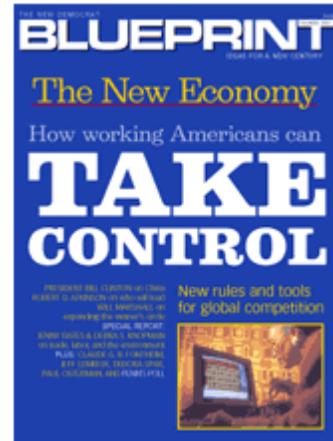


By Claude G.B. Fontheim & Jeremy B. Bash

Economic globalization has helped power the longest-running economic expansion in American history. Yet public consensus about American engagement in the global economy is fragile, and the domestic politics of economic globalization are often divisive.

The issue divides both political parties but is especially contentious within the Democratic camp. President Clinton, Vice President Gore, and other centrist Democrats advocate expanded trade and increased leadership on the world stage. Other key Democratic constituencies - such as mainstream unions and environmental groups - also promote an internationalist agenda, but their skepticism of trade has caused them to oppose legislation or agreements that would expand trade and foster economic engagement.



This divide urgently invites construction of a new policy framework that will both promote American economic leadership and address legitimate issues and concerns related to globalization. President Clinton has laid the foundation for such a framework in his call to "put a human face on the global economy." Now we must do the hard work of developing a common ground on which those who favor economic engagement and those who are genuinely concerned about trade's impact on issues ranging from jobs, living standards, and the environment to human rights and food safety can stand. In this article, we outline a policy framework that addresses labor issues, much of which is applicable to these other issues as well. This policy framework rests on four pillars: 1. Expanding the winner's circle for workers at home and abroad 2. Building credible and effective international institutions 3. Advancing the rule of law 4. Promoting corporate citizenship.

1. Expanding the Winner's Circle

First, we must promote an agenda that expands the winner's circle by giving workers the tools they need to succeed in a more integrated global economy. These tools include lifelong access to quality education and training; portable worker benefits such as pensions and health insurance; and wealth-building assets, such as enhanced employee stock-ownership programs. (For a detailed discussion of a domestic agenda, see "Winner's Circle," page 12).

But if we are serious about raising living standards everywhere, the next step must be to expand the winner's circle on the international stage. This can best be accomplished through programs developed in the same spirit as the domestic approach described

above, but adapted for the environment of developing or transitioning economies. Such programs should be driven by the World Bank and other multilateral development banks, which can provide financial resources and marshal technical expertise. Working with local actors (governments, NGOs, etc.), these international institutions should create what we call "Workforce Development and Modernization Partnerships" (WDMPs) to pursue these goals:

- the construction of a modern social safety net (unemployment insurance, transitional assistance, etc.) in those countries where it does not already exist.

- establishment of training and education programs tied to real skill needs in the local economy. In developing economies, this may mean offering technical skills to workers who are transitioning from agrarian to industrial employment. In transitional economies, this may mean retraining and rapid re-employment programs.

- lending to employers to foster job creation and micro-lending to workers to start their own local enterprises.

There is precedent for this type of approach. The World Bank in 1998 committed roughly 50 percent of a four-year, \$2 billion program to retrain more than 100,000 coal workers in Poland. The World Bank loans help the government offer free training courses for those seeking alternative employment; while workers take this course, they still earn part of their previous salary. That same year, the Inter-American Development Bank approved 10 projects that aimed to reform and improve labor markets in Latin America by strengthening workforce skills in specific industries in Brazil, Peru, and the Caribbean; by implementing worker training programs in Argentina; and by partnering with the private sector to upgrade work-based continuous training and education programs. These and other projects can serve as a template for a WDMP program aimed at providing workers with the tools they need to succeed in the global economy.

Finally, we can expand the winner's circle abroad through the expanded use of preferential trade arrangements with the developing world, such as the African Growth and Opportunity Act and Caribbean Basin Initiative.

