



Economic Perspectives

Volume 3

An Electronic Journal of the U.S. Information Agency

Number 1

EMPLOYMENT AND JOB CREATION IN A GLOBAL ECONOMY

**U.S. SECRETARY OF LABOR ALEXIS HERMAN:
THE U.S. MODEL FOR JOB CREATION**

INTERNATIONAL LABOR STANDARDS

**TRAINING AS THE KEY TO
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One sign of a healthy economy is its ability to create jobs — jobs that are good paying and that provide adequate benefits to improve the quality of life of the individual and the population.

Yet as the 20th century comes to a close, labor markets are increasingly characterized by rapid technological progress, growing global competition, declining birth rates, and aging workforces, often with resulting high unemployment or growing wage inequality. Among the challenges all nations face is how to provide a smooth transition from school to work, from one job to the next, and from unemployment to work.

Macroeconomic growth alone is no longer deemed adequate to meet these challenges. Overregulated labor markets also fail the task as reduced flexibility favors capital investment over human development. Economists increasingly argue for a new balance between workplace flexibility and security and between providing employment services and financial support for the unemployed.

On February 22, labor and finance ministers from the seven major industrial countries and Russia will be meeting in London to discuss solutions to the general problems of unemployment and low wages. This issue of *Economic Perspectives* takes an in-depth look at policies that create incentives to work, that provide workers with the necessary skills to meet changing technological demands, and that enhance job security without reducing firm flexibility.

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USIA's electronic journals, published and transmitted worldwide at two-week intervals, examine major issues facing the United States and the international community. The journals — Economic Perspectives, Global Issues, Issues of Democracy, U.S. Foreign Policy Agenda, and U.S. Society and Values — provide analysis, commentary, and background information in their thematic areas. French and Spanish language versions appear one week after the English version. The opinions expressed in the journals do not necessarily reflect the views or policies of the U.S. government. Articles may be reproduced and translated outside the United States unless copyright restrictions are cited on the articles.

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□ WORKERS MEETING THE CHALLENGE OF CHANGE

By Alexis M. Herman, U.S. Secretary of Labor

“In a technologically advanced, globalizing economy, the ability to capitalize upon change is key to increasing prosperity,” says U.S. Secretary of Labor Alexis Herman. In this article written for USIA, Herman argues that government has an important role in helping workers adjust to the new emerging opportunities. “This is not an either/or proposition — government intervention and support versus individual initiative. Rather, it is a balanced equation in which government functions as a facilitator to enable and stimulate workers to exploit their own initiative and opportunities to the fullest extent possible.”

In a technologically advanced, globalizing economy, the ability to capitalize upon change is key to increasing prosperity. The dynamic nature of labor markets in the United States contributes to our ability to embrace change.

The ability of the U.S. economy to create jobs is studied by economists and policy-makers throughout the world. It is easy to see why.

- Since 1993, over 14 million new jobs have been created, the majority of which are “good” jobs. Two-thirds of the net job growth during this period occurred in high-wage positions in such industries as financial services, health care, and computer and accounting services.
- The unemployment rate for 1997 was 4.9 percent, the lowest annual rate in over 25 years.

In addition, this year the United States will have a balanced budget. This reflects a turnaround from a deficit of around \$300 billion to a proposed surplus in 1999 of more than \$9 billion and about \$200 billion over the next five years. And this has all been accomplished while the inflation rate has sunk to its lowest level in 30 years. It is clear that the United States has every right to be proud.

ELEMENTS OF JOB GROWTH

The performance of the U.S. economy and its job markets has spurred researchers and policy-makers to distill the essential features of America’s job-creation model. While this area of inquiry is far from closed, it has revealed the following important features:

- An economic system that reflects fiscal discipline, targeted investment in workers, and open markets;
- Workers who have the education and training they need to allow them to identify beneficial opportunities and to exploit them as they arise;
- A strong belief in the principle that government exists to support individual initiative and to ensure every man and woman the tools and freedoms they need to prosper in the pursuit of their dreams.

To these factors supporting the success of the American job creation model, I would submit two more that, by providing security, also help workers embrace change:

- A system of unemployment compensation that provides workers with the support they need to be prepared for and to find new jobs;
- Market-based and institutional mechanisms, including unions and minimum wages, that ensure that workers are fairly compensated for their labor while being responsive to the needs of employers.

As a matter of principle and policy, we must ensure that all American workers share in the nation’s prosperity. Therefore, it is essential to tailor our labor-market, education, and other policies to help Americans make the changes they need to remain prosperous. Above all, it is crucial to invest in our people’s skills. That means making good education and training available, especially to the three-fourths of the population that does not complete four years of college. If America is to succeed and prosper

in the global economy of the 21st century, its people must be able to acquire new knowledge and learn new skills at every stage of their lives.

Schoolchildren must be taught according to the highest academic standards. Young people should receive the best and most relevant preparation for careers, whether they go to college or go directly into the job market after high school. And working Americans should have access to on-the-job training and affordable off-the-job education so that they can keep pace with change and improve their prospects in the labor market.

In a dynamic and changing economy, workers and their communities must also be secure in the knowledge that government will help them adjust to the new emerging opportunities. That is why it is important to have programs that integrate community economic development assistance with those that provide displaced workers with career counseling, re-training, income and relocation support, job placement, as well as rapid-response services in the event of layoffs.

To this point, I have addressed how government can facilitate workers' efforts to get the tools they need to prosper. The essential message of this discussion is that this is not an either/or proposition — government intervention and support versus individual initiative. Rather, it is a balanced equation in which government functions as a facilitator to enable and stimulate workers to exploit their own initiative and opportunities to the fullest extent possible. Government needs to ensure that opportunities and services are available to all workers. Workers, in turn, need to seize the opportunities and make use of supportive services such as education and training. Those who seek to emulate the American job creation model would do well to take this goal to heart. There are many strategies for meeting this goal, and it would be presumptuous to say that the strategies America has adopted are necessarily correct for other economies.

INTERNATIONAL LABOR STANDARDS

However, there is another key to the American job creation machine that is appropriate for all economies: a guarantee to all workers of the rights they exercise to pursue their dreams. That is why the United States

supports a core set of international labor standards, which includes prohibitions on forced labor, discrimination, and exploitative child labor, as well as freedom of association and collective bargaining rights. We believe that these rights are universal, that they support development and growth, and that all nations should view them as indispensable to the functioning of their labor markets. Through the International Labor Organization (ILO), the World Trade Organization, and other mechanisms, America is committed to international promotion of these rights, because in a globalized economy, growth in other parts of the world means growth for America.

Such principles are not only a matter of concern for governmental organizations. They can also be successfully applied through voluntary partnerships among businesses, workers, consumers, and government. The Labor Department, for example, has joined with the apparel industry in a campaign against sweatshops and child labor that has involved education, publicity, and cooperative agreements. The department also administers an international child labor program that includes research and analysis on the extent of the problem, review of techniques and initiatives to combat the problem, and development and funding of projects undertaken by the ILO's International Program for the Elimination of Child Labor. Using the department's domestic and international efforts, President Clinton is proposing in his fiscal year 1999 budget a new initiative to fight abusive child labor. The initiative incorporates partnerships, enforcement, and trade sanctions in a multifaceted approach. This new effort will focus on reporting on child labor, aiding the private sector in the development of codes of conduct and labeling programs, pressing for greater ILO focus on exploitative child labor, leveraging change in the domestic industry through tighter enforcement, and using U.S. laws to suspend trade benefits in response to persistent exploitative child labor practices.

This is just one example of the kinds of partnerships that are needed if we are to ensure that everyone shares in our growing prosperity. We are all in this together — labor, management, and government — and we must all contribute to making opportunity available to all. □

❑ PURSUING A GLOBAL APPROACH TO LABOR POLICIES

An Interview With Andrew Samet, Deputy Under Secretary of Labor for International Affairs

Labor market issues, once thought of principally as domestic concerns, are taking on increasing importance in the development of international economic policies, says Andrew Samet, Deputy Under Secretary of Labor for International Affairs. Samet has been a lead U.S. representative in preparatory meetings to the joint ministerial meeting of labor and finance ministers from the G-7 industrial countries plus Russia that will take place on February 22 in London. Samet says that the ministerial will focus on the types of economic policies necessary to create good jobs, as well as on efforts to advance international labor standards within the International Labor Organization.

This interview was conducted by USIA Economics Writer Jon Schaffer.

Question: On February 22, labor and finance ministers from the G-7 industrial countries plus Russia (G-8) will hold a joint ministerial meeting in London. What will be the key agenda items, and what does the Clinton administration hope to achieve at this meeting?

Samet: This meeting was one agreed to by President Clinton and U.K. Prime Minister Tony Blair shortly after Blair took office. It continues a pattern that President Clinton initiated in Detroit in 1994 and that the French continued in Lille in 1996. It also is a continued indication of the very strong concern among the G-8 countries that we focus on employment questions and on the interconnection between macroeconomic policy and microeconomic policy. We think that, given the record we have had over the last five years of very good macroeconomic performance in terms of the budget deficit reduction and job growth, we are in a very strong position to enter this discussion in London. It also is important that we provide the opportunity for both labor and finance ministers to review together policy developments and to try to influence the perspectives each of them brings to that process.

We also expect some discussion of international labor standards, and we hope this conference will reaffirm the importance of moving forward on this subject in the

context of the globalizing economy. We have some very important pending developments in the International Labor Organization in terms of new commitments. We are looking for that institution to try to help the implementation of a set of core labor standards globally.

Q: President Clinton has tried to inject international labor issues into the trade debate with varying success in the World Trade Organization (WTO). Why do we need international labor standards and is this an issue that transcends the International Labor Organization (ILO)?

Samet: President Clinton came to office in 1993, and this administration began at that time the most comprehensive approach to the issue of international labor standards since at least the post-World War II era. First, this administration negotiated a precedent-setting labor agreement to accompany the North American Free Trade Agreement. Second, this administration went about developing a policy that would have international support and credibility, and, in just several years, we have reached a very strong level of international consensus that there are core labor standards — that these are basic, fundamental standards that do not depend upon a particular country's level of economic development. Indeed, the economic research that has been put forward by the Organization for Economic Cooperation and Development (OECD) suggests that if you want to grow faster you should apply these standards.

These standards are freedom of association, the right of collective bargaining, and prohibitions on forced labor, discrimination, and the exploitation of children. We've taken the consensus that we have built and begun to translate it into action in various fora. We have gotten work done in the OECD, and we have supported the establishment of a working party in the ILO. The ILO is now considering a new instrument on these core standards and a new follow-up mechanism that will introduce higher levels of global accountability for the implementation of these standards. There is increasing support around the globe for this effort in the ILO. However, we will see by June of 1998 whether it will be successful.

We took this issue to the WTO at the Singapore ministerial a year or so ago, and we achieved the first recognition in a ministerial document under the General Agreement on Tariffs and Trade/WTO of the importance of international labor standards to the global trading system, as well as support for the notion of implementing labor standards. As to the question of whether we need international labor standards, I think it is an obvious yes. This is a subject that has more than a century of experience; it was understood in the first phase of economic globalization in the 19th century that this issue was important. The ILO was founded in 1919 — the only League of Nations institution to survive World War II and become part of the United Nations system principally because the concepts of labor standards and economic justice were thought to be so intrinsic to the success of a global economy, of trade liberalization, and of global economic growth. So we see the need to continue this discussion, to move it forward. We believe that there is a growing global consensus for that position.

Q: Issues of job creation and international labor standards were rarely the subject of international ministerial conferences a decade ago. What has changed?

Samet: You are correct that, traditionally, many perceived labor market policy as very much a domestic concern. But with the globalization of the economy, with the accelerated pace of integration, governments and their labor ministers are increasingly looking outside to see whether they can learn important positive lessons and learn from those things that did not go so well. I think it is worth mentioning that, even beyond the G-7, most of the world's labor ministers are very much focused on the same pragmatic concern of how to make labor market policies most effective and most efficient. Also, several decades ago, the perceived cost of not doing as well in labor market policy was smaller than it is today. With competition occurring on the basis of very mobile technology and capital, nations are increasingly concerned about how well trained their workers are and how efficiently their labor markets operate. So, the cost of having wrong policies is higher today than it was previously, and therefore all countries are more focused on pragmatic lessons of how best to do it right.

Q: Some policy-makers cite the U.S. system as a model for job growth, while others note high U.S. wage inequality, low productivity, and less than world-class performance by U.S. students. What can other countries learn from the United States?

Samet: I think, obviously, that one thing we have done well is produce net new jobs — 14 million new jobs since 1993. Many European countries have not produced any net new jobs in this period. However, there is no question that we have concerns about wage inequality, youth employment opportunities, moving people from welfare to work, life-long learning, and school-to-work transitions. And President Clinton and Secretary of Labor Herman are focused on these concerns, on our need to maximize our investment in human resources, and that we need to do so in a way that provides opportunity in the labor market.

Q: The Europeans charge that while the United States has a more flexible system, it does not provide the degree of equity across members of the labor force that the European system does. How do you respond?

Samet: I don't think this is a debate as to whether they should accept our model or not. Let me emphasize that. I think the issue is the common struggle to find the best path toward more and better jobs for all our people. The benefit of these ministerial conversations and discussions and these shared experiences is that those participating are able to walk away with a somewhat different perspective from when they began that conversation by nature of hearing the views of ministers pursuing those same objectives in a somewhat different environment. And sometimes quite different environments.

