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THE WORLD BANK

Washington, D.C.

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J - GENERAL CORRESPONDENCE



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" J "

THE WORLD BANK  
Washington, D.C. 20433  
U.S.A.

BARBER B. CONABLE  
President

July 11, 1990

Honorable Members  
of the House of Representatives  
and the House of Councillors  
of the Japanese Diet  
c/o Mr. Osamu Yatabe  
House of Councillors  
Rm. 608, Councillors Hall  
2-1-1 Nagata-cho, Chiyoda-ku  
Tokyo, Japan

Dear Honorable Members:

Thank you for your letters of June 26, 1990 in which you expressed concern about the Bank's participation in financing the Sardar Sarovar Project in India. The letters were conveyed to me by Mr. Yukio Tanaka of the Friends of the Earth, Japan. In particular, you expressed your reservations about the adequacy of plans for resettling people who will have to be relocated from the submergence area of the dam, and for addressing environmental concerns.

I think it might be helpful if I were to begin by clarifying that the Bank is presently helping to finance two development projects to utilize waters of the Narmada River. They are the Narmada River Development (Gujarat) Dam and Power Project and the Narmada River Development (Gujarat) Water Delivery and Drainage Project. The Dam and Power Project is supported by a Bank Loan of US\$200 million and an IDA Credit of SDR 99.7 million, and the Water Delivery and Drainage Project is supported by an IDA Credit of SDR 150 million. Both projects are being implemented simultaneously and, together, are known as the Sardar Sarovar Project, or SSP. We are of course aware that the state governments of Gujarat, Madhya Pradesh and Maharashtra, and the Government of India, are contemplating several further water resource development projects on the Narmada River, to be implemented possibly over the next 40 years or so. The World Bank, however, has made no commitments to support such development beyond the Sardar Sarovar Project.

The Sardar Sarovar Project is designed to provide much needed peak hydroelectric power and water for irrigation, industrial and domestic use for millions of people in the west of India. At the time of appraisal of the projects in 1984, there were about five million people living in the rural parts of the state of Gujarat where irrigation water will be provided by the project. Today, because of the expanding population, drought and the receding water table, water has become so scarce that increasing quantities of domestic water are having to be trucked into the area, at considerable expense to the state government. Eventually, the population likely to benefit may approach 15 million. The dam and canal infrastructure should provide sufficient water to irrigate about 1.9 million hectares in Gujarat and 70,000 hectares in adjacent Rajasthan.

The long-term benefits from these projects are considerable. This is an aspect frequently overlooked by critics of the projects. However, I also recognize that there are substantial costs to this type of development. The issues are complex. Construction of the dam will affect some 70,000 people in one way or another, while about 40,000 people will actually have to be resettled from the submergence area. The Narmada Water Disputes Tribunal award,

issued in 1979, and the Bank's legal agreements with the participating state governments and the Government of India, provide for comprehensive resettlement and rehabilitation (R&R) of the affected people. These activities are designed to ensure that families whose homes and land will be affected by the dam will be appropriately compensated and that they will improve upon their former living standards, or at least that their current living standards should be restored.

I would not wish to underplay the seriousness of the technical, environment and human issues associated with the Sardar Sarovar Project. They have been considerable. And over the past five years, the global consciousness and need to pay much greater attention to the environmental and social aspects of all types of development have increased dramatically. I believe, however, that the Bank, by working closely with the project authorities, participating governments, NGOs and other interested parties, has made a significant, positive contribution to all elements of the SSP. Technical aspects of construction are now fully satisfactory. And more recently, implementation of the environment and R&R aspects has improved greatly. It is therefore our sincere hope, which we have expressed to the respective government agencies, that they will be able to restore the confidence of the affected people in the implementation of R&R activities and avoid the confrontations which unfortunately have occurred.

I would like to recall that the Bank is financing only 18% of the cost of the Dam and Power Project and 30% of the cost of the Water Delivery and Drainage Project. It is highly likely that both projects will be completed as presently scheduled, whether or not the Bank were to remain involved. In our view, and in the view of the participating state governments and the Government of India, the Bank should continue to support the SSP, not so much for financial reasons, but to ensure that the difficult technical, environmental and social issues will continue to be addressed in an appropriate manner. In this spirit, I would like to assure you that the Bank remains committed to, and will provide the resources necessary for, continued vigilance in monitoring the two projects, particularly the R&R and environmental aspects, in close cooperation with the Government of India.

For your information, I am including a brief paper prepared by Bank staff dealing with the main issues raised by people concerned about the Sardar Sarovar Project.

Sincerely,



Barber Conable  
President

Enclosure

## India - Sardar Sarovar (Narmada) Projects

The Sardar Sarovar (Narmada) Projects have raised a number of concerns and questions which need to be taken seriously. This note, prepared by the World Bank India Agriculture Operations Division, attempts to provide some brief explanation and clarification of some of the main issues.

The argument in favour of the Sardar Sarovar project is that the benefits are so large that they substantially outweigh the costs of the immediate human and environmental disruption. Without the dam, the long term costs for people would be much greater and the lack of an income source for future generations would put increasing pressure on the environment. If the waters of the Narmada river continue to flow to the sea unused there appears to be no alternative to escalating human deprivation, particularly in the dry areas of Gujarat. The project has the potential to feed as many as 20 million people, provide domestic and industrial water for about 30 million, employ about 1 million, and provide valuable peak electric power in an area with high unmet power demand (farm pumps often get only a few hours power per day). In addition, recent research shows substantial economic "multiplier" effects (investment and employment triggered by development) from irrigation development. Set against the figures of about 70,000 project affected people, even without the multiplier effect, the ratio of beneficiaries to affected persons is well over 100:1. Furthermore, many of the persons officially classified as affected are in villages that will be near the edge of the Sardar Sarovar reservoir and therefore will be only partially affected. For example, less than half the 235 affected villages will have more than 20 hectares of their land submerged and in many marginally affected villages farm land inundation will occur for quite limited periods during the year.

Agriculture production from irrigation projects such as Sardar Sarovar is critically important for India. The 2.5% average annual increase in food production of recent decades has been due to expansion of cultivated area, increased fertiliser use, improved cultivars and irrigation. If India is to make significant in-roads into the poverty problem over the coming decades a 2.5% growth rate is not enough, it needs to be 3.0% at least, preferably 3.5%. Yet there is real doubt about whether even the 2.5% can be sustained. Expansion of cultivated area has virtually come to an end. There is no more land. Fertiliser use in a number of areas is reaching the levels at which diminishing returns have started to set in. There is real doubt about whether plant breeding can find another leap forward of the magnitude of the Green Revolution. Expansion of irrigation is going to have to be a major element in the growth of food production in the coming decades. The sheer scale of the task cannot be underestimated. It is because of their recognition of this that all major political parties at both the state and national level have supported the project.

Some claim that the project will not help the poor. While it is technically and economically not possible to direct all of the water only to the locations with the lowest income, the project will have a greater impact on poverty than the alternatives. It will help many drought affected areas and it will create substantial agricultural growth. The evidence in India is clear that it is generally in those areas where agricultural growth has been strongest that there has been the most positive impact on poverty. Furthermore, the future additional population in the benefitting area (there will be about another 8 million people by the year 2020) have little choice but to be poor unless new means of more secure livelihood are found. But even today surveys of the rural portions of the command area have shown about 2.5 million people below the poverty line.