2. Building Credible and Effective Institutions and Agreements

The United States should lead the world in developing credible and effective international agreements and institutions to address labor, environmental, and other issues. Our focus here is on labor issues. Many labor advocates propose inserting these issues directly into international trade agreements or institutions like the World Trade Organization. This strategy, however, would relegate labor issues to institutions in which they will always take a back seat to trade and economic matters. Labor issues deserve their own credible and effective institutions. Furthermore, any effort to negotiate labor standards in the WTO or link such standards to trade sanctions will ultimately undermine the WTO's ability to fuel economic growth by opening markets.

Reinvent the ILO. The place to start is at the International Labour Organization (ILO). Unlike the WTO or other international economic institutions, the ILO's chief mission is

to raise labor standards. The ILO has enjoyed some success: Its International Programme on the Elimination of Child Labour (IPEC) has helped alleviate child labor problems in Bangladesh and Pakistan - two countries where the problem has been most pronounced. But in general, the ILO has lacked the means to be effective (hence the desire of some to bring labor issues into the WTO).

The next administration should help reinvent and upgrade the ILO. First, we should develop a consensus with other developed countries to invest substantial new resources that will scale up ILO programs operated in partnership with local business, workers, and governments that are aimed at eliminating poor labor practices. The ILO can thus raise labor standards by providing effective resources - not through global regulation, but through bottom-up programs that help local entities solve the problem. Such an approach is essential if we are serious about working with developing countries to enhance the welfare of their own people. Without their active support, efforts to promote American values will look more like paternalism or protectionism than a genuine effort to elevate workers.

Second, the ILO and World Bank need to strengthen and institutionalize their relationship, working together to design incentives for upgrading labor practices. The World Bank could provide important incentives for governments to cooperate and participate in ILO programs by funding compliance and workforce programs in partnership with the ILO. This would not only strengthen the ILO's hand in countries with World Bank loans, it would also give the ILO greater resources to do its job.

Third, many trade preferences, which are already linked to labor standards, such as the Generalized System of Preferences (GSP), could be made contingent on compliance or cooperation with ILO programs to implement and enforce core labor standards. The GSP is a program that allows certain products from developing countries to enter the United States duty-free. If we can convince other developed countries to join us in making their trade preferences contingent on ILO compliance, we would create a powerful incentive that would give real clout to the ILO in a way that does not run afoul of the WTO. For this approach to work, the benefits must be reliable and large.

The administration is wisely increasing investments in ILO programs. During his recent trip to Bangladesh, the President announced American financial support for several ILO-run programs to combat child labor and to improve working conditions for women. These programs can provide a template for successful ILO-run programs elsewhere in the developing world.

Upgrade U.S.-based programs. In addition to the Department of Labor, there are other U.S. government institutions that can play an important role in addressing labor issues. It is time for these programs to be elevated and expanded. For example, labor attachés in U.S. embassies help educate American firms about local labor laws and practices, help companies and their suppliers set up compliance monitoring programs, and keep the American government and public apprised of labor abuses. The administration increased the number of attachés from 35 to 50. The next administration should set a goal of

placing a labor attaché in the majority of our embassies, particularly in the developing world. A second example is the special representative for international labor affairs, a position created to advise the secretary of state and President on international labor issues and to coordinate international labor policy. We should raise the prominence of this position by elevating the representative to ambassadorial rank.

Create an International Environmental Organization. As others have suggested, the United States should work with its allies to create a Global Environmental Organization (GEO) to develop and enforce new international agreements on specific environmental problems.

3. Advancing the Rule of Law

Developing the rule of law abroad serves American commercial interests, provides the means to enforce labor standards, and serves other foreign policy goals, from protecting human rights to impeding narcotics traffic. For example, the most serious concerns about labor standards could be addressed in part by focusing on three recurring rule-of-law problems: corruption, weak law enforcement, and weak non-independent judiciaries. Many developing countries have adequate labor laws on the books, but they are not enforced because they have ineffective legal systems. Throughout the developing world, there are too few labor inspectors; many are corrupt; and workers have little access to courts.