Q: U.S. commentators often cite European labor market inflexibility in connection with the high unemployment, arguing that it fails to allow markets to adjust to rapid technological changes. What are U.S. industry and labor doing to adjust to shortened technological and product life cycles, to meet the need for increased jobs skills, and to deal with increasing worker uncertainty?

Samet: There is no question that we have a fairly adaptable labor market, and perhaps it is somewhat less regulated in terms of the ability of workers to enter and exit it. But we are also focusing on those areas that need attention, such as school to work and investment in training, so that workers are prepared to take advantage of opportunities in the labor market. Years ago people questioned whether training was necessary. Today, we hear many employers saying that they need more trained workers. So, obviously, that is where we are putting our emphasis. □

□ SMALL BUSINESS: A VITAL BUILDING BLOCK TO ECONOMIC GROWTH

By Aida Alvarez, Administrator, U.S. Small Business Administration

Small businesses in most industrial and advanced developing countries play a vital role in generating both economic growth and jobs, says Aida Alvarez, administrator of the U.S. Small Business Administration. However, if small businesses, faced with growing foreign competition, are going to continue to play a prominent role, they must have the export know-how and the necessary trade financing to fill overseas orders. Government has an important role in helping foster small business growth without undue interference in the marketplace, Alvarez says.

America and the world need small business. The United States is now in its seventh year of economic growth — a growth that has relied principally on exports. And it is small firms that account for more than 96 percent of the businesses involved in direct merchandise exporting and 63 percent of the dollar value of exported products.

Overall, small businesses generate more than 50 percent of the U.S. gross domestic product and employ more than half the workers involved in exporting. These export-related jobs tend to be good jobs, paying 17 percent more than the average U.S. job. If the American economy is to grow and create more jobs in the future, small businesses must continue to be major contributors to export growth.

SMALL BUSINESS AND JOBS

Small businesses contribute heavily not only to economic growth but also to job creation. More than 99 percent of all businesses in the United States are small firms that employ more than half of America's private work force. Sixty percent of American firms that are exporting have fewer than 100 employees. The number of small businesses is growing rapidly — up 49 percent since 1982 — and this trend is expected to continue into the 21st century.

In 1994 alone, small businesses were responsible for an estimated 62 percent of the 3.3 million jobs created.

Between 1990 and 2005, small firms are expected to create about two-thirds of all new jobs.

Small businesses also are at the leading edge in developing the products of tomorrow. The rate of innovation in small businesses is about twice that of large businesses. And small firms are bringing more members of our society into the economic mainstream. Women-owned business firms, which represent one-third of all U.S. firms, have grown at twice the rate of men-owned firms for a decade; black-owned firms have also grown twice as fast as all firms.

PROMOTING SMALL BUSINESS DEVELOPMENT

Small business expansion is occurring not only in the United States but in virtually every major industrial country and in many of the advanced developing economies. If small business is going to continue to play a major role in future growth, small firms must have the export know-how and the necessary trade financing to fill overseas orders.

The Clinton administration believes that government has an important role in helping promote the growth of small business, and we at the U.S. Small Business Administration (SBA) believe that the programs we sponsor help foster that growth without undue interference in the marketplace.

SBA'S Office of International Trade (OIT) exclusively targets small business clients for export finance and trade promotion assistance. Its mission is to expand employment and income opportunities for small businesses through increased exports of U.S. goods and services.

OIT works in cooperation with other federal agencies and public and private sector groups to encourage small businesses seeking to export. Its assistance meets the essential ingredients small business exporters need to be successful: access to capital, advice and information, and

training. OIT programs also stand as models worth consideration by other countries looking for ways to promote small business.

Some of OIT's programs include:

- Supporting small businesses "going global" through regional initiatives. SBA is focusing on international markets as a key future source of U.S. small business opportunities. As a result, the agency is engaging in mutually beneficial strategic alliances with small business organizations in Argentina, Canada, Egypt, Ireland, Mexico, Russia, and South Africa. The goal of these partnerships is to promote and support the development, growth, stability, and global competitiveness of small business entrepreneurs through exchanging technical, financial, legal, and other information and facilitating small business linkages and commercial ties.
- Sponsoring or supporting export training conferences and developing "how-to" and market-specific publications for exporters.
- Providing loan guarantees to small business exporters through the Export Working Capital Program (EWCP). In fiscal year 1997, the SBA assisted small firms with more than 1,260 export-related loans worth nearly \$420 million, including 401 EWCP loans worth more than \$141.3 million. That year the agency's assistance in

providing trade financing to the nation's small business exporters surpassed all goals. SBA has harmonized its EWCP program with the Export-Import Bank of the United States, which guarantees loans over the SBA's threshold of \$750,000. Exporters no longer have to shop among government agencies to obtain the financing they need to sell their products overseas.

- Assisting small businesses obtain other loans. Working with approximately 7,000 private sector lending partners, SBA provided more than 55,000 Guaranteed Business Loans amounting to \$7.8 billion to small business owners in FY1995 — an increase of 52 percent in the number of loans over FY1994 — and more than 52,000 Guaranteed Business Loans amounting to \$10.2 billion in FY1996. In FY1997 the agency made some 54,000 loans amounting to approximately \$11 billion.
- Working in partnership with the Department of Commerce and the Export-Import Bank to establish U.S. Export Assistance Centers (USEACs). These, in turn, provide small U.S. exporters with information and access to all export promotion and export finance activities of the federal government. Nineteen USEACs are now open nationwide in major U.S. metropolitan areas. □

□ IS THE U.S. SOCIOECONOMIC SYSTEM THE MODEL FOR OTHER COUNTRIES?

By Ray Marshall, Former U.S. Secretary of Labor

“It is a mistake to trumpet the superiority of the American model,” says former U.S. Secretary of Labor Ray Marshall. Marshall, currently an economics professor at the University of Texas’ LBJ School of Public Affairs, says that no country has developed the perfect labor market model, but there are ways that nations can learn from each other. “There are general principles for success in particular contexts, but flexibility and adaptability are among the most important of these principles.”

Thanks to the country’s relatively low levels of unemployment, soaring corporate profits and stock prices, and high per capita incomes, there is much political and media comment about the superiority of the U.S. socioeconomic model relative to that of Europe, which is experiencing high levels of unemployment, and of Asia, whose financial markets are in disarray, if not crisis. The main factors ostensibly responsible for America’s successes are relatively flexible and open labor, financial, and product markets. According to this view, European and Asian economies are characterized by too much government involvement.

STRENGTHS AND WEAKNESSES

It is, however, a mistake to trumpet the superiority of the American model. After all, not long ago politicians, journalists, and academics were declaring the superiority of the Japanese, East Asian, and German systems. The American economy has important strengths, but it also has some serious weaknesses that cause its successes to be unsustainable. Its main strengths include:

1. A high degree of technological and product innovation, due to strong public support for research and development, world-class universities and research institutions, and pragmatic public-private cooperation in the commercialization of innovations. Contrary to much ideologically inspired comment, this advantage would never have been achieved by the private sector alone.

2. Large, wealthy, diverse, and competitive domestic financial, labor, and product markets that attract human and physical capital, stimulate innovation, produce quality products at relatively low cost, and condition companies to perform more effectively in increasingly competitive global markets.

3. Faster job growth and lower unemployment than most European countries. Since 1960, employment has doubled in North America while increasing by only 20 percent in the European community. However, U.S. unemployment has declined since the 1980s because of slower growth in the workforce, not because of faster economic growth, which has slowed since the 1960s and 1970s. Moreover, U.S. economic growth stems more from the increased use of labor, not because of rising productivity per hour worked. In fact, average annual productivity growth rates between 1987 and 1995 were significantly lower in the United States (0.9 percent) than in other member countries of the Organization for Economic Cooperation and Development (OECD) (2.2 percent).

The main problems for the United States include:

1. Growing inequality of wealth and income, mainly because of stagnant or declining real wages for all except the top 25 to 30 percent of largely college-educated income recipients. However, real incomes declined for college-educated males in the late 1980s and for women in the 1990s. Inequality in the United States is the highest that it has been since World War II; poverty in the United States (after taxes and transfers) is over twice the rate for other OECD countries, and is especially high for children. The United States has a particularly high proportion of working poor. The lowest 10 percent of European workers earn 44 percent more than the lowest 10 percent in the United States. In 1996, 40 percent of young men in the United States worked full time for less than poverty-level wages compared to only 18 percent in 1980.

Growing inequality would be less problematic if it were offset by upward economic mobility, but research by Belle Sawhill and her colleagues at the Urban Institute shows this not to be the case. As a consequence, opportunity, while considerable, is no higher in the United States than in Europe and is declining across life spans and generations.

Growing inequality is not accompanied by positive adjustment processes to ensure an equitable sharing of the benefits and costs of change. Wide disparities in wealth and income diminish national consensus about solutions to problems. Income inequality likewise strengthens support for divisive social theories that justify inequality as “natural” or even socially beneficial.

There are, to be sure, some trends that will reverse educational-income gaps. Declining wages for workers with a secondary school education or less has boosted college enrollments and increased the ratio of college to secondary school graduates. However, this positive trend is overwhelmed by the increased demand for college graduates, the self-perpetuating nature of educational and income inequalities, and deteriorating opportunity structures.

2. A second major problem for the long-run economic viability of the American economy is limited power for employees at work and in the larger society. Indeed, American workers have weaker voices at work than their counterparts in other major industrial countries, where labor organizations are stronger and workers have legal rights to participate in corporate and workplace decisions. Workers’ interests consequently are not adequately represented in the workplace or in the larger society. This has become a national problem because of evidence that worker participation improves productivity and because economic policies are not likely to be sustainable unless they reflect workers’ interests. There also is strong evidence that protective labor laws would be more effective with worker participation in their administration, as is the case in most other industrial democracies. Similarly, a free and democratic society is not likely without strong and democratic worker organizations.

Evidence produced by the Clinton administration’s Commission on the Future of Worker-Management Relations (the Dunlop Commission, on which I served) found that 40 to 50 million American workers would like to participate in job decisions but lack the opportunity to

do so. At least 15 million workers — more than the 1997 membership of the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) trade union — would like to be represented by unions but are unable to do so because U.S. labor law requires them to go through risky and often contentious contests with their employers to gain collective bargaining rights. Because of weak penalties and protracted legal maneuvers, workers’ legal rights often are violated during these contests. And even if the workers vote for union representation, in at least a third of all cases they are unable to negotiate collective bargaining agreements. If the workers strike over new contracts, they can be replaced permanently by their employers. Workers in other major industrial countries do not have to go through these risky and difficult processes to gain collective bargaining rights and cannot be replaced for exercising the basic legal right to strike.

The absence of collective bargaining and alternative dispute resolution processes has caused an explosion of expensive and time-consuming litigation over employment matters. While business organizations are understandably dissatisfied with some aspects of U.S. labor law, because of the economic and power advantages they derive from these laws they have little incentive to participate in comprehensive modernization.

3. Because of the educational requirements of a much more competitive, knowledge-intensive economy, the weakness of American schools and school-to-career processes for non-college-bound students is a major problem. Indeed, the only parts of the American education system that are clearly world class are our research universities. While there have been some improvements since the 1980s, especially for minorities and younger children, American students perform very poorly on increasingly important international math and science exams. It is not so much that American schools have deteriorated relative to some golden age in the past as it is that very different schools are needed to meet the educational requirements of a more competitive and knowledge-intensive world.

Efforts are under way to establish world-class standards for American students and to provide incentives for students, parents, and school staffs to meet those standards. But reforms are impeded by the institutionalization of school systems established in the early part of this century; ideological conflicts between supporters of public and private schools; huge inequalities

in the resources available to poor students, especially in urban areas; growing geographic segregation by income; and local control of the schools. The most encouraging development in the United States is the development of models that have dramatically improved the performance of low-income and minority students and the fact that education appears to be high on state, local, and national policy agendas.

EFFECTIVE COMPARATIVE LEARNING PROCESSES

While no country has developed “the model” that is applicable to other countries and times, policy-makers in all countries can learn from others. For example, Americans can learn from European and Asian countries about measures to reduce the growing inequality of wealth and income and improve school and school-to-career systems. We can learn from Germany and other European countries about how to provide more effective processes for workers to participate in societal and workplace decisions, develop public infrastructures, and provide stronger social safety nets. Other countries could learn from the United States about how to provide job growth through dynamic competitive domestic markets, maintain open and transparent financial markets, combat cronyism and corruption in the public and private sectors, promote technological and product innovation, and develop dynamic small business sectors.

Effective comparative learning processes (ECLPs) to achieve these outcomes can be extremely useful to decision-makers in all countries. Experience suggests several requirements for ECLPs.

First, a thorough understanding of the relationships between policy paradigms and social, technological, and economic contexts is needed to provide a sense of relativity, help make paradigms adaptable, and avoid mistaken assumptions that models are applicable to all places and times. For example, the highly productive physical-resource, mass-production system developed in the first two-thirds of the 20th century in the United States became grossly inadequate for the requirements of the more competitive, knowledge-intensive global economies. Similarly, the Japanese developed an export-oriented production model that was highly successful before the 1980s, but it has been unable to meet the challenges of the post-Cold War world. And the East Asian countries, partially emulating the Japanese,

produced relatively rapid and broadly shared growth in the 1970s and 1980s but stagnated under very different conditions in the 1990s.