The urgency of the needs is very apparent in Gujarat, where the Sardar Sarovar dam and irrigated command area lies. In the 1960s the number of people in Gujarat who were classified as facing food scarcity averaged 2.8 million per year; in the 1980s it has averaged 12.8 million. Increasingly, domestic water is being trucked into the villages and towns. The average cost of relief efforts over the period 1985 to 1989 has been about US\$160 million per year. Looking ahead there is clearly a scenario of increasing public expenditure and escalating hardship. These people can be seen as the resettlers of the future who will have to move, perhaps into city slums, to find food and employment, in the event that the irrigation does not come. They do not hold public meetings now, but in the year 2020, if you deprived them of their Sardar Sarovar dam, they would certainly be out on the streets.

It is sometimes claimed that alternatives were not explored. This is not correct. Arguably it is the most studied Indian project ever. The Narmada Water Disputes Tribunal, which sat for 10 years, as well as committees which sat before that, considered many permutations of numbers, height and location of dams. Furthermore, detailed water flow modelling was done with a range of alternative scenarios to develop a comprehensive basin plan. The typical technical and economic parameters of the small dam in India are well known. They do not have to be re-established in detail for every project. With respect to power, a least cost analysis was undertaken which addressed the major alternative power sources. We deal in turn with small dams, groundwater and power efficiency alternatives in the following paragraphs.

While small dams have a role and are, indeed, a significant part of the overall development proposals for the Narmada Basin, they do not, and cannot, approach the scale of the benefits of the large dams. First, they are not as low cost as is often claimed; a study of small "tanks" (as they are called) in India by an international research institution found most of them to be uneconomic (partly because of the amount of land they inundate relative to the volume of water stored). Second, while a few good small dam sites remain that could be developed at modest cost, the cost escalates greatly as, in the search for the large numbers of small dams needed for storing significant volumes of water, one is compelled to tackle increasingly less suitable sites. Third, they fail to fill in the very year, the dry year, when they are needed most. It was only the large dams that performed adequately for Gujarat in the last drought. Fourth, they inundate relatively massive areas of land; in the lower parts of basins this tends to be very fertile agricultural land, in the upper parts forest. Typically small "tanks" of around 40 to 100 ha size inundate almost as much land as they irrigate, around 0.9 of a hectare for every 1.0 hectare irrigated (usually irrigating one crop only, whereas large dams irrigate much more than one, apart from also providing power). Sardar Sarovar will inundate only about 1.6% of the area irrigated. Thus, even if it were technically possible to find enough small dam sites to store the same amount of water, the land lost to inundation could well be over 1 million hectares as opposed to about 37,000 ha for the Sardar Sarovar reservoir. Medium sized dams lie somewhere in between large and small dams in terms of inundation per unit of useful water. Small dams are undoubtedly useful, but they are not substitutes.

Groundwater is offered as another alternative, but groundwater recharge depends on holding back surface water long enough for it to infiltrate into the aquifer. Water tables are falling in many areas already, hence the trucking in of water to villages. Groundwater is a useful complement, and its conjunctive use with surface water supplies is a substantial part of the project plans and investments, but it is not an alternative to deal with the scale of the problem at hand.

Conservation of power is, of course, always a worthwhile strategy in principle, and must be strongly encouraged, mainly through price policy. However, the average Indian consumes annually the amount of power that the average American consumes in only 10 days so the amount used is scarcely excessive. Furthermore, the power needed now is not to meet some future

increased demand. Rather, it is to meet an existing unmet demand, which is currently being met in high cost ways such as through consumers operating dedicated diesel generating units. Even if demand were curtailed, the western region of India has a sub-optimal balance of hydro to thermal power to deal with peak loads and the Sardar Sarovar Dam, providing hydro, comes well within the least cost power investment program for the region.

With respect to environmental impacts, the project has both negative, positive and mixed or neutral impacts. Mainly negative impacts include loss of wildlife habitat, loss of the forest areas (11,000 ha in Sardar Sarovar, although much of it is very degraded and sometimes unrecognizable as forest or viable habitat), loss of religious/cultural sites (temples will be moved) and some increase in human and livestock pressure on surrounding areas. It appears from surveys that it is unlikely that any animal or plant species would be actually lost due to submergence. Mainly positive impacts are likely to be: (1) a net improvement in health, since it seems probable that, although irrigation may result in some increase in certain types of water-related disease if prevention is not handled adequately, adequate supplies of domestic water are likely to give a greater health improvement; (2) an annual volume of wood produced after the project from the trees in the irrigation area that will be far greater than the volume of wood presently produced in the submergence area, probably about 100 times greater; (3) improved habitat for waterfowl; (4) improved micro-climate due to evaporation from the open water surface of the reservoir and from the irrigated command areas; (4) improved atmospheric carbon/oxygen balance since, first, the increased photosynthesis, and hence oxygen production, from the crops and trees in the irrigation area will far outweigh the loss in the inundation area and, second, carbon storage by trees in the command area will far outweigh those in the submergence area. Mixed or neutral impacts can be expected in fisheries. A larger volume of water will be available, but parts of the river below the dam will change seasonally from a salt water to a fresh water environment in a different pattern. Water flow will be much more steady. The lowest flow into the sea is not expected to be lower than the lowest present flow. Flood damage will be reduced. There is some uncertainty, currently under investigation, about whether there would be a negative impact on estuary prawns in about 30 years time. Another mixed impact would be with respect to salinisation. Although there could be some risk of soil salinisation in the irrigation area should the very adequate drainage and pumping provisions for some reason fail, there will be benefits from the recharge of fresh ground-water with respect to water depth in wells and, for the same reason, possibly some reduction of underground salt water intrusion in coastal areas.

An environmental issue which is related to the dam, but is not caused by the dam, is erosion in the catchment area of Sardar Sarovar. Arresting of soil erosion needs to be addressed with or without the dam. Catchment treatment plans have been prepared for priority areas and work has commenced. The life of the dam is estimated at 180 to 340 years without catchment treatment. With catchment treatment and with more water storage in the upper basin the life span is greatly increased.

The challenge of implementing the resettlement and rehabilitation measures is, of course, enormous. Obviously, it is most important that resettlement give people at least as good a livelihood as they had before. Considerable progress has been made in achieving resettlement policies that are arguably the most favorable in any developing country. To give an example, one man is losing to submergence about 1 hectare of illegally cultivated government land on which he had encroached. But, with 3 major sons, the family will now legally own 8 hectares under the new state resettlement policy. They will also each get the Rs4500 subsistence cash, a Rs5000 subsidy for assets such as ploughs etc., a resettlement grant of Rs750, a house plot, plus a range of village infrastructure, which, in most cases will be well beyond what existed in the old village. There are also available to the family preferential employment schemes, youth training programs and an insurance scheme.

