develop anti-corruption programs.

My bottom line on corruption is simple: If a government is unwilling to take action despite the fact that the country's development objectives are undermined by corruption, then the Bank Group *must* curtail its level of support to that country. Corruption, by definition, is exclusive: it promotes the interests of the few over the many. We must fight it wherever we find it.

But key to meeting the challenge of inclusion is making sure not only that we do things right but that we do the right things. Earlier I mentioned the strategic pressure points of change. Let me say a few words about what we are doing in each of these areas.

First, human and social development. We are mainstreaming social issues - including support for the important role of indigenous culture - into our country assistance strategies, so we can better reach ethnic minorities, households headed by women, and other excluded groups. ★

We are participating in programs designed by local communities to address pervasive needs -- such as the EDUCO basic literacy program in El Salvador and the District Primary Education Program in India -- and these programs are being replicated by other countries.

We are increasing our support for capacity-building -- particularly the comprehensive program initiated by the African countries last year.

Second, sustainable development: In the rural sector, which is home to more than 70 percent of the world's poor, we have completed a major rethinking of our strategy. Lending is now up after many years of decline, supporting innovative programs such as the new market-based approach to land reform in Brazil. ★

We are also supporting our clients' efforts to address the brown environmental issues -- clean water and adequate sanitation -- that are so often neglected but are so important for the quality of the poor's everyday lives. ★

And through the Global Environment Facility, the Global Carbon Initiative, and a new partnership with the World Wildlife Fund to protect the world's forests, we are continuing to advance the global environmental agenda. ★

Third, the private sector. We are capitalizing on the synergies between the Bank, IFC, and MIGA and coordinating our activities under a single client-focused service "window".

Across the Bank Group, we are building up our work on regulatory, legal and judicial reform designed to help create environments that will attract foreign and domestic private capital. We are using IBRD guarantees to help support policy changes and mitigate risk, and we are expanding IDA's product line to help poor countries develop their private sectors and become full participants in the global economy.

Meanwhile, IFC is working in 110 countries, and in more sectors, employing more financial products than ever before. Last year, saw \$6.7 billion in new approvals in 276 projects. It's Extending the Reach

Program is targeting 33 countries and regions that have received very little private sector investment. Again, the goal is clear: to bring more and more marginalized economies into the global marketplace.

MIGA too is playing an active and enhanced role. Last year it issued a record 70 guarantee contracts for projects in 25 developing countries, including 11 countries where it has not worked before. I am delighted that yesterday the Development Committee agreed to an increase in MIGA's capital that will allow it to continue to grow.

And my fourth "pressure point" is the financial sector - brought sharply into focus by recent events in this region. Here too, we are scaling-up our work in coordination with the IMF and the regional development banks for the simple reason that when the financial sector fails, it is the poor who suffer most. It is the poor who pay the highest price when investment and access to credit dries up, when workers are laid off, when budgets and services are cut back to cover losses.

But success in the financial sector requires much more than the announcement of new policies or financial packages pulled together when crisis hits. This is why we are expanding our capacity for banking and financial system restructuring, not just for the middle income countries, but taking on the larger task of financial sector development in low-income countries.

For those countries, home to the world's three billion poorest people, IDA remains the key instrument for addressing the Challenge of Inclusion. I will be coming back to you in due course to seek your support for the IDA12 replenishment.

VI. Conclusion

Mr. Chairman, I believe we have made considerable progress in putting our own house in order in preparation for the challenges of the new millennium. 1997 has been a year of significant achievement.

We must push ahead with this process. We must make sure that we deliver next year's work program, that we strengthen the project pipeline and increase the resources going directly to the front-line. And we must implement our recently completed cost effectiveness review.

But the time has also come to get back to the dream. The dream of inclusive development.

We stand at a unique moment in history when we have a chance to make that dream a reality.

Today we have unprecedented consensus on the policies that need to be put in place for sustainable and poverty reducing growth. Today we have clear and unambiguous evidence of the economic and social linkages between the developing and the industrialized worlds. Today we face a future where unless we take action our children will be condemned to live in a degrading environment and a less secure world. All we need today is the determination to focus on tomorrow and the courage to do it now.

Mr. Chairman, as a development community we face a critical choice.

We can continue business as usual, focusing on a project here, a project there, all too often running behind the poverty curve. We can continue making international agreements that we ignore. We can continue engaging in turf battles, competing for the moral high ground.

Or we can decide to make a real difference.

But to do that we need to raise our sights. We need to forge partnerships to maximize our leverage and our use of scarce resources. And, we need to scale up our efforts and hit hard on those areas where our development impact can be greatest.

We at the Bank Group are ready to do our part. But we cannot succeed alone. Only if we work together will we make a dent. Only if we collectively change our attitude will we make that quantum leap. Only if in board rooms and ministries and city squares across the globe we begin to recognize that ultimately

Working together we will do it.

**Examples of Macroeconomic Policies, Taken for Legitimate Macroeconomic Purposes,
Not Actionable as Trade Measures**

1. An increase in interest rates in the face of risen inflation and excess growth in domestic demand;
2. Reduction in government expenditures and deficit in the face of an overall large government deficit;
3. A temporary, non-discriminatory (as between domestic and foreign products) increase in a national sales tax in the face of a sharp reduction in net foreign capital inflows and the attendant required alteration to the balance-of-payments posture.

**Examples of Other Policies, Taken for Legitimate [Macro]economic Purposes
Not Actionable as Trade Measures.**

1. A change in rules for the achievement a given level of environmental purity to make the unchanged objective achievable in a more efficient manner (c.g. trading pollution rights).
2. Derogation from a national environmental rule for a particular region or industry where its localized imposition is not required to meet an overall standard.
3. In the face of chronic high unemployment and lack of job growth, adjustment of non-core labor standards, such as minimum wage rules, rules affecting labor mobility and employer-paid labor taxes, for the purposes of improving overall labor market performance.
4. Standards (e.g. generally agreed changes in international labor law) affecting the treatment of employer provided non-wage compensation, rules affecting the form and mix of public and employer provided private pensions.