Understanding the basic requirements for success in varying contextual situations deepens our understanding of the basic principles for economic success at any given time and place. In the more competitive, knowledge-intensive environment of the 1990s, for example, economic success derives much more from quality (meeting customers’ needs), productivity in the use of all resources (not traditional economies of scale), and security through flexibility (not stability and contract). Competitive individuals or organizations attempt to compete by maximizing value added (quality and productivity) instead of by direct cost cutting. A value-added strategy requires high-performance work organizations with decentralized, participatory decision-making by highly skilled workers and leading-edge technologies. While the short-run profits can be maximized with a cost-cutting strategy, the long-run interests of workers, communities, and companies are better served by a value-added strategy that empowers workers and requires high skills as well as product and technological innovation. A high-value-added strategy is clearly more sustainable than one that relies mainly on cutting wages and other costs.

In order to facilitate organic adaptations, an effective comparative learning process also requires a deep understanding of the institutions and policies being compared. Superficial knowledge leads to such common mistakes as assuming that Japanese management techniques can easily be transferred to the United States, that high European unemployment is due mainly to inflexible labor markets, or that the East Asian “miracles” of the 1980s were due entirely to reliance on market forces and that governmental strategies were unnecessary at best and harmful at worst. Indeed, a good orienting hypothesis is that East Asian economic problems are due mainly to weak regulation of financial institutions and business practices, not to excessive government regulations. And a good hypothesis about European unemployment is that it is due at least as much to poor macroeconomic policy based on an inordinate fear of inflation (based on economic conditions) as to rigidities in income supports and labor markets. However, Europe, like the United States, must develop a new policy paradigm for a more competitive, knowledge-intensive global economy.

ECLPs require an open-minded willingness to learn, which is difficult to achieve because of hubris and bias. Bias clouds understanding by causing investigators to strain to justify their biases and to neglect realities that contradict their theories. Hubris, which often accompanies policies and institutions that succeed for a time, can cause decision-makers to quit learning. As a consequence, institutions and decision processes will tend to lose flexibility and submerge weaknesses. This happened with many American companies in the 1950s and 1960s, many Japanese in the 1970s and 1980s, and other East Asians in the 1980s and early 1990s. Hubris currently afflicts many American political and business leaders who believe the “American model” is the answer

to the world’s economic problems. Skillful practitioners of ECLPs understand that there are no universal models or final answers. There are general principles for success in particular contexts, but flexibility and adaptability are among the most important of these principles. □

(The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. Government.)

□ THE UNITED STATES AS A JOB CREATION MACHINE: AN EXAMPLE FOR GERMANY?

By Flemming Larsen, Deputy Director of Research, International Monetary Fund

“I do believe that Germany and Europe have a lot to learn from the dynamism of the U.S. labor market,” says Flemming Larsen, deputy director of research at the International Monetary Fund. “This does not mean that market forces can solve all problems. Clearly, there are market failures that government policies need to deal with ... However, such policies will need to work to a greater extent through taxes and transfers and through the education system and to a lesser extent through regulations and other impediments to the effective functioning of market forces.”

Does the extraordinary employment record of the United States hold useful lessons for Germany? I want to emphasize at the outset that I do not wish to be overly critical of the German model. It has, after all, produced a “Wirtschaftswunder” envied by most other countries, with one of the highest living standards in the world. Nevertheless, a frank assessment is necessary.

The contrast is stark indeed. In Germany, unemployment has risen relentlessly since 1991 and has now reached 4 1/2 million or 11.7 percent of the labor force. In the United States, the unemployment rate has stabilized close to 5 percent — a 25-year low — with inflation remaining remarkably well contained. The contrasts are even sharper when one looks at employment trends. In the United States, total employment has increased by 9 percent since 1991. In Germany, it has fallen a staggering 6 percent.

It is true, of course, that the United States and Germany are in different stages of the business cycle and that part of Germany’s unemployment is cyclical in the sense that it can be expected to decline as the recovery that now seems to be underway gains momentum. However, even after full cyclical recovery most analysts believe that the unemployment rate will remain very high, perhaps close to 9 percent, which we consider to be the structural unemployment rate. In the United States, the current unemployment rate is probably slightly below the structural unemployment rate which we judge to be in the range of 5 to 5 1/2 percent — this suggests that the United States is now probably close to the peak in its

business cycle and that growth will need to moderate to prevent a rise in inflationary pressures.

How does one then explain the difference in structural unemployment rates between the United States and Germany? And how does one explain that the structural unemployment rate has remained fairly stable in the United States since the early 1970s while it has been steadily increasing in Germany (and also in France and Italy)? These are complex questions but I believe that there is a growing consensus among economists regarding the key role of labor market institutions.

In the remainder of this article I will first compare the U.S. and German labor markets and address some of the commonly perceived adverse social consequences of the deregulated U.S. labor market. I will then discuss the drawbacks of the German (and European) model and point to some of the reforms that are likely to be needed to substantially reduce unemployment over the medium term. I will finally discuss the issue of labor and product market reform from the perspective of the planned Economic and Monetary Union.

CHARACTERISTICS OF THE U.S. LABOR MARKET WITH GERMANY

Comparing the German and U.S. labor markets will shed some light on the large differences in job creation, despite similar technology and external conditions. In the United States enterprises and workers respond directly to market incentives:

- the government and union presence in the labor market is more limited;
- wage determination is less centralized and developments are guided by market forces; there is little emphasis on incomes policies;
- social welfare benefits are not as generous, they are available for relatively short periods, and they are

designed to give incentives for recipients to search for new and better job opportunities;

- and the wedge between gross wages and take-home pay, caused by income taxes and social security contributions, is much smaller.

In the tradeoff between allocative efficiency and distributional equality, the United States has emphasized allocative efficiency, while Germany has placed more stress on equity as a cornerstone of the “Soziale Marktwirtschaft” model. But the U.S. system provides both firms and individuals equal access to the market place and the economic opportunities that are available. The U.S. system stresses the incentives for individual initiative and responsibility for one’s economic well-being — that is, rewards to innovation, risk taking, and investment in oneself (i.e., human capital). The social safety net attempts to limit the downside risks associated with this system but not to eliminate inequality of outcomes. From a European perspective, it is interesting that the vast majority of Americans do not question their economic system.

Let me now elaborate on some of the specific differences:

Regarding **government intervention in the labor market**, job protection legislation and labor standards are more limited in the United States than in Germany and tend not to interfere with decisions by individual enterprises. To illustrate this, the OECD has constructed an employment protection index based on the legal framework governing hiring and dismissal. It shows the United States as the least restrictive country (1 on a 20 point scale), while Germany is one of the most restrictive in the OECD. Greater employment protection reduces labor turnover and job creation in part because it increases the costs of hiring and of dismissals and is positively correlated with higher unemployment rates.

Wage formation is decentralized (at the firm level) in the United States, while the wage bargaining process in Germany (like the Netherlands) is gauged by the OECD as intermediate — industry-wide but less centralized than the economy-wide negotiations more common in the Nordic countries. The U.S. workforce is less unionized (only 16 percent belong to unions compared with 29 percent in Germany). Union agreements cover only 18 percent of all U.S. wage agreements compared with 92

percent in Germany. And unlike in Germany, there is no coordinated or pattern bargaining.

Aggregate **real wages and relative wages** respond more quickly to market forces in the United States. Trade unions in Germany have tended to push up hourly wages to the benefit of the employed (insiders) but to the detriment of the unemployed, of workers who may become unemployed, and of those discouraged from entering the labor force (jointly known as outsiders). Economic research suggests that real wage developments in Germany are only half as responsive to unemployment as in the United States.

Recent IMF staff analysis indicates that **labor costs** in Germany exceed substantially (by about 10 percent in the old Lander) the level derived under the assumption of competitive markets and full employment. A labor force that is overpriced by international standards has induced firms to seek less expensive foreign sources for labor-intensive production and to invest directly abroad. The ratio of net foreign direct investment outflows to GDP in Germany has been, on average, five times higher during the 1990s than it was during the 1970s. High labor costs have also forced firms to invest primarily in labor-saving technology; this has artificially boosted labor productivity and reduced the job intensity of growth.

Wage dispersion has increased in the United States largely because of higher earnings paid to workers in the upper ten percent. But wage dispersion in Germany has narrowed mainly because of higher earnings paid to workers in the lower portions of the income distribution. This trend also reflects the faster growth of real wages for low-skilled workers in Germany compared with the United States. Over the period 1985-1995, real earnings of low paid workers increased nearly 20 percent in Germany but they decreased by 5 percent in the United States. Skill-based technological change has probably been the main factor underlying the greater wage dispersion in the United States: the wage premium for the college educated doubled and workers who use a computer on the job now earn significantly more than those who do not. Changing technology has created substantial economy-wide employment losses for low-skilled workers in Germany (4 percent per annum during 1982-93), which have exceeded those in the United States (about 1/2 percent per annum during 1982-93). By contrast, employment has increased for skilled workers in both economies.

Perhaps even more important than the income dispersion among categories of workers is the income differential between the employed and unemployed — this, after all, is a major incentive to work. The **provision of high social welfare benefits in Germany** — both unemployment and social assistance — is a key difference distinguishing the United States and Germany. While alleviating some of the hardships associated with unemployment, such benefits change labor market incentives by increasing the reservation wage, reducing job search (and thereby trapping people in unemployment), and by lowering the costs associated with excessive wage demands. Eligibility criteria for receiving unemployment benefits are also less stringent in Germany, particularly conditions (such as wage levels and travel time) that allow the unemployed to reject a job offer and still retain unemployment benefits. Effectively, the relatively generous benefits in Germany have allowed unions to press for higher wages with little concern for the unemployed. Once unemployed, workers in Germany confront a welfare/unemployment trap: high effective marginal tax rates (75-90 percent) when returning to work, which undermine the economic incentive to find employment. Not surprisingly, the share of long-term unemployment (12 months or longer) in total unemployment has been dramatically lower in the United States (9.5 percent in 1995) than in Germany (48.3 percent in 1995).

The **tax and social contribution wedge** also affects employment decisions. Taken together, the tax and social security systems impose a much smaller “wedge” between gross and net wages in the United States than in Germany; there is thus a smaller disincentive effect on both employers and employees. The effective average rate for personal income taxes and social security contributions was somewhat below 30 percent in the United States, while in Germany, the effective average rate was around 47 percent. Moreover, because of differences in wage bargaining, the cost of this wedge is shifted onto employers in Germany, while in the United States wages tend to adjust downward so that total labor costs remain unchanged.

Corporate taxation. The effective average corporate tax rate in the United States is roughly equal to the effective average rate for personal income. By contrast, the effective average corporate tax rate in Germany was only 10 percent owing to generous depreciation allowances and liberal accounting standards. There are two implications of these large differences in effective tax rates

on personal and corporate incomes — or perhaps more precisely on labor and capital.

- One, the tax system in conjunction with the wage bargaining process has helped to skew output growth away from relatively high cost (and taxed) labor and toward higher capital intensity.
- Two, government revenues are more highly sensitive to changes in the distribution of income between labor and capital in Germany than in the United States. This sensitivity was especially evident in 1997 in Germany as the fiscal balances were affected by the lopsided recovery that favored capital relative to labor.

Unification also highlights the structural roots of German unemployment. The extension of the wage determination and social welfare systems to the new Lander contributed to an overly rapid convergence of wages compared with the convergence of productivity. As a result, unit labor costs in the east are one third above those in the west. Consequently, a high unemployment rate developed in the east (17 percent, or 25 percent if the underemployed are included), and has persisted, requiring massive and enduring fiscal transfers from west to east. The labor market situation in the new Lander contrasts with the labor market conditions in Poland, which began its transition at about the same time (but with less assistance). Poland now has an open unemployment rate more than 7 percentage points below the comparable rate in the new Lander. Rapid export-led growth in Poland fuels convergence with the EU, while exports play virtually no role in the new Lander and the convergence process with the old Lander has stalled.

There are some important areas where Germany and other countries in the European Union clearly outperform the United States. In particular, investment rates in the major European economies have averaged around 20 percent of GDP (and above in Germany) in the first half of this decade, compared with 17 percent in the United States. Consequently, Europe’s capital stock and ratio of capital to labor have been rising faster than in the United States. European productivity growth has also been higher, and levels of productivity are converging to that in the United States. Overall savings rates are also higher in Europe, and critically, the pre-university education system in Europe is widely thought to work better than that in the United States. By comparison with the United States, Germany’s and Europe’s labor market

problems do not seem to reflect shortages of either physical or human capital.

PERCEPTIONS OF SOCIAL CONSEQUENCES OF U.S. MODEL

So far, I have alluded to some of the key elements of how the U.S. approach has been more effective in creating new jobs. But are these jobs any good? Does the U.S. system produce an army of working poor with no future? Does the U.S. system achieve its efficiency at too high a social cost?