A widespread myth is that the tribal peoples to be resettled from the submergence area are living in pristine forests in a traditional manner as hunter gatherers in harmony with the environment. This is not correct. As satellite imagery shows and field observation confirms, the tribals mostly farm barren, stony, steep and increasingly degraded hillsides with a small and decreasing part of their income derived from the forest land. Many of them welcome the opportunity to improve their lot in the more fertile and more sustainable command area and, while any move has considerable social costs for a family, many have quite widespread tribal connections in the resettlement areas in Gujarat which is expected to help their adjustment. A substantial proportion of tribals appear to see little future in the increasingly degrading submergence area. Indeed it is within this tribal group that there appears to be the least opposition to the dam. The greatest opposition is from the more wealthy non-tribal farmers.

The Bank continues to work with the state and central governments to ensure that implementation of resettlement is done properly. Considerable progress has been made in Gujarat and some in Madhya Pradesh. Although the main filling of the dam comes after about 1994-95, with the majority of people not being affected until the second half of the 90s, faster progress has to be made in Madhya Pradesh. During the resettlement process there is a need for a great deal of support at the field level from concerned non-governmental organisations (NGOs) who can relate well to villagers, spot the inevitable problems early and bring them to the attention of government. About 14 NGOs, and related types of organisation, are now cooperating with the project authorities.

With respect to environment, studies done by the University of Baroda in 1983 provided information on the flora and fauna of the area. It seemed unlikely, from that evidence, that any rare species would be threatened with extinction by the reservoir inundation. Thereafter, the focus has been on more detailed studies to further that work and on studies to develop plans to mitigate the impact on flora and fauna. The area was found to be very degraded. Wildlife populations have been severely depleted because of pressure from human population in what is a very dry area. Tigers, panthers, wild bear and other large game can still be seen occasionally, but they are rare. One tiger was spotted in the area during the 1979 wildlife census. Of the 37,000 ha that will be inundated, 11,600 ha is officially classified as forest, but a substantial part of this land is, in fact, river bed and nearly all of it is highly degraded. To put this loss in perspective, the loss of forest in the basin as a whole runs at about 20,000 ha per annum without any dam development. This can be halted only by providing people with alternative sources of subsistence, income, forage and fuelwood which is precisely what the project can achieve. Work is at various stages of study, planning or action on: catchment treatment, compensatory afforestation, flora and fauna, wildlife management measures, public health monitoring and planning, and fisheries studies and development. No wildlife sanctuaries will be inundated, but several wildlife sanctuaries are expected to benefit from the project water.

The Government and the World Bank welcome constructive criticism and active involvement to ensure that this project provides sustainable development with minimum overall environmental impact for the benefit of both present and future generations.

India Agriculture Operations Division  
World Bank  
April, 1990



WORLD BANK OTS SYSTEM  
SENIOR VICE PRES. OPERATIONS

CORRESPONDENCE DATE : 90/06/28 DUE DATE : 90/07/13  
LOG NUMBER : 900702016 FROM : EXC  
SUBJECT : INDIA - SARDAR SAROVAR PROJECT - REST TO CANCEL WB LOAN  
FAX FROM YUKIYO TANAKA  
OFFICE ASSIGNED TO FOR ACTION : Mr.Karaosmanoglu/E-10-071

ACTION:

\_\_\_\_\_/ APPROVED  
\_\_\_\_\_/ PLEASE HANDLE  
\_\_\_\_\_/ FOR YOUR INFORMATION  
\_\_\_\_\_/ FOR YOUR REVIEW AND RECOMMENDATION  
\_\_\_\_\_/ FOR THE FILES  
\_\_\_\_\_/ PLEASE DISCUSS WITH \_\_\_\_\_  
\_\_\_\_\_/ PLEASE PREPARE RESPONSE FOR \_\_\_\_\_ SIGNATURE  
\_\_\_\_\_/ AS WE DISCUSSED  
\_\_\_\_\_/ RETURN TO \_\_\_\_\_

COMMENTS : PRIORITY #2  
PLEASE SEND REPLY VIA KEMMOCHI IN THE TOKYO OFFICE. SAME LTR  
OF 6/22/90 WITH COVER NOTE COULD SUFFICE. (PER MR. KHANNA)

WORLD BANK OTS SYSTEM  
OFFICE OF THE PRESIDENT

900702016

~~SS~~  
~~AK~~

CORRESPONDENCE DATE : 90/06/28

DUE DATE : 90/07/13

LOG NUMBER : 900628014

FROM : Yukio Tanaka

SUBJECT : Requesting on behalf of Members of the Japanese Diet, cancel. of  
WB loan for the Sardar Sarovar Project.

OFFICE ASSIGNED TO FOR ACTION : Mr. M. Qureshi (E-1241)

ACTION:

- APPROVED
- PLEASE HANDLE
- FOR YOUR INFORMATION
- FOR YOUR REVIEW AND RECOMMENDATION
- FOR THE FILES
- PLEASE DISCUSS WITH \_\_\_\_\_
- PLEASE PREPARE RESPONSE FOR \_\_\_\_\_ SIGNATURE
- AS WE DISCUSSED
- RETURN TO \_\_\_\_\_

COMMENTS :NOTE: I think we should send an answer via Kemmochi in the Tokyo  
Office because this ltr. is from Diet members. Perhaps the same  
ltr. of 6/22/90 from BBC with a cover note. (A. Khanna)



地球の友

150 東京都渋谷区鶯谷町7-1-801

Friends of the Earth Japan (Chikyu no Tomo)

7-1-801 Uguisudani, Shibuya-ku, Tokyo 150 JAPAN

電話/Tel: +81-3-770-5387, 770-6709

Fax: +81-3-770-0727

Facsimile Transmission/Fax送信

TO: The Honorable Barber Conable FAX #: 0061-1-  
 FROM: Yukio Tanaka, FOEJ DATE: 702/477/6391  
6/28 11:00 pm

Number of pages including this cover sheet \_\_\_\_\_

If you do not receive all pages, please contact us by telephone or fax.

ページ数 \_\_\_\_\_ (カバーページを含む)

ページ数が足りない場合は上記の電話番号/Faxにお問い合わせ下さい。

The Honorable Barber Conable  
 President  
 The World Bank  
 1818 H Street, N.W.  
 Washington, DC. 20433

(0061-1-)  
 By Fax. 202-477-6391

Dear Mr. Conable,

The following is the open letter to you from the Japanese Diet Members (both Houses of Representatives and Councillors), <sup>with</sup> a total of 23 signatures, demanding suspension of the Bank's loan to SSP, which I was asked to transfer by Councillor Yatabe today.

There are several other senders (see the typed names of the separate sheet) who had no time to give their own signature. ~~but~~ Include the press release of the planned demonstration on the 2nd July in front of the Ministry of Finance here together with ~~the~~ Diet Members' names.

このファクス用紙は再生紙を利用しています。

June 26, 1990

**Open letter to Barber Conable, President, World Bank, from Members of the Japanese Diet :**

**Request for cancellation of the World Bank loan for the Sardar Sarovar Project (SSP) on the Narmada River in India**

Dear Mr. Conable:

We, the undersigned Members of both the House of Representatives and House of Councillors of the Japanese Diet, wish to convey our views to you regarding the Sardar Sarovar Project (SSP) in India, and request the cancellation of the related loan by the World Bank.