The U.S. government currently promotes rule of law through many venues, including the U.S. Agency for International Development, the United Nations, and direct technical assistance. Vice President Gore's bilateral commissions with Russia and with South Africa have both had standing committees on law enforcement, which have provided technical assistance to fight corruption and promote rule of law. The U.S.-China Presidential Summit in April 1999 also concluded with a bilateral commitment to fight corruption and strengthen rule of law in China. Many American companies, and other private enterprises, such as the Ford Foundation, also promote rule-of-law issues. However, there is no single U.S. government-sanctioned institution that can centrally marshal and coordinate all available resources, act as an effective advocate and catalyst for change, and serve as a credible monitor.

Create a National Endowment for the Rule of Law. Our efforts to expand the rule of law should be centralized in a new National Endowment for the Rule of Law (NERL). The National Endowment for Democracy (NED) is a good model for what NERL could look like. NED is a private, nonprofit, grant-making institution devoted to promoting democracy abroad. One of the innovations of NED is that it funds its programs through four core institutes - one run by Democrats, one by Republicans, one by labor unions, and one by the business community - a combination that has proved successful in promoting various viewpoints and areas of expertise. Similarly, a National Endowment for the Rule of Law could become an important global resource for promoting the rule of law.

Like NED, NERL could advise legislators and run training programs for judges, lawyers, judicial officials, law enforcement, and regulatory agencies. It could also broadcast radio programs into developing countries that air information about local labor laws and the court system, and work with the American Bar Association and other groups to promote exchange programs between American lawyers and jurists and their foreign counterparts.

4. Promoting Corporate Citizenship

As barriers to international commerce fall, the private sector's impact on the lives of most people will continue to grow. Thus, if globalization is to be an even stronger force for improving labor standards and environmental protection, the role of corporate citizenship must be better understood and promoted.

Many companies have found that good corporate citizenship abroad can advance their business goals. For example, Citigroup works with micro-credit institutions in Latin America and Asia to lend money to people who would not otherwise have access to capital. IBM and other technology companies have undertaken major initiatives to put computers in schools around the world and to teach students computer skills. Over the long term, programs of this sort succeed because they are good business. Good corporate citizenship ranges from social responsibility and philanthropic activities that enhance a corporation's "reputational capital" and are simply the right thing to do, to sound business practices that have a profound positive effect. For example, in his new book, *Profits and Principles*, Michael A. Sanatoro writes: "Western firms are dramatically improving the lives of many Chinese citizens. The changes are not, moreover, solely material. Western companies also are imparting radically new ideas and values to their workers that are helping to foster democracy and human rights in China." For example, he cites the case of a new Motorola facility that empowers workers to speak out - a radical notion in China. To be sure, public scrutiny has served as a catalyst for American companies to institute new corporate compliance and social responsibility programs. But, as many companies have now learned, corporations can help raise labor standards here and abroad simply by engaging in what they do best. And the U.S. government should reward companies that do well by doing good. We should design an award for good corporate citizenship, like the Commerce Department's sought-after Malcolm Baldrige Awards for Quality, that is prestigious and non-political.

Conclusion

Globalization has erased the easy divisions between domestic and foreign policy and between economic and non-economic issues. International commerce intersects with education, training, wage and hour laws, health care, law enforcement, human rights, the environment, monetary policy, diplomacy, and many other disciplines. A policy approach that fails to recognize this integration of priorities is destined to fail.

Some argue that we must decide between economic engagement, on the one hand, and worker rights, environmental protection, human rights, food safety, and improved living

standards, on the other. This posits a false choice. Indeed, we believe that American leadership in the global economy is the best way to guarantee greater protections for workers and the environment. Our challenge is to construct a set of policies that will make the global economy work for everybody, especially those who are most vulnerable to shifts in the economic order.

We have not attempted to lay out every policy prescription, but rather, we offer a framework for moving the debate beyond the false choice that has, until now, undermined public consensus on American leadership in the global economy. This framework is based on the principle that between extreme laissez-faireism and government command-and-control lies a Third Way - one that will put a human face on the global economy and raise living standards both at home and abroad.

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