The U.S. labor market model is often rejected in Europe because of a widespread perception that the U.S. economy is a “wild west” economy without rules and with unacceptable social implications. To be sure, there are few restrictions on layoffs for economic reasons, and according to recent polls, workers in larger firms are increasingly concerned about losing their jobs. Fear of job loss is heightened by the U.S. health system where an individual’s medical care is tied to employment. In fact, this concern has been linked to muted wage increases despite low levels of unemployment that have been associated with rising inflation pressures in the past. While labor market “anxiety” is clearly not welcome from an individual point of view, mobility in the job market has advantages. Managers can take risks in hiring when they see expanding opportunities for their products, and they can restructure so that workers are matched to jobs according to productive skills. This degree of flexibility promotes a dynamic environment in which established businesses and entrepreneurs are able to develop new products, services, and production techniques more easily and quickly.

Criticisms of the U.S. labor market model often revolve around concerns over income distribution and equity. It is true that the measured distribution of income in the United States has become more unequal in the past two decades, particularly because real wages at the lowest end of the range have not kept up with those at the upper end. However, there is a great deal of upward income mobility in the United States, much of it linked to education and skill upgrading, and taking this into account substantially reduces — by upwards of 25 percent — the degree of income inequality in the United States.

It is true that the flexibility of wages and lack of wage floors in the United States means that full time work can

provide low incomes for the low skilled. The tradeoff, however, is that such flexibility in compensation allows employers to offer jobs to the low skilled in the first place, reducing the risk of long-term unemployment and social exclusion. Rather than having wage disparity reflect skill levels, the distinction in Europe is more fundamentally between those with jobs and those without. Because of their lack of flexibility, European labor markets “clear” at lower levels of employment and total output.

Critics often contend that the jobs created in the United States over past decade have been low-pay, low-skill positions in the service sector — the so-called hamburger flippers at McDonalds. It is true that all the net new jobs created in the United States between 1989 and mid-1997 are found in the service sector. However, these service sector jobs are actually quite diverse and many jobs are in high-wage positions in financial services, health care, computers, and professional and business services (which in some cases have been outsourced from manufacturing firms). A recent U.S. study found that almost 70 percent of the net growth in full-time employment occurred in jobs that paid above the median wage. Moreover, there are also opportunities for advancement in these occupations, promising higher wages in the future.

WHAT IS NEEDED IN GERMANY AND ELSEWHERE IN EUROPE?

Compared with the United States, there is little doubt in my view that the root causes of Europe’s poor labor market performance are the adverse (and unintended) consequences of elaborate job and income protection arrangements that raise the cost of labor (including through high social security contributions), discourage job creation and job search, and favor substitution of capital for labor. Product market distortions also appear to have contributed by reducing efficiency and impeding competition. These problems have been exacerbated by technological changes that demand increased flexibility and adaptability. In contrast, the forces of globalization and increased trade with low-cost countries appear to have played only a minor role.

In recognition of the need to allow market forces a greater role, a wide variety of reforms have been implemented across Europe in recent years, but many have been postponed and some measures may in fact have exacerbated structural problems in labor markets. A common problem has been the failure to implement

sufficiently comprehensive labor market reforms because of strong opposition from insiders — those who have jobs and feel they benefit, rather than suffer, from existing labor (and product) market institutions and regulations. In fact, labor market policies have often sought to mask the underlying problems by promoting early retirement or work sharing. Such measures appear to be intended to reduce open unemployment not by increasing the demand for labor but by reducing labor supply. But with unreformed labor markets, such measures tend to improve the bargaining position of insiders and raise their real wages, with little benefit to outsiders who are likely to remain unemployed. Such measures also involve costs to producers or to government budgets, creating a vicious cycle of higher taxes, higher labor costs, further employment losses, and so on. Instead, what is needed are reforms that give outsiders a better chance to compete for jobs, thereby raising the effective supply of labor, and that also increase labor demand. In addition to reducing unemployment on a durable basis, such reforms would have important positive effects on growth and public finances. They would in fact allow most of the remaining fiscal imbalances in Europe to be worked off through reduced costs of income support for the unemployed as well as higher tax revenues associated with rising employment and higher levels of national income. Failure to implement reforms that reduce structural unemployment would require much tighter fiscal policies over the medium term, reduce the scope for tax reduction and productive public expenditure, and in all likelihood permit only modest growth of output and real incomes — that is, a continuation of recent experience.

The basic strategy was recognized by the German Government when it launched its 50 Point Program in early 1996. These reforms focused on reducing rigidities in labor markets, lowering nonwage labor costs, strengthening job search incentives, and deregulation. The Government has acted to ease dismissal rules, promote part-time jobs, and extend the use of fixed-term contracts — all of which are also helpful to stimulate employment. Still, the measures adopted so far have been piecemeal and inadequate.

There are five major areas where reforms are needed to improve employment prospects in Germany:

First, **labor costs need to be lowered** in many sectors to gain competitiveness and stem the tide of job losses. There have been some encouraging signs of wage

moderation and greater flexibility in the workplace from employers and unions. These developments must be encouraged, inter alia by sensible government wage settlements. The Government should also resist making wage agreements generally binding on all parties within the sector as was done in the construction sector. To narrow the unit labor cost gap in the new Lander, as part of a joint initiative with the Government, employers and unions have agreed to stabilize labor costs in eastern Germany. But more action is necessary: greater realism in wage negotiations and more flexibility in the centralized collective bargaining process are needed so that wage levels correspond more clearly to worker productivity and the financial conditions of individual firms. In this connection, a shortening of the work week to 32 hours with no change in weekly pay, as recently proposed, would clearly be counterproductive.

Second, it is critical to **reduce non-wage labor costs** and, in particular, to limit the need for further increases in social security contributions as the German population ages. The Government's objective is to reduce social security contributions from currently more than 42 percent of gross wages (shared equally by employees and employers) to below 40 percent by 2001; this will be difficult to achieve. To ease the upward pressure on the already high contribution rates, reform of the pension system is essential. Reducing the net pension replacement rate and tightening of eligibility rules for early retirement should be the cornerstone of any future pension reform. Systematic reforms, such as the shifting of a significant portion of public pension provisions to the (currently) small privately funded occupational pension plans should be seriously considered.

Third, **disincentives for the unemployed to seek jobs** stem from the indefinite duration of social benefits for the unemployed and have fostered unrealistically high reservation wages. To stimulate job search, efforts should aim at lowering net benefit replacement ratios, to limit the duration of unemployment assistance, and to enforce strictly the recently tightened rules on refusing a job offer without loss of benefits. To reduce "unemployment traps", the Commission on Alternative Tax-Transfer Systems suggested in 1996 that the different benefit systems be aligned and that benefits be withdrawn only slowly as wage income rises. Studies in the United States indicate that the earned income tax credit unambiguously strengthens the incentive to take a job by increasing net income in work at all levels of earnings up to the end of the phase-out.

Fourth, **income tax reform** has to be a central element of the reform agenda for Germany. Tax rules are too complex and relatively opaque. The proliferation of preferential rules has distorted investment decisions, while the extensive use of tax shelters has created the perception of a lack of tax equity. Unfortunately, the opposition in the Bundesrat vetoed the Government's tax reform proposal. The tax reform would have commendably lowered and flattened the steep marginal tax rate schedule, reduced the tax wedge on labor income, broadened the narrow tax base by reducing tax allowances, and lessened tax distortions. It would have also implied a shift from direct to indirect taxation.

But even the Government's reform proposals left scope for a further broadening of the tax base, both on personal and corporate income.

Last but not least, there is a **need to substantially curtail the many subsidies and rents** that remain such a dominant feature of the economic landscape in Germany. And it does not matter whether such subsidies are paid over the budget or through higher prices to consumers or enterprises. Regulations, cartels, subsidies and other impediments to market forces in electricity generation/distribution, postal services, telecommunications, trucking, banking, coal mining, shipbuilding, and agriculture all contribute to excessive cost levels throughout the economy that hamper competitiveness and job creation.

In fact, rather than protecting employment such actual or implicit subsidies constitute a tax on the competitive sectors in the economy. It is encouraging that reforms are underway in some of these areas but Germany is clearly lagging behind the United States by many years in the process of deregulation and product market reform.

Diagnosis is easier than curing the patient. It is clear that many of these needed reforms will be politically difficult to implement, especially now as the electoral season gets into full swing here. A major task will be to galvanize political will and to educate the public about the causes and costs of Germany's most pressing problem. We in the Fund are looking to Germany to set an example for the rest of Europe.

LABOR MARKET FLEXIBILITY AND EMU

This brings me to the last issue: the importance of labor market reforms for the success of EMU.

The IMF strongly supports the efforts that have been under way for over 40 years to promote European economic and monetary integration, including the adoption of a single common currency. We are particularly pleased with the strong commitment to price stability embodied in the charter for the European Central Bank. We are also impressed by the sensible rule for the conduct of fiscal policy embodied in the Stability and Growth Pact. The macroeconomic policy regime in the euro area clearly promises to allow the euro to become a robust international reserve currency which over time is likely to rival the role of the U.S. dollar in the international monetary system. Regarding the conditions for a successful EMU, it is our assessment that the macroeconomic convergence criteria set out in the Maastricht Treaty are now so close to being fulfilled that it seems safe to proceed with the third and final stage of EMU at the end of 1998. Of course we have also underscored the need for further fiscal reforms to safeguard long-term fiscal stability.

This being said, we have also stressed the importance for the long-term success of EMU to step up efforts to enhance the flexibility of European labor and product markets. This is of course needed with or without EMU, but it becomes particularly important when countries can no longer resort to exchange rate changes when they are faced with exceptional shocks that require adjustment of real wages in order to limit the adverse consequences for activity and employment. A failure to implement sufficiently comprehensive reforms could well result in further increases in unemployment, lead to persistent budgetary difficulties, and ultimately undermine public support for the project.

In conclusion, while the proper balance between market efficiency and equity differs from country to country, I do believe that Germany and Europe have a lot to learn from the dynamism of the U.S. labor market. In fact, several countries in Europe, including the United Kingdom, the Netherlands and Denmark have already made good progress in reforming the labor market and their structural unemployment rates have begun to decline.

This does not mean that market forces can solve all problems. Clearly, there are market failures that government policies need to deal with in order to foster social cohesion. However, such policies will need to work to a greater extent through taxes and transfers and through the education system and to a lesser extent

through regulations and other impediments to the effective functioning of market forces.

I would like to end on a positive note by putting this discussion into a cyclical perspective. After a long period of dismal growth, Germany and the rest of continental Europe now seem poised for a period of economic recovery. With low inflation; with much of the fiscal retrenchments needed to satisfy Maastricht now behind us; with long-term interest rates at record lows in most of Europe; with confidence improving as uncertainties about EMU are waning; all of these factors should help support relatively robust growth during the rest of the decade. As a result, we are likely to see some decline in cyclical unemployment and the budgetary situation will suddenly look a lot better. Under these circumstances, there will be a temptation, also because of adjustment fatigue, to sit

back and relax the reform efforts. That would be a pity, because the underlying problems would not be going away. Instead, the next 3 to 4 years are likely to provide perhaps the best economic environment Europe has seen for a long time — and is likely to see for some time in the future, for implementing the fundamental reforms that are so badly needed to restore Germany's and Europe's long-term economic dynamism. □

Larsen's remarks were adapted from an October 10, 1997, speech to the Christian Social Union in Bavaria, Germany.

(The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. Government.)

□ THE GLOBAL ECONOMY, WORKER RIGHTS, AND COMPETITIVENESS

By Stephen P. Yokich, President, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW)

“It is critical for corporate global giants and political leaders to understand that the traffic rules of the global economy must not be set without worker input,” says Stephen P. Yokich, president of the United Auto Workers. “We consider that international standards — enforceable through trade and investment agreements — are the only means to guarantee this fundamental and achievable goal.”

Increasingly, the executives of global corporations have sought to place workers around the world in direct competition with each other.

One of the most important public policy debates in several decades has crystallized in response to this development. The questions imposed on American workers are these: In response to the increased pressures generated by global production, must developed country workers accept a lowered economic and social standard in order to lower production costs, or should workers struggle to maintain hard-won wages and economic benefits? What role is played by improved training and education, increased attention to quality, and joint labor-management initiatives to improve efficiency at the shop level? How can higher living standards and improved working conditions for workers throughout the global economy be achieved? What economic and social policies will ensure that there are enough jobs with decent pay and working conditions to eliminate unemployment and underemployment?

The multipronged approach adopted by the United Auto Workers (UAW) seeks to address these issues without workers being pitted against each other in downwardly spiraling rounds of economic and social cost-cutting to the sole benefit of the owners and top managers of global conglomerates.

PRECEDENT-SETTING PROGRAMS

In national-level negotiations with major manufacturers in the United States, the UAW has been able to develop programs that seek to continually improve the economic

and social standing of the workforce while addressing employer concerns about productivity and efficiency.

In the early 1980s, our membership was negatively affected by the combined impact of dramatically increased imports, changing consumer preferences, the introduction of new technology, new forms of work organization, and a national recession.

The UAW responded by negotiating a series of precedent-setting programs in contracts with such manufacturers as General Motors, Ford, and Chrysler. These innovative programs addressed the issues of job and income security and the introduction of new technology, and they established joint labor-management initiatives covering a broad range of workplace-related concerns such as quality, health and safety, education and training, and workplace-family needs.

To address the epidemic of layoffs and plant closings that occurred in the early 1980s, the union negotiated a job and income security program that provides between 95 and 100 percent of a worker’s regular wages if the worker is displaced during the course of the contract.