This project was jointly financed by the World Bank and the Japan Overseas Economic Cooperation Fund, which has provided a loan of 2.85 billion yen. Thus, we have taken up the problems associated with SSP several times in the current Diet session and pointed out that the project illustrates the deficiencies of Japan's Official Development Assistance, which often lacks consideration and assessment of environmental and social impact before loan agreement are made for the projects. We also pointed out that the Narmada Valley Development Project does not improve the lives of poor communities; indeed, forced relocation deprives them of the basis for their livelihood. Partly as a result of our enquiries in the Diet session, the Japanese Government decided not to provide an additional loan to SSP, and announced the decision at the donors' meeting for India held by the Bank in Paris on the 18th and 19th of June; we approve of this decision.

We are also greatly concerned about the role of the World Bank and the current situation in India surrounding the Narmada Valley Development Project. According to a World Bank press release of April 17, the Bank justifies the loan to this project on the basis of the expectation that 20 million people will directly benefit from the water supplies and irrigation to be provided. This press release also indicates the Bank's approval of the Indian authorities carrying out the construction of the dam by claiming that there has been progress in solving the problem of relocation. However, according to recent reports from India, the problems of relocation have not improved, contradicting the Bank's assessment. In Madhya Pradesh, police forcibly took from their houses women from minority tribal groups who have refused to move, and struck a pregnant woman in the stomach with rifle butts. It has also been reported that people are still opposed to, and refusing to go to the relocation areas prepared by the Gujarat State Government.

Mr. Hashimoto, the Minister of Finance of Japan showed his awareness regarding the problems of the Narmada Valley Development Project. He commented in a Diet session that "interests are intertwined in a complicated way," adding that "this project extends into three Indian states, with deeply-rooted ethnic problems, and residents are not unified, so it is necessary to be cautious, especially regarding additional funding."

As indicated above, we fear that social and environmental failures will be large. However, there are other essential problems when one considers soil, ecological, and geographical factors. Even if the construction of the dams and canal system temporarily activates state economy, industry, and employment, in the long term specialists indicate that there will be problems with siltation, waterlogging, and salinization; that the life of the dam will be shorter than the hypothetical best case; and that long distance distribution of water by the large and small canal network will probably not achieve expectations.

Naturally, we are extremely concerned as to whether there are alternative plans for this

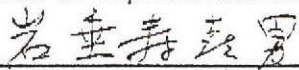
gigantic project. However, we have great expectations, because in India as well as on the international level, NGOs and researchers with actual field experience in small-scale irrigation, reforestation, and re-thinking of land-use patterns, have proposed "technical mixes" that don't result in large-scale changes in local living customs or topography. These proposals permit appropriate development, taking into account local people's real needs, and the social and natural environment; they do not strengthen dependence on international financial organizations or other countries and do not add to the burden of external debt.

For the above reasons, we cannot refrain from expressing our opposition to this development project which forcefully relocates minority peoples, and causes them to lose the agricultural and forest land which they depend on for lifestyle, community, and a resource base. Specifically, from the point of view of preservation of society, environment, and human rights we are asking the World Bank to immediately suspend further funding of this unreasonable "development project."

We thank you for your consideration, and await your reply to our concerns and requests.

Sincerely,

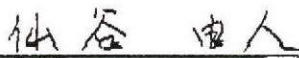
House of Representatives:



Suki o Iwatate



Shozo Azuma



Yoshito Sengoku



Hisashi Miura



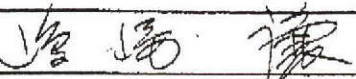
Iwao Teramae



Satsuki Eda



Masayoshi Takemura



Yuzuru Shimazaki

Please address enquiries and reply to:

Osamu Yatabe, House of Councillors  
Rm. 608, Councillor's Hall  
2-1-1 Nagata-cho, Chiyoda-ku, Tokyo, Japan  
tel. (03) 508-8608 fax (03) 506-8758

Takako Doi  
(Chairperson of  
JSP)  
Hyosuke Kujiraoka

Tomichi Murayama

\_\_\_\_\_

Makoto Saitoh

~~Hi~~dematsu Takakuwa  
Ei

House of Representatives



House of Councillors

Takako Doi

Hyosuke Kujiraoka

Tomichi Murayama

Shozo Azuma

Makoto Saltoh

Hidematsu Takakuwa

June 26, 1990

**Open letter to Barber Conable, President, World Bank, from Members of the Japanese Diet :**

**Request for cancellation of the World Bank loan for the Sardar Sarovar Project (SSP) on the Narmada River in India**

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We, the undersigned Members of both the House of Representatives and House of Councillors of the Japanese Diet, wish to convey our views to you regarding the Sardar Sarovar Project (SSP) in India, and request the cancellation of the related loan by the World Bank.

This project was jointly financed by the World Bank and the Japan Overseas Economic Cooperation Fund, which has provided a loan of 2.85 billion yen. Thus, we have taken up the problems associated with SSP several times in the current Diet session and pointed out that the project illustrates the deficiencies of Japan's Official Development Assistance, which often lacks consideration and assessment of environmental and social impact before loan agreement are made for the projects. We also pointed out that the Narmada Valley Development Project does not improve the lives of poor communities; indeed, forced relocation deprives them of the basis for their livelihood. Partly as a result of our enquiries in the Diet session, the Japanese Government decided not to provide an additional loan to SSP, and announced the decision at the donors' meeting for India held by the Bank in Paris on the 18th and 19th of June; we approve of this decision.

We are also greatly concerned about the role of the World Bank and the current situation in India surrounding the Narmada Valley Development Project. According to a World Bank press release of April 17, the Bank justifies the loan to this project on the basis of the expectation that 20 million people will directly benefit from the water supplies and irrigation to be provided. This press release also indicates the Bank's approval of the Indian authorities carrying out the construction of the dam by claiming that there has been progress in solving the problem of relocation. However, according to recent reports from India, the problems of relocation have not improved, contradicting the Bank's assessment. In Madhya Pradesh, police forcibly took from their houses women from minority tribal groups who have refused to move, and struck a pregnant woman in the stomach with rifle butts. It has also been reported that people are still opposed to, and refusing to go to the relocation areas prepared by the Gujarat State Government.

Mr. Hashimoto, the Minister of Finance of Japan showed his awareness regarding the problems of the Narmada Valley Development Project. He commented in a Diet session that "interests are intertwined in a complicated way," adding that "this project extends into three Indian states, with deeply-rooted ethnic problems, and residents are not unified, so it is necessary to be cautious, especially regarding additional funding."

As indicated above, we fear that social and environmental failures will be large. However, there are other essential problems when one considers soil, ecological, and geographical factors. Even if the construction of the dams and canal system temporarily activates state economy, industry, and employment, in the long term specialists indicate that there will be problems with siltation, waterlogging, and salinization; that the life of the dam will be shorter than the hypothetical best case; and that long distance distribution of water by the large and small canal network will probably not achieve expectations.

Naturally, we are extremely concerned as to whether there are alternative plans for this



gigantic project. However, we have great expectations, because in India as well as on the international level, NGOs and researchers with actual field experience in small-scale irrigation, reforestation, and re-thinking of land-use patterns, have proposed "technical mixes" that don't result in large-scale changes in local living customs or topography. These proposals permit appropriate development, taking into account local people's real needs, and the social and natural environment; they do not strengthen dependence on international financial organizations or other countries and do not add to the burden of external debt.

For the above reasons, we cannot refrain from expressing our opposition to this development project which forcefully relocates minority peoples, and causes them to lose the agricultural and forest land which they depend on for lifestyle, community, and a resource base. Specifically, from the point of view of preservation of society, environment, and human rights we are asking the World Bank to immediately suspend further funding of this unreasonable "development project."

We thank you for your consideration, and await your reply to our concerns and requests.

Sincerely,

House of Councillors:

Kentaro Koba  
Kentaro Koba

竹林 泰子  
Yasuko Takemura

Tamako Nakanishi  
Tamako Nakanishi

田 英夫  
Hideo Den

Kelgi Kajiwara  
Kelgi Kajiwara

Miyoko Hida  
Miyoko Hida

Manae Kubota  
Manae Kubota

Takeko Kutsunugi  
Takeko Kutsunugi

Sumiko Shimizu  
Sumiko Shimizu

Osamu Yatabe  
Osamu Yatabe

Wakako Hironaka  
Wakako Hironaka

Keiko Chiba  
Keiko Chiba

Akiko Domoto  
Akiko Domoto

Masao Kunlhiro  
Masao Kunlhiro

Please address enquiries and reply to:

Osamu Yatabe, House of Councillors  
Rm. 608, Councillor's Hall  
2-1-1 Nagata-cho, Chiyoda-ku, Tokyo, Japan  
tel. (03) 508-8608 fax (03) 506-8758

File: 6/20 WB Paris Statement

**Joint Statement from NGOs Worldwide Supporting the Japanese Government's decision to halt additional funding of the SSP (Sardar Sarovar Dam, India) and calling for fundamental re-thinking of World Bank Policy.**

For World Bank Paris Meeting June 18-19, 1990

On June 18 and 19, 1990, the World Bank held a meeting for fifteen of India's aid donor countries, at the World Bank's European office in Paris. We welcome the announcement that the Japanese government representative made that Japan will not provide additional funding to the SSP project in India.

At the second day of the meeting, each country explains its aid plans for this fiscal year. The Japanese government did not send the officers in charge from its Tokyo headquarters, but Japan's representative, the vice ambassador to India (New Delhi), gave the announcement mentioned above. We highly praise and do support the Japanese government's decision to halt of additional funding, and confirm the following points.

1. In the last five years, especially since loans to the SSP project became a reality, the Japanese government and OECF have ignored the environmental and forcible relocation problems, and this unacceptable attitude must be severely criticized. However, as Japanese public opinion has shown interest on this matter from the *beginning* of this year, the government:

- 1) Made inquiries to the Indian government at the end of February regarding the above-stated problem, and dispatched the OECF director in charge of the Project for a one month survey. Also, they tried to collect and analyze information from the embassies outside Japan, in order to comprehend the situation. And, on the other hand,
- 2) They showed a positive attitude towards exchanging information and opinions between us (NGOs) and conscientiously considered our point that the root of this issue is an reflection of the structural problems of Japanese ODA, that is the lack of its own research capability without having staff and institution with concerns and viewpoints about project inducing environmental and social adverse effect as well as Japanese own plant and technology export-oriented ODA business manner, and
- 3) The efforts and brave judgement, that is, the leadership of the Ministry of Foreign Affairs brought about the decision of the four Japanese Ministries handling ODA

On these points we show our respect.

2. However, we would like to point out the following facts:

- a) In the past, especially on the SSP project, the Japanese government and aid implementation organisations lacked proper recognition of environmental and resettlement problems and did not conduct adequate prior research, and both Japanese government and aid organisations now admit and share this reflection.

- b) Government and organisations expressed and confirmed that from now on, in order not to repeat the same mistakes, they intend to spend sufficient effort on prior research , with due consideration of environmental and resettlement problems (social impact and consideration of minorities)
- c) Whether the governmental organizations wish it or not, we NGOs are prepared to monitor the confirmation and the practice of the above two points, and offer information and express our opinion as circumstances require, and in this way, "cooperate" with them from now on, as we did before.
- d) The hesitation and reluctance of Japanese Government and Implementation organisation in a desperate attempt to keep relevant documents and material out of public eyesights, especially to the Diet and concerned NGOs, should be changed and the opening information policy must be established with clear definition and guidelines.

3. Among international development monetary/aid institutions, it is only the Japanese OECF and the World Bank who have been funding the controversial SSP . The latter has not yet changed its plan to continue its funding and complete the project.

On this point, it must be understood that another half responsibility still remains for the Japanese government, the second largest donor to the World Bank because,

- a) the decision of the Japanese government to halt is a response to the following three points:
  - 1) the fact that the problem of evacuation of up to 100,000 people, due to submergence of their land, is not solved
  - 2) strong opposition/resistance movement of the local people
  - 3) the criticism from inside and outside of Japan (even from within India) on the practice of Japanese ODA.

The same logic must be applied to the World Bank's loan practices.

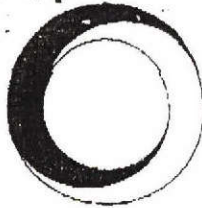
- b) Since it is rational to apply the policies in Japanese bilateral aid consistently to multilateral aid that is done through the World Bank, it is natural that the Japanese government should raise a fundamental objection to the World Bank based especially on 1 and 2 above.
- c) In this respect, responsibility lies solely with Mr. Masayoshi Shiraori, Japan's Executive Director to the World Bank, and the Ministry of Finance which deals directly with the World Bank. We have been criticising the attitude of the Ministry of Finance, which regards itself as an international financial management organization, rather than a competent authority on ODA, and has not paid much attention to the environmental/social problems which derive from ODA. At this time, we call for the Ministry of Finance to do the following:

d) Instruct Mr. Masayoshi Shiratori to clearly communicate the policy of the Japanese government to the executive committee of the World Bank, and then call an urgent executive committee meeting to re-examine the SSP problem towards the step of cancellation of its loan and the project.

4) Finally, we demand that the World Bank authorities and executive committee as well, call an urgent meeting and create the opportunity for re-examination, and steps towards the discontinuance and cancellation of the funding to the SSP project.

Written by Yukio Tanaka, Friends of the Earth

This statement is to be published on 19th June.



# 地球の友

〒150 東京都渋谷区鶯谷町7-1 渋谷マンション801号  
TEL (03) 770-5308 FAX (03) 770-0727  
801 Shibuya Mansions, 7-1 Uguisudani-cho, Shibuya-ku, Tokyo 150, JAPAN

Chikyu no Tomo / Friends of the Earth Japan

## PRESS RELEASE

### **DEMONSTRATION AGAINST FUNDING FOR THE NARMADA DAM PROJECT IN INDIA**

**Date:** Monday, July 2, 1990  
**Time:** 12:00 p.m.  
**Place:** Okurasho (Ministry of Finance), In front of Main Gate.  
(by subway: Kasumigaseki station, exit A13)

#### **Background:**

On June 18 and 19, a meeting was held by the 15 donor countries which are providing aid to India for the Narmada Dam Project (which we are opposing because of the forced displacement of up to 1 million people and the submergence of up to 600,000 hectares of agricultural and forest land). At the meeting, the Japanese government announced that they would not supply any further ODA (Official Development Assistance) funding for the project. This reversal in position by the Japanese government, due in part to our efforts and those of groups in Europe and the U.S., was surprising, but of course very welcome.