Laid-off workers were placed in a “jobs bank” where they could be reassigned to a variety of duties, including work in nearby factories owned by the company, temporarily substituting for workers who were in training, being retrained themselves for work inside or outside of the corporation, and performing responsible and needed work in the community.

A recent refinement of the program establishes a baseline number of workers in each plant and regional area that must be maintained over the course of the agreement by hiring new workers, if necessary.

THE CHALLENGE OF TECHNOLOGY

Another important area addressed through negotiations was the impact of new technology. The UAW has welcomed the introduction of new technology with the

provisos that no workers should lose their jobs, that workers should be retrained to operate and service the equipment, and that the safety of workers in close proximity to new computer-controlled machines should be protected.

In addition, a wide array of educational and training options has been negotiated by the union to provide members with the means to improve their skills and education level in order to take advantage of new job opportunities accompanying the introduction of new technologies and an ever-changing workplace. The union has also developed a widely recognized skilled trades apprenticeship program to facilitate the progression of assembly-line workers into much needed highly skilled positions such as electricians and tool and die makers.

A deep concern for the impact of family-related issues on the worker and the workplace are also an integral part of the UAW's approach. Joint initiatives have been undertaken with companies to provide childcare or referrals for workers and long-term care for their elderly parents. A pioneering Employee Assistance Program (EAP) provides a variety of counseling services that address problems of alcohol and drug dependence and other family issues.

Improving production processes and efficiencies is handled jointly with management at different levels in the union. At the national level, the union and management jointly administer programs addressing quality, health and safety, and educational needs. The overall aim of these programs, which have union-designated representatives for each program in each facility, is to improve the work environment, the workers' skills, health and safety, and the quality of the products, thereby improving the overall efficiency of the company.

In addition, the union monitors sourcing decisions made by companies to determine if work that a company proposes to "outsource" to suppliers will actually result in cost savings that cannot be matched "in-house." The companies have a contractual obligation to notify the union 150 days in advance of any outsourcing and to provide the union with full financial and practical data about the proposed outsourcing so that the union can properly evaluate the action. The union has the right to challenge outsourcing proposals and to counterpropose using in-house resources and labor.

The union has also taken a more outspoken role in

demanding that multinational corporations based in the United States continue to make significant capital investments in their U.S. operations. This has become important to workers because, in recent years, U.S. automakers have made billions of dollars of investment in new, overseas operations.

At the same time, some U.S. facilities have not received adequate capital to permit them to match the efficiency and productivity of the newer facilities overseas. It is the union's position that the highly experienced U.S. unionized workforce can compete effectively if timely investments are made to modernize U.S. facilities.

A GLOBAL PERSPECTIVE

Our outlook, however, is not focused solely on the interests of U.S. workers. It is also the goal of the UAW to raise the standards of workers around the world and thereby strengthen our ability to raise living standards for American workers.

To accomplish this, workers everywhere must have the opportunity to exercise basic labor rights. These rights, as embodied in conventions of the International Labor Organization, include, at a minimum, freedom of association, the right to organize and bargain collectively without government interference, prohibitions on forced and child labor and on all forms of discrimination in the workplace, and a safe and healthy work environment. With these tools, workers can improve their economic and social well-being and obtain a fair share of the fruits of their labor.

The UAW has been working closely with unions around the world, from developed and developing countries, to build the support needed to eliminate the repression of workers anywhere. With the increasing integration of the global economy, it is true now more than ever that, for workers, an injury to one is an injury to all.

We are also looking to our neighboring countries for worker rights progress. As a result of our efforts and those of other unions in the United States, the AFL-CIO, the U.S. labor federation, will soon open an office in Mexico aimed at improving our working relationship with unions in that country. In addition, the International Metalworkers Federation, with which we are also affiliated, is planning to establish its own Mexico office to expand its work with unions.

These actions demonstrate that we believe that making organized labor stronger in Mexico instead of weaker in North America is the best way to build a fair and equitable North American economy. It's a concrete step toward building the global solidarity counterweight to the lopsided power of transnational industrial and financial corporations.

Finally, in the late 1990s, it is critical for corporate global giants and political leaders to understand that the traffic rules of the global economy must not be set without worker input. We consider that international standards

— enforceable through trade and investment agreements — are the only means to guarantee this fundamental and achievable goal. The UAW has been fighting for incorporation of these rights into the rules of international trade and investment for decades. We will continue that fight until we succeed. □

(The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. Government.)

□ INTERNATIONAL LABOR STANDARDS: ARE THEY AN APPROPRIATE RESPONSE TO GLOBAL COMPETITIVENESS?

By Stephen S. Golub, Professor of Economics, Swarthmore College

Concern that weak labor standards in developing countries are a threat to the living standards of industrial country workers is one of the driving forces behind new efforts to coordinate labor standards internationally, says Stephen Golub, an economics professor at Swarthmore College. While trade with low-wage countries could adversely affect some of these workers, Golub suggests that harmonization of labor standards might be an ineffective response to the plight of unskilled workers — a problem better dealt with through a stronger social safety net and retraining. Golub also believes that voluntary codes of conduct could be a more effective approach to protecting basic labor rights.

The sharp rise in the globalization of production has spurred renewed interest, particularly in the United States and other major industrial countries, as to whether nations should seek to harmonize labor standards more effectively across countries. Advocates of this new effort say that conventions drawn up by the International Labor Organization (ILO) — the Geneva-based international body charged with overseeing global labor regulations — and related efforts by regional economic groups have failed so far to address key labor-related economic and human rights issues. But many developing country governments have been reluctant to cede sovereignty in what they regard as purely a domestic concern, charging advocates of this new effort with trying to impose disguised protectionist measures.

What is clear is that international labor standards will remain a highly controversial subject for some time to come. What is less clear, from my viewpoint, is whether establishing global standards is the appropriate approach or whether less controversial codes of conduct might achieve similar results. On one side, labor unions and human rights activists in the United States and other industrial countries argue that market access should be conditioned on some minimum labor standards in their trading partners. On the other side, developing countries reject harmonization of labor standards (particularly if enforced with trade sanctions) and have fought vigorously against the initiatives of the United States and some other

developed countries to give the World Trade Organization (WTO) any role in the area of labor standards.

WHAT ARE INTERNATIONAL LABOR STANDARDS?

International labor standards generally refer to the following five areas:

- Freedom of association;
- The right to organize and bargain collectively;
- Prohibition on forced or compulsory labor;
- Restrictions on the use of child labor;
- Guarantee of acceptable working conditions (including maximum hours per week, a weekly rest period, limits on work by young persons, a minimum wage, minimum workplace safety and health standards, and elimination of employment discrimination).

The ILO, in operation since 1919, has established more than 170 labor standards, known as conventions, that have been ratified by a number of countries. Countries that ratify these standards commit themselves to abide by them, but the ILO has no direct enforcement mechanisms and relies mostly on voluntary compliance. Furthermore, the number of countries that have ratified particular conventions is often low. Less than 10 percent of the conventions have been ratified by more than half the ILO's membership. The United States, for example, has failed to ratify all but 11 of the ILO's conventions, including 5 of the 6 that the ILO defines as "core" conventions. The low U.S. ratification rate is often attributed to the fact that ILO conventions are mostly modeled on European labor laws, which conflict in some important respects with U.S. labor laws and practices.

In recent years, the ILO, the Organization for Economic Cooperation and Development, and various national governments have attempted to focus on a few core labor standards around which widespread agreement might be obtained. Generally these correspond to the first four areas listed above, with the possible addition of the last item excluding the provision for the elimination of

employment discrimination.

ARGUMENTS FOR AND AGAINST LABOR STANDARDS

Labor Costs and International Competitiveness. Many in the developed world fear that weak labor standards in developing countries are a threat to the living standards of workers in developed countries. Firms will shift production to locations where wages and fringe benefits are lower, thereby creating a “race to the bottom” in international labor regulations. Even the threat of this relocation may be sufficient to shift bargaining power toward capital. This fear is fueled by the increasing volume and visibility of imports from developing countries.

Despite the widespread appeal of the race to the bottom argument for harmonization, there are reasons to be skeptical. According to mainstream international trade theory, international differences in labor costs do not preclude mutually beneficial trade. On the contrary, international trade theory suggests that the gains from trade increase with economic diversity between partners. Fears that high-wage countries are unable to compete with low-wage countries ignore the connection between wages and labor productivity. If low wages reflect low labor productivity, the costs of producing goods differ far less than differences in wage rates alone might suggest. This point also applies to labor standards more generally. Labor costs, when broadly defined to include such elements as fringe benefits and the costs of implementing health and safety regulations, ought to reflect productivity.

Proponents of labor standards respond that weak labor standards depress wages and benefits relative to what productivity of labor permits. Moreover, as developing countries acquire capital and technology, their productivity increases, but their wages may not.

The available empirical evidence suggests that there is a strong connection between labor costs and productivity, but deviations between them do occur. The effect of labor standards on any observed deviations between wages and productivity is uncertain.

While most economists do not accept the argument that international trade with low-wage countries depresses overall wages and labor standards in developed countries, they do agree that such trade adversely affects some

workers, notably the unskilled who compete directly with imports from developing countries. Widening wage inequality in the United States and some other high-wage countries has coincided with increases in international trade with low-wage countries, suggesting a possible connection. However, most studies conclude that international trade with low-wage countries has played a secondary role in increasing income inequality. In any event, it could be argued that harmonization of labor standards is an ineffective response to the plight of unskilled workers. Maintaining a stronger social safety net and retraining are more direct and effective ways of helping displaced workers.

Human Rights and International Labor Standards.

Human rights activists believe that raising labor standards in developing countries will benefit workers in these countries. Here an important distinction must be made between “core” labor standards, which are widely accepted as human rights, and “cash” standards pertaining to remuneration and conditions of work.

One argument concerns whether harmonization of cash standards will actually help workers in poor countries. Some believe that mandating certain labor market processes, such as minimum wages or limitations on working hours, under conditions where they are inappropriate, may raise the cost of employment or limit the choices available to poor workers and thus be counterproductive to the ultimate objective of improving labor market outcomes. Correspondingly, unions in some developing countries may sometimes push up labor costs and contribute to the oft-noted problem of economic dualism in those countries — industrial wages that are out of line with those in agriculture and services. It is generally recognized by economists and policy-makers that pursuing trade and labor market policies that are conducive to high growth rates is far more effective in raising labor incomes than mandating levels of wages and benefits.

Trade sanctions could be counterproductive in achieving their ultimate aim. Loss of access to markets in the developed world will hamper developing country growth prospects and thereby retard the upgrading of labor standards. Foreign aid targeted toward education, training, and other direct assistance to workers is more consistent with a humanitarian motivation as well as more economically efficient than trade barriers.

The arguments for harmonization of core standards are

stronger than those for minimum wages and other cash standards. Some abusive labor practices, such as forced labor and harassment of workers, are almost universally viewed as morally intolerable. Sanctions in response to such abuses may have widespread support. But in other instances, the moral high ground is not so clear. Consider the difficult problem of child labor. It is indeed deeply disturbing that young children toil under harsh conditions for low pay. But a child's income may be important to his/her family's and own survival. Strict standards in the formal sector may consign children to even more degrading and less remunerative work in the informal sector. Certainly, some uses of child labor are exploitative and cannot be condoned under any circumstances. What constitutes exploitation, however, is very difficult to define. Most parents care about their children; apparently "exploitative" child employment may be a family's desperate response to poverty.

TRADE SANCTIONS VERSUS VOLUNTARY INITIATIVES

Regardless of the merits of the arguments, there is considerable popular concern in the United States and other developed countries about trading with countries with low labor standards, as indicated by a series of recent agreements by companies to voluntarily raise labor standards in their foreign operations. Some such steps may be desirable to maintain the legitimacy of the global trading system. Popular support for open trade, especially with developing countries, is likely to be more fragile than for many other market relationships.

The Role of International Organizations. The efforts by some developed countries to include violations of labor standards within the purview of the WTO have been turned back in the face of very strong opposition from developing countries, who fear that any such moves, even if well-intentioned, will be used by interest groups seeking protection. It is clear that international agreement on the use of trade sanctions for enforcing adherence to labor standards is out of the question at present. Instead, the emphasis has so far been on enhancing the role of the ILO, mainly by increasing the number of countries that have ratified conventions corresponding to core standards and by exploring obstacles to ratification. For instance, some of these conventions might be rewritten to make them more widely acceptable while retaining their basic principles. There has also been some discussion about improving the ILO's supervisory mechanism by extending the special mechanism for violations of freedom of

association (whereby the ILO is empowered to investigate complaints even if the accused country has not ratified the convention in question) to other core conventions. However, no consensus has been reached. To date, any attempts at the ILO to even discuss the relationship between trade sanctions and core labor standards have been blocked by opposition from developing countries.

Unilateral and Regional Initiatives. Some U.S. trade legislation attaches conditions on trading partners' labor standards. The North American Free Trade Agreement and the European Union include agreements on labor standards. While such national and regional actions are obviously easier to implement than international accords, they undermine a rules-based multilateral trading system.

Private Sector Initiatives. Product labels certifying conditions of production are a way of responding to consumer concerns. Public or private organizations can provide information by investigating and reporting on labor practices. Companies which are found to abide by certain agreed-upon standards would be certified as such. Producers may be very responsive to such concerns as even moderate losses of market share strongly affect profitability. Moreover, firms show through their philanthropic contributions and some of their advertising that public image is important to them. They, therefore, have an incentive to monitor themselves. Given the danger of protectionist abuse of and lack of consensus for trade sanctions, the flexible and voluntary nature of labeling is an advantage.

Similarly, multinational companies can agree to adhere to codes of conduct developed by international organizations. While developed country standards may impose costs from a strictly economic point of view, instituting codes of conduct regarding basic labor rights embodied in core standards (as opposed to minimum wages) provides offsetting benefits by responding to the perceived moral problems posed by certain practices.

Efforts by both developing countries and private firms to adhere to some of these core standards are unlikely to impinge severely on trade patterns. Developing countries must weigh the increased support for open markets in the developed countries against the costs of enforcing labor standards. □

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□ EMPLOYABILITY: THE FAST TRACK TO TRADE AND SKILLS

By Lawrence Perlman, Chairman and Chief Executive Officer, Ceridian Corporation

“While Americans support further global economic integration, they want Washington to pay more attention to the employment issues raised by free trade,” says Lawrence Perlman, chairman and CEO of Ceridian Corporation — a leading U.S. information services and defense electronics company. Perlman also chairs the Committee on Workforce Training of the U.S. Business Roundtable, an association of chief executive officers of America’s largest corporations.

Last fall, the decision of President Clinton and Congress to postpone a vote on fast track trade authority in the face of certain defeat surprised U.S. trading partners around the world. It no doubt appeared that the United States, flush with 13 million new jobs since 1992 and the lowest unemployment rate in 25 years — partly due to a more open global economy — was now signaling a change of heart about free trade. Coinciding with the Asian financial crisis, the timing could not have been worse. Does the fast track stall portend backsliding on free trade?

While there continues to be a strong undercurrent of doubt about the benefits of free trade among important elements of American society, the nation’s commitment to market-opening progress remains unchanged. The business community, workers, politicians — Wall Street, Main Street, and Pennsylvania Avenue — agree that trade benefits America as much as any nation. There is still consensus that trade expansion creates jobs and increases Americans’ living standards. So why did Congress put the brakes on fast track?

While Americans support further global economic integration, they want Washington to pay more attention to the employment issues raised by free trade. Free trade advocates cannot ignore the widespread insecurity over keeping their jobs that troubles many American workers, many of whom suspect that when trade is put on a fast track, jobs can get detoured. For this reason, future trade initiatives must have a more comprehensive cost-benefit equation, projecting not only exports and imports but also trends in employment and earnings.

This does not mean that the United States will try to impose American-style labor standards on the rest of the world. But it does mean parallel tracks: equal time to review jobs and living standards at home and to adopt domestic policies enabling the channeling of resources to export sectors to cushion the effect of foreign competition.

ALLAYING PUBLIC SKEPTICISM

In essence, I am suggesting that we synchronize fast track trade policy and workforce policy. It would reassure a skeptical public that the government pursues mutually reinforcing, not mutually exclusive, trade and workforce goals — the equitable sharing of gains from open markets.

Today, the central U.S. workforce issue is employability, i.e., the continuous acquisition of skills for personal growth and individual competitiveness. In short, continual learning. Improving skills is a shared responsibility of employers and employees because it is in everyone’s common interests. American business cannot exploit market-opening opportunities abroad unless it has the resources, most especially skilled workers.

One of the major sources of public skepticism about trade expansion is that too many workers lack the skills to compete in a global market, and so feel vulnerable to the next import wave or off-shore outsourcing. A recent National Education Goals Report bears this out: The report found that only half of U.S. adults have the literacy skills to compete successfully in the global economy.

In a recent National Association of Manufacturers (NAM) survey, nearly 40 percent of companies reported that skill deficiencies prevented them from introducing new technology or productivity improvements. Two-thirds of the NAM respondents say they must provide remedial on-the-job education. Even domestic industries like construction and trucking see their growth potential stunted by skills shortages.

NEW INITIATIVES

There are a number of promising new initiatives that suggest America is moving toward a new national commitment to its human capital, so that all may share in the gains of freer trade.

Education and Training Tax Credits. Congress approved in August 1997 President Clinton's proposals to make higher education more affordable. Tax incentives of approximately \$35 billion included so-called "Hope Scholarships," allowing up to \$1,500 in tax credits for college tuition; "Education Accounts," which permit individuals to deposit up to \$500 in special tax-free accounts targeted at future education expenses; "Lifetime Learning" tax credits of up to \$1,000 for postsecondary training at any age; and the new "Roth IRA" plan, which allows tax-free and penalty-free withdrawals from individual retirement accounts (IRAs) before age 59 if used for education and training. Congress also extended for three years the present tax-exclusion law for individuals of employer-provided tuition reimbursements. U.S. business supported these initiatives in the balanced budget context.

Business Community Recommendations. The business community recently launched several new initiatives aimed at improving employability. The Business Roundtable joined the National Alliance of Business in proposing key principles for reengineering federal job training programs to improve their effectiveness. The leading recommendation was for program performance standards, to ensure that participants acquire the skills to qualify for jobs in the high-technology global economy.

Similarly, the U.S. Semiconductor Industry Association, whose members lead the world in developing new microchip technology, has just begun a workforce development project aimed at enhancing human skills.

The Talent Alliance is another example of innovative business thinking about workforce issues. Thirteen companies, including DuPont, AT&T, and Johnson & Johnson, have created a coalition to post job openings and share career development and training resources — all on the Internet.

Welfare-to-Work. Over 1,000 U.S. companies have volunteered to hire welfare recipients who are required by the 1996 welfare reform law to find meaningful employment. Skills deficiencies make these 4 million

households the group of Americans most vulnerable to foreign competition. President Clinton's 50 percent welfare-to-work tax credit would give employers an important incentive to hire former welfare recipients and help them acquire marketable skills.

Education Reform. Business has played a leadership role in advancing U.S. educational reform. The Business Roundtable is now midway through its 10-year program to help the states improve educational performance. There is still a long way to go. One in four U.S. secondary school students drops out before graduation. While two-thirds of recent secondary school graduates enroll in college, only one-fourth of those obtain a bachelor's degree within five years. So fewer than 2 of every 10 secondary school graduates earn a bachelor's degree.

Education reform priorities include high academic standards, assessment of school and student performance, and accountability, especially for schools and administrators.

School-to-Work Partnerships. Companies working with local schools expand school-to-career initiatives and ensure employer participation in measurable academic standards. School-to-work programs offer students special opportunities to integrate classroom and workplace education. They should be available to all students, whether college bound or not. For example, through job shadowing, internships, cultural exchange, and other projects, Ceridian's partnership with an urban secondary school in St. Paul, Minnesota, has given students insights into the expectations of employers and opportunities in the business world, while company managers and employees have gained first-hand knowledge of the workforce and customers of the future.

Work-Life Issues. The quality of working life will become one of the critical employment issues of the early 21st century. Competitive pressures at home and abroad have forced companies to minimize costs and maximize productivity. Employees are working harder than ever — longer hours, more traveling, higher stress. Every employer, large or small, will serve its own interests by helping employees do the best they can, not only at work but in managing family and other personal commitments as well.

A STRATEGIC APPROACH

A more open world economy and the information technology revolution have profound workforce implications that have received scant attention. No wonder people feel that trade and technology pose a dual threat to jobs. They realize that information technology eliminates distance and dismantles borders. The skills of individual workers are becoming the determinant of national economic progress.

We need, therefore, to think strategically and globally about workforce skills development. Free trade builds the demand for skills and allows companies to export brainpower embedded in products and services to anywhere in the world. Skilled workers enjoy a global platform.

But those who lack skills — and the bar rises every day — face direct competition from competitors all over the world. Governments and companies can no more keep skills out than they can halt television and radio broadcasts. Or telephone calls. Or the Internet. The world is already interlinked as the economic crises in Asia demonstrate.

To ensure continuing grassroots support for open markets, business and government need to develop a broad, strategic approach to employability. Government at the federal, state, and local levels can support education reform and business investment in training and workforce development through tax incentives and credits. Even more far-reaching would be a strategic review of a forest of regulations and legislation from the past 60 years originally meant to protect workers from

arbitrary treatment by employers but which now limit workers' options to adopt flexible hours, participate in work teams, work from their homes, and exercise many other employment choices made possible by current technology and new management models.

As a matter of survival, businesses will embrace employability as their central human resources strategy. Investments in training for employees raise the value of a company's products and services and at the same time send a signal to workers that the company is a competitive employer offering a fast track to marketable skills. As the worldwide demand for skilled workers grows, companies will need to practice ever-bolder forms of recruitment, including the hiring and training of welfare recipients, extensive collaboration with local schools, and partnerships such as the Talent Alliance that make common cause of workers' employability.

Free trade will always have its critics and its casualties. To respond to the concerns of both, U.S. companies and the U.S. government need to take every possible measure to ensure that U.S. workers are on the fast track to full participation in the new global economy. □

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□ A CHANGING WORKFORCE IN A CHANGING WORLD

By Roberts T. Jones, President and CEO, National Alliance of Business

Rapidly changing technological advances challenge the traditional definition of job security, says Roberts T. Jones, president and chief executive officer of the National Alliance of Business, a nonprofit organization of leading U.S. businesses that focuses on human resource issues. “Not long ago, this meant one employer, one job, one skill set, and working toward a pension. Today it can mean multiple employers, changing job structures, and skill sets that are under such constant change that no one can keep up with them. It means employees must focus on building their own value in the market and acquiring the skills to do this For many, it no longer means climbing up the corporate ladder into management. It means broadening one’s skill sets to take on new challenges.”

The world of work is changing at a resounding rate. Modern telecommunications and transportation systems are creating a truly global community. Advanced technologies are improving the efficiency of work. Competition, deregulation, and shortened technological and product life cycles are restructuring entire industries and reshaping how companies organize their workplaces. The workforce skills required in today’s economic environment are vastly different from those of 15 years ago. And 15 years from now or even next year, more changes will be apparent. For business, the only thing that is certain is change itself.

DYNAMICS OF CHANGE

Even in trying to define business today, one is confronted by the dynamics of change. All too often we are presented with data from government agencies that reflect a world that does not even exist anymore. The result is that we find ourselves locked into an old discussion or an outdated debate instead of moving forward. What do we mean by the terms manufacturing and services? This was an easy question to answer when there were large companies like IBM, General Motors, General Electric, or Siemens focused primarily on one industry. But if you look inside those companies today, you find holding companies composed of smaller, responsive business units designed to be flexible and agile. These changes are also

reflected in new strategic alliances between companies. Chief executive officers no longer see industries — they see shifting coalitions of companies.

These changing definitions have further obscured the distinction between blue-collar and white-collar jobs. Computers and technology advances in every workplace have radically altered both the nature and the skill demands of even the most traditional “blue-collar” job, where workers now use computers or monitor industrial robots. Significantly, our current definition of occupations has led to a paradox in which occupational growth is taking place in the category of “other” because current job codes do not accurately reflect these changes.

How we work has also changed the definition of full-time employment. A 40-hour work week is no longer the guiding characteristic of a full-time employee. Working at home or some “flex place” [off-site location] and never coming to the office is becoming more of the norm, and further blurs the distinction between full- and part-time work.

All of these factors, taken together, challenge the traditional definition of job security. Not long ago, this meant one employer, one job, one skill set, and working toward a pension. Today it can mean multiple employers, changing job structures, and skill sets that are under such constant change that no one can keep up with them. It means employees must focus on building their own value in the market and acquiring the skills to do this. Job security, in turn, depends on constantly increasing skills. For many, it no longer means climbing up the corporate ladder into management. It means broadening one’s skill sets to take on new challenges.

In this new environment, employers — seeking to recruit and retain the most skilled workers — struggle with defining and offering what it takes to become the “employer of choice.” Ironically, many employers, now forced to recruit and retain independent workers at a time when labor is in short supply in the United States, are longing for the old days of loyalty. But there is no going back to the traditional employment relationship.

FOCUSING ON JOB SKILLS

Business has already moved forward to accept and embrace the realities of this changing world. As a result, there is mounting pressure on companies to increase productivity, and this is directly related to the quality and educational level of its workforce. Today's employees need to have multiple skills to succeed in the workplace. Because technologies and operational practices are changing so rapidly, employers are placing more emphasis on broad competencies rather than on narrow, job-specific skills. A sales representative today is often called upon to train customers to use a product or to troubleshoot when problems arise — responsibilities beyond the traditional role. And for our children — tomorrow's workers — the need for more skills and a better education will only increase.

We are already seeing these changes:

- Just in the past decade, job growth has been concentrated in those sectors — such as financial services, business services, and health and social services — that require more education.
- Estimates suggest that an individual's annual earnings increase 8 to 9 percent for each year of educational achievement beyond secondary school.
- There is also a direct correlation between educational level and reemployment rates and job tenure.

All of the evidence we have today indicates that these trends will continue. A recent study by the Hudson Institute warns of a potential convergence of events that could create a severe labor shortage in the United States in the year 2010. These events include the first retirements of the baby-boom generation who are the bulk of today's workforce; the slowing of population growth between 1966 and 1985, which means there will be a smaller pool of workers to replace these retirees; and the dominance of high-skill jobs, which means that workers will have to be better educated or better trained. Among the report's recommendations for meeting this challenge are a "better-defined role" for higher education and an even greater investment by employers in training and skills enhancement. The bottom line is that companies need to be more flexible in responding to the changing demands of the present and in preparing for the uncertainties of this future.