Unfortunately, the World Bank does not intend to give up the project easily since it has already dispersed a large amount--about \$150 million of the total \$450 million promised. We think that the World Bank will try to apply pressure to the Ministry of Finance, its window in Japan, to continue cooperating with the Narmada Dam Project. Thus, although our ultimate target is the World Bank, we are holding this event in front of the Okurasho.

The World Bank will be holding a Board of Directors' meeting in Washington on July 2, at which India must provide satisfactory resettlement plans for oustees of the Dam Project. We are hoping that by having a demonstration in front of the Ministry of Finance to show strong opposition to this Project, World Bank funding will be suspended or completely withdrawn.

#### **EVENT DETAILS:**

We are anticipating that a few hundred people will attend. In addition to live music, and banner displays, there will be speeches from a platform, by special guest Benjamin Wappariya, chief of the Shavante tribe of Brazil (to speak about the receiving end of misguided development assistance), diet members who will express their views on the use of Japanese funds in developing countries, and Narmada Campaign representatives. Three representatives will enter the Okurasho for brief discussion, and then return to the platform to report. (There is a possibility that the event may turn into a celebration if good news is received.)

For further information, contact Yukio Tanaka or Randy Helten at Friends of the Earth Japan (03) 770-5387.



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 የገንዘብ ግ.ጊ.ሰ.ቴ.ር

**THE PEOPLE'S DEMOCRATIC REPUBLIC OF ETHIOPIA**  
**MINISTRY OF FINANCE**

ቀን ..... 11-3-89 .....  
 Date

ቁጥር ..... F.A. 2/1/104 .....  
 Ref. No.

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 Telex  
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 Tel. 113400

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 P.O.Box 1905  
 አዲስ አበባ ኢትዮጵያ  
 Addis Ababa Ethiopia

Mr. B. Conable  
 President  
 World Bank  
 Washington, D.C.

Dear Mr. Conable,

It is my pleasure to inform you that Ethiopia's former Executive Director for Africa Group I Constituency, Mr. Mitiku Jembere, has been appointed to be in charge of the People's Democratic Republic of Ethiopia, Office of Economic and Financial Counsellor in Washington, D.C.

It is my hope that the resumption of active duty by the Office and Mr. Mitiku Jembere's appointment to head the Office will further strengthen the existing excellent relationship between the World Bank Group and PDRE. I hope also that the Bank Group will avail itself of the opportunity and will make maximum use of this Office to assist in facilitating effective and beneficial relationship between the PDRE and the World Bank Group.

4/10/69  
 Mr. Jembere will send us his address. He is still looking for a job + wants to stay in touch.  
 B.C.



Yours sincerely,

*[Signature]*  
 YOHANES CHEKOL  
 MINISTER OF FINANCE  
 ግ.ጊ.ሰ.ቴ.ር  
 የገንዘብ ግ.ጊ.ሰ.ቴ.ር

WORLD BANK OTS SYSTEM  
OFFICE OF THE PRESIDENT

10/31  
4:30 pm

CORRESPONDENCE DATE : 88/10/28 DUE DATE : 00/00/00  
LOG NUMBER : 881028013 FROM : W. Wapenhans (thru N  
SUBJECT : Justice for Janitors: Brief for meeting on Monday, Oct. 31  
at 4:30 pm.  
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

- \_\_\_\_\_ APPROVED
- \_\_\_\_\_ PLEASE HANDLE
- \_\_\_\_\_ FOR YOUR INFORMATION
- \_\_\_\_\_ FOR YOUR REVIEW AND RECOMMENDATION
- \_\_\_\_\_ FOR THE FILES
- \_\_\_\_\_ PLEASE DISCUSS WITH \_\_\_\_\_
- \_\_\_\_\_ PLEASE PREPARE RESPONSE FOR \_\_\_\_\_ SIGNATURE
- \_\_\_\_\_ AS WE DISCUSSED
- \_\_\_\_\_ RETURN TO \_\_\_\_\_

COMMENTS :M. Haug, J. Stanton, J. Volk (FF)



# Record Removal Notice



<b>File Title</b> President Barber Conable - General Correspondence - Correspondence, J		<b>Barcode No.</b>  30012510		
<b>Document Date</b> 28 October, 1988	<b>Document Type</b> Memorandum			
<b>Correspondents / Participants</b> To: Barber B. Conable, EXC From: Nancy Eisold Lindsay, LEGAD				
<b>Subject / Title</b> Justice for Janitors: Update				
<b>Exception(s)</b> Attorney-Client Privilege				
<b>Additional Comments</b>		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
		<table border="1"><tr><td><b>Withdrawn by</b> Sherrine M. Thompson</td><td><b>Date</b> March 12, 2018</td></tr></table>	<b>Withdrawn by</b> Sherrine M. Thompson	<b>Date</b> March 12, 2018
<b>Withdrawn by</b> Sherrine M. Thompson	<b>Date</b> March 12, 2018			



THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

## OFFICE MEMORANDUM

DATE: July 13, 1988

TO: Mr. Barber B. Conable

FROM: W.A. Wapenhans *W.A.*

EXTENSION: 75656

SUBJECT: Justice for Janitors

1. As discussed at the President's Council meeting last week, we have during recent weeks, received a number of printed flyers from the Justice for Janitors Organizing Committee. In addition, several small demonstrations have taken place outside Bank buildings and the Committee has attempted a few rallies for the workers which met with only a limited response.
2. This activity stems from the latest effort by the Service Employees International Union, Local 525 to organize all janitors in the Washington area so as to become their representative in collective bargaining with local employers. At present, very few janitors in the city are union members. The response of the workers to the Union's renewed organizing efforts since earlier this year has not been very enthusiastic.
3. There exists under US labor law a secret ballot procedure whereby workers may organize themselves through a government-supervised election process. The SEIU organizers, however, have in the recent months opted to attempt to circumvent this procedure and instead, to press building owners either to recognize the union themselves or insist that the firms through which they obtain janitorial services do so. Not only the Bank, Fund and IDB but also large commercial owners such as Oliver Carr and Boston Properties, are being targeted in this organizing effort.
4. As you may be aware, the Bank has a contract with an outside contractor, the General Maintenance Company, for the provision of janitorial services. Hence the people who clean our buildings are not Bank employees. Still, at the organizers' request, a meeting was held on May 4 between Bank representatives and a delegation of two organizers and two custodial workers, which was followed by a letter from the Bank (attached) responding to request made by the delegation.
5. As you will note from the letter, while we made it clear that it would not be appropriate to inject the institution into the domestic labor affairs of a member country, we did indicate our concern with fairness and justice for all workers. To confirm this, in the final paragraph of the letter, we undertook to address work related complaints and provided a specific contact point (Ms. Lindsay in the Legal Department). To date approximately 35 individual complaints have been received in response to forms distributed by the Union representatives. This represents about 10% of the workforce.