What this suggests for the 1990s and the foreseeable future is that personal and economic security is and will continue to be directly linked to education and skills, and this will only accelerate in the next century. Lifelong learning is now an important part of the business culture. And companies, employees, and future employees have already recognized and acted upon this. They want, need, and demand education anywhere and anytime.

USER-FRIENDLY, RELEVANT EDUCATION

The demand for education and training is there — it is a market already happening. Nine out of 10 companies provide educational assistance to their employees. Employers are looking for ways to train workers better, faster, and cheaper. Employees are looking for training that is "user friendly" and relevant — user friendly because it is convenient both in terms of time and place, and relevant because it provides the skills necessary for economic security. A recent survey found that the largest barriers to lifelong learning in traditional settings were cost and inconvenience.

Workers and those seeking to enter the workforce are shopping for the skills they believe they need for success. Since 1986, enrollment in the United States at two-year postsecondary schools, which have demonstrated a greater sensitivity to the changing demands of the market, has increased one and a half times faster than enrollment at four-year colleges and universities. At the same time, enrollment at proprietary, or for-profit, schools, where marketplace responsiveness is equally significant, increased over three times as fast. It is estimated that by the year 2010, two-year and proprietary institutions in the United States will control over half of the postsecondary education market. Equally important, the number of corporate "universities" has nearly tripled in the last decade — there are now over 1,400.

The search for skills is also reflected in the fact that certificate programs, which offer specific knowledge or training, now represent 30 percent of the education market. This suggests that a growing number of individuals are continuing their education by seeking a more focused set of skills rather than enrolling in traditional university degree programs. For example, while bachelor's degrees in computer sciences declined by 38 percent in the last decade — a surprising statistic when you consider the incredible expansion in computer use and technology — awards or certificates in computer sciences increased by 87 percent.

These changes are already upon us, and they reflect trends that will only accelerate in the years ahead. One reflection of this change is the phenomenal success of the University of Phoenix, which, with an enrollment of 40,000 students, is now the largest private university in the United States. What makes the University of Phoenix unique is that it accepts only students over the age of 23 who are gainfully employed. Lifelong learning is not the poor stepchild here — it is the very heart of the university: Classes are taught mostly by professionals in the field, they are convenient and molded around the hectic schedules of working students, and the university is a leader in distance learning.

Another reflection of this change is the dramatic increase in computer-based training and long-distance learning. Online training — using the World Wide Web as a classroom — meets the needs of employers because it is better, faster, and cheaper; it meets the needs of employees because it is user friendly and convenient. An increasing number of colleges and universities are heading in this direction: The University of California at Berkeley

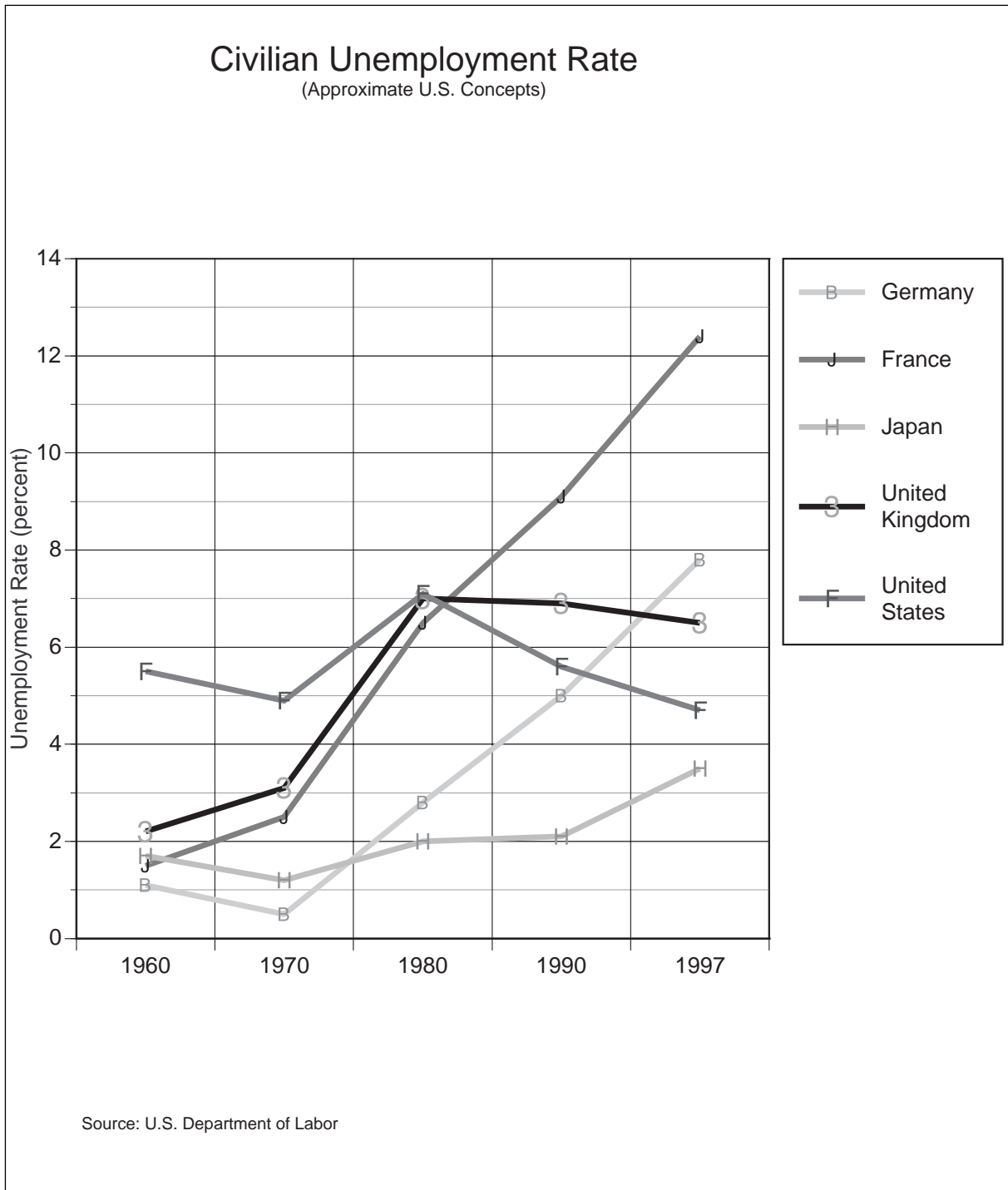
is creating a Marketing Certificate Program on the Internet that will increase access by business professionals who will not have to travel to the Berkeley campus.

As we face the challenges of the changing world we live in, one thing is certain — the changes taking place will not go away. The competitive demands of a global economy will only accelerate. Technology will continue to open new frontiers of information and access to knowledge. The need for a workforce that has more and better skills will continue. Companies will locate where they can obtain a skilled workforce. Ultimately, how a nation addresses these issues will determine its competitive advantage and success in the global economy. □

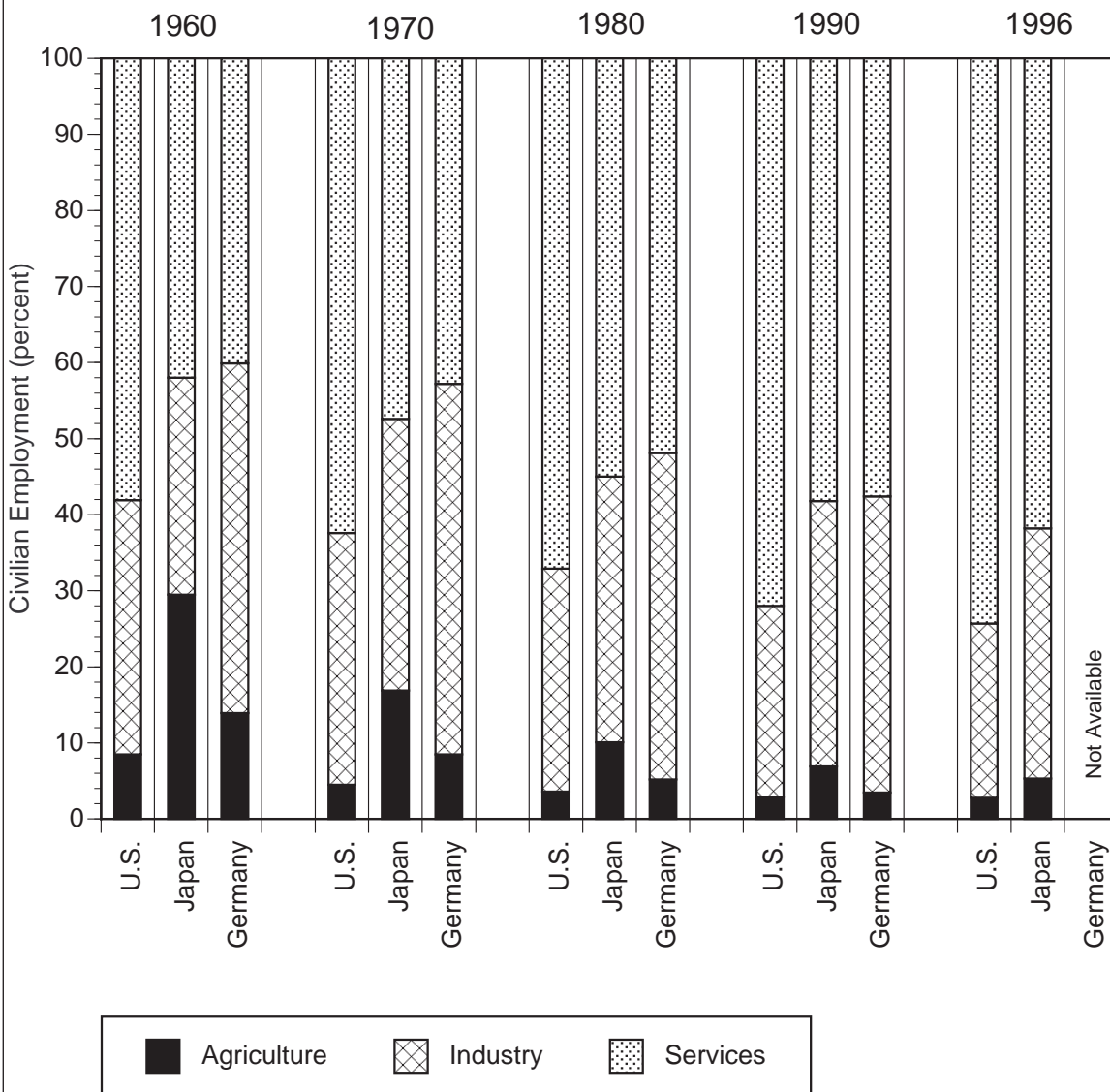
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FACTS AND FIGURES