6. Most of the issues raised in the forms submitted to us are associated with the relationships between the custodial staff and General Maintenance Company, the employer. These range from statements about poor supervision, job attire, and short coffee breaks, to the linguistic skills of the supervisors and, of course, pay and benefits (in this connection, it should be noted that General Maintenance has advised us that it does have a medical benefit program for full-time employees). All complaints against the company have been referred to General Maintenance.

7. The main complaint relating to the Bank is that we cut off the air conditioning after hours. Current practice is to shut down the system after 7 p.m. in the evening and reactivate it at 7 a.m. the following morning. This enables us to keep our buildings at about 74 degrees (+/- 2 degrees) during the day. A recent survey indicated that temperatures have not exceeded 78 degrees during the working hours of our janitors in any building. Indeed, in most buildings the temperatures do not exceed 76 degrees which is within the temperature range used as the standard for Bank staff. In our view, these are reasonable temperatures to work in. Another set of suggestions relates to the provision of parking places in the Bank's garages which we are unable to accommodate due to security concerns. We are reviewing some other minor suggestions.

8. My staff and the Legal Department have obtained advice from an experienced US labor counsel within the firm of Arent, Fox, who is also representing other building owners in this matter. It should be noted, however, that while we keep abreast of developments generally, we are not involved in any joint effort with the other building owners. He advises that we should continue our present stance notwithstanding attempts from the union organizers to criticize our position or embarrass us.

9. As further developments occur, I will keep you informed.

cc: Members President's Council  
Ms N. Lindsay

NL/RCB/HK: nm



# Record Removal Notice



<b>File Title</b> President Barber Conable - General Correspondence - Correspondence, J		<b>Barcode No.</b>  30012510			
<b>Document Date</b> 17 May, 1988	<b>Document Type</b> Letter				
<b>Correspondents / Participants</b> To: Jay Hessey, Organizing Director, Service Employees International Union From: Nancy Eisold Lindsay, LEGAD					
<b>Subject / Title</b> Bank approach to employment matters					
<b>Exception(s)</b> Attorney-Client Privilege					
<b>Additional Comments</b>		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.</p> <table border="1"> <tr> <td><b>Withdrawn by</b> Sherrine M. Thompson</td> <td><b>Date</b> March 12, 2018</td> </tr> </table>		<b>Withdrawn by</b> Sherrine M. Thompson	<b>Date</b> March 12, 2018
<b>Withdrawn by</b> Sherrine M. Thompson	<b>Date</b> March 12, 2018				



# Record Removal Notice



<b>File Title</b> President Barber Conable - General Correspondence - Correspondence, J		<b>Barcode No.</b>  30012510		
<b>Document Date</b> 19 September, 1988	<b>Document Type</b> Memorandum			
<b>Correspondents / Participants</b> To: J. A. L. Faint, EDS03 From: Harinder S. Kohli, Director, ITF				
<b>Subject / Title</b> Janitors: Service Employees International Union				
<b>Exception(s)</b>				
<b>Additional Comments</b> Declassification review of this record may be initiated upon request.		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
		<table border="1"><tr><td><b>Withdrawn by</b> Sherrine M. Thompson</td><td><b>Date</b> March 12, 2018</td></tr></table>	<b>Withdrawn by</b> Sherrine M. Thompson	<b>Date</b> March 12, 2018
<b>Withdrawn by</b> Sherrine M. Thompson	<b>Date</b> March 12, 2018			

THE WORLD BANK  
Washington, D.C. 20433  
U.S.A.

BARBER B. CONABLE  
President

September 7, 1988

Dear Congressman Fauntroy:

Thank you for the personal attention you have given to the concerns of the Justice for Janitors Organizing Committee. I particularly appreciated your taking time out of your busy schedule to come here to discuss this matter.

Please accept my personal assurance that the Bank stands ready to cooperate in an appropriate manner, bearing in mind that the people who clean our buildings are not Bank staff; they are employed by our contractor, General Maintenance Company. If the General Maintenance Company employees wish to organize themselves through a government-supervised (National Labor Relations Board) election process, the Bank cannot and would not stand in their way.

As I described to you, Bank Management has made every effort to review working conditions so that all those working on the premises will have their concerns met.

Nevertheless, while the issue of unionization is out of the Bank's control, I appreciate the need to keep open the channels of communication. In this effort, I suggest that Mr. Sweeney meet with Mr. Wapenhans, the Bank's Senior Vice President for Administration. I have also asked my Counselor, Bill Stanton, to assist wherever possible in arranging for such a dialogue and to keep me informed.

Sincerely,



The Honorable Walter E. Fauntroy  
House of Representatives  
Washington, D.C. 20515-5101

THE WORLD BANK  
Washington, D.C. 20433  
U.S.A.

BARBER B. CONABLE  
President

August 24, 1988

Dear Frank:

This responds to your letter of August 1, 1988 concerning the "Justice for Janitors" pledge.

The World Bank, of course, is concerned with fairness and justice for all workers, and has made this clear to representatives of the Service Employees International Union in a series of meetings over the last several months. The pledge in question is part of a larger organizing effort currently being carried out by the Service Employees International Union in the Washington area. The outcome of this campaign can and should be decided between employers and their employees in accordance with the provisions of their domestic law. The Bank itself does not employ janitors, but rather contracts with a local firm for provision of these services. The janitors assigned to the Bank are the contractor's employees.

As you know, the matter of recognition of a union normally is resolved in the U.S. by recourse to an election procedure supervised by the National Labor Relations Board. I'm sure you will agree that it is not appropriate for an international organization such as the World Bank to inject itself into the domestic labor affairs of its member countries. We believe that the correct course for the Bank in this situation, therefore, is to refrain from interference and allow the mechanisms established under U.S. labor law to operate as intended.

We, of course, want to be an appreciative guest in the city of Washington and provide a healthful and safe environment for all who work at or visit the Bank. I have asked my staff to ensure that we observe customary standards generally applied in industry here and in government agencies. We have also asked the janitors assigned at the Bank to bring to our attention any health or safety complaints arising on the job. Some have done so, and these were promptly referred to our contractor for investigation and follow-up.

I hope the above responds to your concerns.

Sincerely,



Honorable Frank Annunzio  
U.S. House of Representatives  
2303 Rayburn Office Building  
Washington, D.C. 20515

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B wants to  
save re.

Janitors for  
Justice

Save

Janitor  
unions

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**What  
Does  
the  
World  
Bank  
Do?**



# Combat Poverty or Promote Poverty?

Although the World Bank is known to be a key player in promoting economic development and overcoming poverty in various countries, it has not played that role for the people who clean the World Bank's buildings in Washington, D.C.

No matter how long they've been employed at the World Bank, most janitors make only \$4.75 per hour, the minimum wage. They have no health insurance and few benefits. Most of them live in poverty, earning around \$115 per week or less than \$6,000 per year.

The Justice for Janitors Organizing Committee, SEIU Local 525, is actively campaigning to bring fair wages, decent benefits, and better working conditions to the 6,000 janitors who clean Washington's commercial office buildings, like the World Bank buildings. About 250 janitors clean the buildings owned by the World Bank.