COMPARATIVE CIVILIAN LABOR FORCE STATISTICS FOR MAJOR INDUSTRIAL COUNTRIES

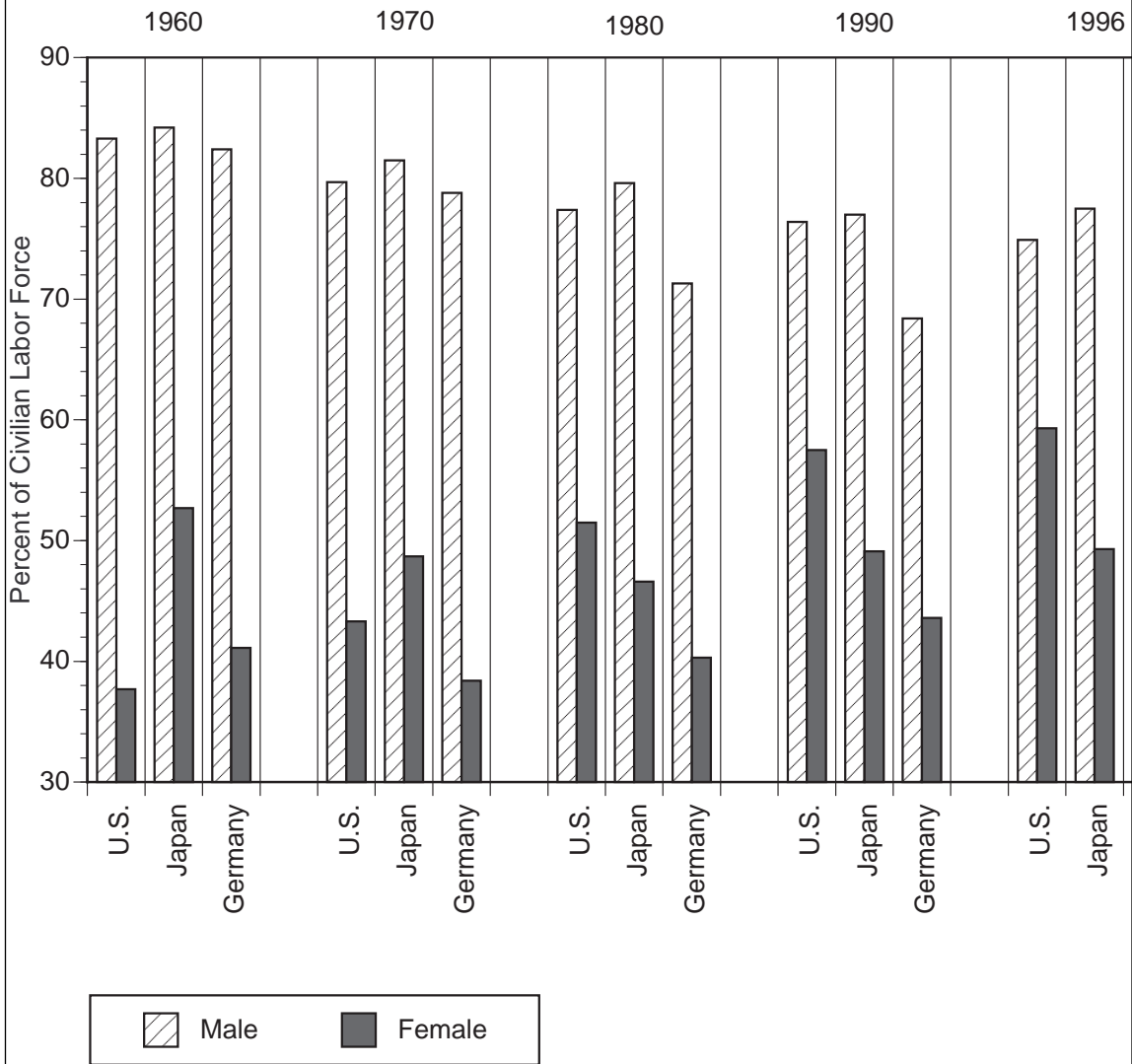


Percent Distribution of Civilian Employment by Economic Sector



Source: U.S. Department of Labor

Civilian Labor Force Participation Rates by Gender



Source: U.S. Department of Labor

INFORMATION RESOURCES

KEY FEDERAL GOVERNMENT CONTACTS AND INTERNET SITES

U.S. Department of Labor
Bureau of International Labor Affairs (ILAB)
200 Constitution Ave., N.W. Room S-2235
Washington, D.C. 20210 U.S.A.
Telephone: (202) 219-6061
Internet: <http://www.dol.gov/dol/ilab/>

U.S. Department of State
Bureau of Democracy, Human Rights and Labor
Office of International Labor and External Affairs
2201 C Street, N.W. Room 7802
Washington, D.C. 20520 U.S.A.
Fax: (202) 647-0431

U.S. Department of Labor
Bureau of Labor Statistics
Division of Foreign Labor Statistics
Postal Square Building
2 Massachusetts Ave., N.E. Room 4110
Washington, D.C. 20212 U.S.A.
Telephone: (202) 606-5900
Internet for information on foreign labor statistics:
<http://stats.bls.gov/flshome.htm>

U.S. Small Business Administration
Office of International Trade
409 Third Street, S.W. Room 8100
Washington, D.C. 20416 U.S.A.
Telephone: (202) 205-6720
Fax: (202) 205-7272
Internet: <http://www.sba.gov/oit/txt>

OTHER KEY INTERNET SITES

International Labour Organization
Geneva: <http://www.ilo.org/>
Washington: <http://us.ilo.org>

AFL-CIO
<http://www.aflcio.org/home.htm>

**Organization for Economic Cooperation and
Development**
Employment Statistics: <http://www.oecd.org/statlist.htm>
Labour Force Statistics: <http://www.oecd.org/std/lfs.htm>
Washington, D.C. Office: <http://www.oecdwash.org>

Talent Alliance
<http://talentalliance.org/index.htm>

National Alliance of Business
<http://www.nab.com/>

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Organization for Economic Cooperation and Development. *Implementing the OECD Jobs Strategy: Lessons from Member Countries' Experience*. Paris: 1997.

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Vanhoudt, Patrick. "Do Labor Market Policies and Growth Fundamentals Matter for Income Inequality in OECD Countries? Some Empirical Evidence." *IMF Staff Papers*, Vol. 44, No. 3, September 1997.

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DEPARTMENTS

ECONOMIC TRENDS

The U.S. economy continues to grow at a moderate rate with marvelously low levels of inflation and unemployment, and no signs pointing toward a recession.

The economy, which began its current expansion in the second quarter of 1992, “is remarkably free of the symptoms that often presage an economic downturn — such as an increase in inflation, an accumulation of inventories or evidence of financial imbalance,” says the *Economic Report of the President*, released February 10.

Forecasters agree that the U.S. economy will expand more slowly this year compared with 1997 — when growth reached 3.8 percent. The Congressional Budget Office in late January forecast a 2.7 percent gross domestic product (GDP) expansion this year, with slower annual growth during the next several years.

Some forecasters are revising their previous estimates for 1998 upward. Blue Chip Economic Indicators, a private economic analysis firm, raised its forecast for 1998 GDP growth to 2.6 percent based on surveys taken in late January, up by 0.1 percentage point from the growth predicted from surveys taken a month earlier.

“There has been some rethinking of the impact the Asia economic crisis will have,” Randy Moore, editor of Blue Chip Economic Indicators, said in a February 11 interview with USIA. Blue Chip bases its forecasts on surveys of more than 50 independent economic forecasters employed at major banks, insurance companies, manufacturers, brokerage houses, and universities.

Blue Chip sees domestic demand driving the economy in 1998, a result of the growth in personal incomes in recent years. Real disposable income is expected to grow slightly faster in 1998 than in the previous two years, said Moore, allowing more consumer spending.

During 1997, unemployment, when averaged over 12 months, dropped to 4.9 percent, a level last achieved in 1973. Inflation, measured by the Consumer Price Index (CPI), rose by 1.7 percent, the lowest increase since the 1960s, except for 1986 when oil prices collapsed.

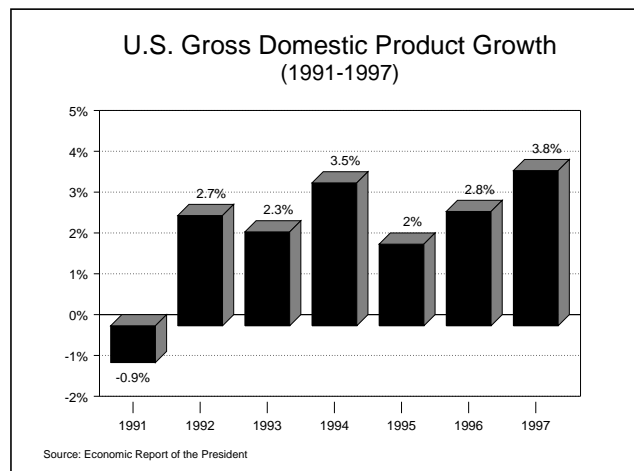
The Blue Chip forecasters see this performance continuing in 1998, with the average annual unemployment rate edging down slightly to 4.8 percent, as job growth continues. The CPI is forecast to increase slightly.

Blue Chip believes that the thousands of millions of dollars that U.S. businesses have invested in technologies in recent years are “paying dividends” in increased productivity, thereby allowing this combination of low unemployment, low inflation, and income growth to occur, said Moore.

The Asian financial crisis may also help the U.S. economy by reducing import prices, thereby helping to keep down U.S. inflation during 1998, say both the president’s economic report and Blue Chip. The Federal Reserve, the U.S. central bank, has also indirectly indicated that, because of the crisis, it does not plan to raise interest rates.

If stability is restored in Asia, the crisis’ “main effect on the U.S. economy could simply be to allow continued growth and job creation with a more moderate outlook for interest rates,” the economic report said.

The Asia crisis, however, will be felt in the trade deficit, said Moore. Blue Chip forecasts that the “net export deficit” will increase to \$185,200 million in 1998, up from \$142,100 million last year.



CONGRESSIONAL CURRENTS

Key international economic issues before the 105th Congress

TRADE

Fast Track: President Clinton has renewed his call for fast track trade negotiating authority, in which Congress has a time limit for voting on trade agreements and cannot amend them. While Republican leaders support fast track, there is no indication that the president will have an easier time obtaining passage now than in November, when similar legislation, opposed by labor and environmental groups, was withdrawn from the floor of the House of Representatives just before a scheduled vote. The administration has not yet decided when or how it will submit the legislation.

African Growth and Opportunity Act: This legislation contains a range of trade, investment, and reform incentives, including \$35 million in debt relief.

Generalized System of Preferences (GSP): The administration has proposed an extension beyond May 31 of the GSP program, which provides duty-free entry for some imports from designated developing countries.

Caribbean Basin Initiative: Despite the failure of previous efforts, another effort will be made to provide the 24 countries of the Caribbean Basin Initiative with the same trade treatment that is accorded Mexico under the North American Free Trade Agreement (NAFTA).

MFN Status for China: President Clinton must decide once again whether to approve a one-year extension of China's most-favored-nation (MFN) trading status, which gives imports from China the same tariff treatment given those from most other countries. Clinton's China MFN determinations have, in the past, led to heated debate within Congress over whether to overturn the president's action.

INTERNATIONAL FINANCE

The Asian financial crisis is at the forefront of congressional concerns as House and Senate committees begin consideration of President Clinton's request for \$17,900 million to help the International Monetary Fund (IMF) rescue ailing economies. The IMF bill, introduced as a 1998 supplemental appropriation, earmarks \$14,500 million for a U.S. quota increase for the IMF and \$3,400 million for a special emergency lending facility, the New Arrangements to Borrow (NAB). The administration's request for IMF funding was rejected late last year as an alliance of environmental groups and IMF critics more than offset business and banking support for the legislation.

FOREIGN AID

President Clinton has asked Congress to approve \$20,150 million in budget authority (money obligated for various purposes, some of which may be spent in future years) for international affairs in fiscal year 1999, which begins October 1. This is \$1,116 million more than Congress approved for the current fiscal year. Some highlights:

- \$1,200 million for Israel and \$815 million for Egypt, from which \$150 million will be made available for Jordan.
- \$925 million for assistance to the New Independent States (NIS) of the former Soviet Union, 20 percent above the fiscal year 1998 level, and \$465 million for Eastern Europe and the Baltic States.
- \$140 million in economic support funding for Haiti.
- \$825 million in funds for the U.S. Export-Import Bank, an 18-percent increase over current year funding.
- \$300 million to cover U.S. arrears and fund further U.S. commitments to the Global Environmental Facility.
- \$800 million to meet U.S. commitments for replenishing the resources of the International Development Association, the World Bank affiliate that provides low-interest loans to poor countries.

CALENDAR OF ECONOMIC EVENTS

February 17-18	Organization for Economic Cooperation and Development (OECD) High Level Meeting on the Multilateral Agreement on Investment (MAI), Paris, France	April 17-21	Secretary of Commerce Daley visit to Chile and Argentina
February 20-March 1	Secretary of Commerce Daley visit to Japan, Singapore, Philippines, and Vietnam	April 18-19	Summit of the Americas, Santiago, Chile
February 23-24	Asia Pacific Economic Cooperation (APEC) Investment Experts Group Meeting, Penang, Malaysia	April 19-20	G-8 Sherpa Plenary, London
March 2-6	APEC Committee on Trade and Investment Intellectual Property Rights Experts Group Meeting, Canberra, Australia	April 29-May 1	Asian Development Bank (ADB) annual meeting, Geneva
March 3-4	Lyon Group of the Eight — Senior Experts on Transnational Crime Meeting, London, England	May 5-6	U.S.-Mexico Binational Commission, Washington
March 12-16	International Labour Organization (ILO) 271st Session of the Governing Body, Geneva, Switzerland	May 7-19	Secretary of Commerce Daley to head U.S. trade mission to Africa
March 14-19	Secretary of Commerce Daley visit to Costa Rica for the American Business Forum	May 15-17	G-8 Summit, Birmingham, England
March 16	International Atomic Energy Agency (IAEA) Board of Governors Meeting, Vienna, Austria	May 18	U.S.-EU Summit, England
March 16-18	Inter-American Development Bank (IADB) Annual Meeting, Cartagena, Colombia	May 18-20	World Trade Organization Ministerial Meeting, Geneva
March 18-20	Summit of the Americas/FTAA Ministerial Meeting, San Jose, Costa Rica.	May 22-27	Pacific Basin Economic Council, First International General Meeting, Santiago
March 23-April 1	International Telecommunications Union (ITU), World Telecommunications Development Conference, Malta	June 8	IAEA Board of Governors Meeting, Vienna
April 2-3	OECD Environment Committee Ministerial, Paris	June 12	APEC trade ministers meeting, Kuching, Sarawak, Malaysia.
April 5-6	East-West International Trade Conference, Memphis, Tennessee	June 28-30	APEC Trade Ministerial, Auckland, New Zealand
April 16-17	IMF/World Bank spring meeting, Washington	July 21-22	ASEAN (Association of Southeast Asian Nations) Senior Officials Meeting, Manila, Philippines
April 17	Joint World Bank - IMF Development Committee meeting, Washington	July 24-25	ASEAN Ministerial, Manila
		September 13-18	17th World Energy Congress of the World Energy Council, Houston, Texas
		November 14-15	APEC Ministerial Meeting, Kuala Lumpur, Malaysia
		November 17-18	APEC Economic Leaders Meeting, Kuala Lumpur
		December 1	IAEA Board of Governors Meeting, Vienna
		December 7-10	51st International Air Safety Seminar, Cape Town, South Africa.