In the posh downtown offices of the World Bank, Local 525 has uncovered a scandalous hypocrisy. The world's leading institution in the struggle against poverty continues to tolerate the impoverishment of janitors working at minimum wage with no benefits. By ignoring the just demands of the working poor janitors who clean its offices, the World Bank puts itself in the hypocritical position of *promoting* poverty in the United States while purporting to *fight* poverty overseas.

An incredible irony is that some of these janitors are immigrants from the very countries where the World Bank has been working to end poverty. Such workers find they have not escaped from poverty. They have simply relocated.

That's why we ask: Is it the goal of the World Bank to promote poverty or to combat it?



## **The World Bank— A Heavy Burden for D.C. Taxpayers**

The office buildings owned by the World Bank in the District of Columbia occupy prime real estate. When assessed for local property taxes, the Bank's office buildings have a combined value of \$402.8 million. Because of its status as an international institution, the World Bank is exempt from local taxes. In tax year 1988, the resulting property tax loss to the District government amounted to \$8.2 million.

In addition, since the janitors working in the World Bank receive such low wages and no health insurance, many must rely on public assistance to survive. Some janitors are forced to use the Tenants Assistance Program for housing subsidies, as well as receiving assistance through food stamps and Medicaid. This means that the D.C. taxpayers pick up the tab for the World Bank.

## **Janitors— Second-Class Citizens at the World Bank**

Although the janitors try to survive on \$6,000 per year with no health insurance, the staff at the World Bank have decent salaries and benefits. Unlike the janitors, the Bank staff enjoy generous health coverage.

Of the World Bank's staff of 5,500, 80 percent are not U.S. citizens and therefore pay no U.S. income tax or Social Security contributions. The U.S. staff people receive salary adjustments to compensate for their payments.

Foreign staff people are eligible for free round-trip air fare to their home countries every three years for themselves and their families. In contrast, many janitors scrimp to afford the bus fare to and from work.

When the Bank cut its staff by 600 positions last year, it spent more than \$100 million in severance pay and related benefits. That's \$200,000 per position! A janitor at the World Bank would have to work for 42,000 hours or 32 years to earn that amount of money.

We think it is good that World Bank employees are well-compensated. We just can't understand why the janitors are left out.

## Who Are the World Bank Janitors?

As a World Bank janitor, Denice had to live in a homeless shelter last year because she does not earn enough money to pay rent. She was stricken with Bell's palsy and was refused treatment because she does not have health insurance. She eventually found a doctor and now has hundreds of dollars in medical bills she is unable to pay. Her minimum wage salary forces her to rely on food stamps and subsidized housing.

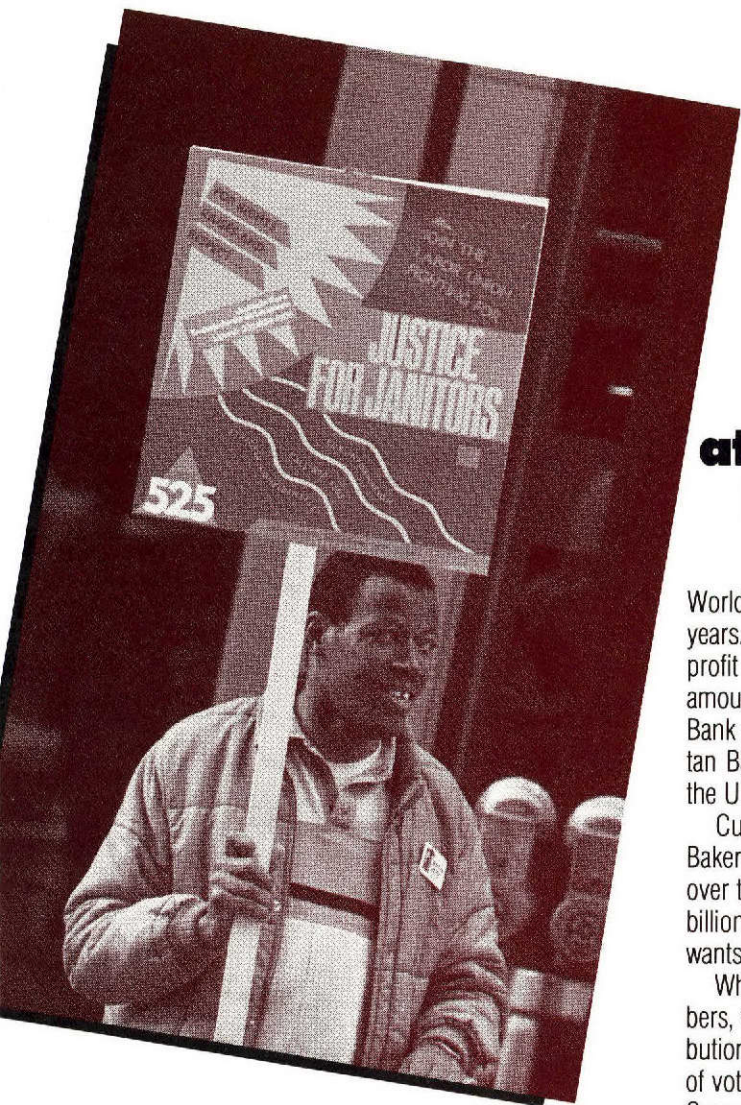
Louise was hospitalized while working at the World Bank due to an enlarged heart. Although she spent one week in the hospital, she was paid for only two days sick leave. Since she does not have health insurance, she is left with a bill for \$1,300 that she is unable to pay while working for \$4.75 per hour.

A World Bank janitor who broke her ankle was advised by her doctor to stay out of work for six weeks. Because she had no compensation and could not afford to miss work, she cut off her cast prematurely and returned to the job. Consequently, she continues to suffer pain because her ankle failed to heal properly.



After 18 years of janitorial service, one of Washington's 50-year-old janitors still earns the minimum wage, \$4.75 per hour.

Delmar works two jobs to make ends meet. The only way she has been able to afford rent is to live in a rooming house. She is now expecting her first baby and will have to apply for subsidized housing because her income is too low to pay rent and she cannot and will not raise a child in a rooming house. The medical attention she will need as a pregnant mother is a concern to her since she has no medical insurance.



## Lots of Money at the World Bank But Not for the Janitors

World Bank profits have doubled in the past five years. In 1987 alone, the World Bank reported a profit of \$1.1 billion. The total assets that year amounted to \$108.2 billion. The assets of the World Bank are greater than those of the Chase Manhattan Bank, the second-largest commercial bank in the United States.

Currently, Secretary of the Treasury James Baker wants to double the Bank's lending power over the next six years through an increase of \$75 billion in the Bank's capital base. That's right—he wants an extra *75 billion dollars!*

While the Bank presently has over 150 members, voting power is proportional to capital contributions. The United States holds nearly 20 percent of voting power—almost as much as Japan, West Germany, France, and Great Britain combined.



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THE WORLD BANK  
Washington, D.C. 20433  
U.S.A.

BARBER B. CONABLE  
President

March 17, 1988

Dear Dr. Jazairy:

Moeen Qureshi mentioned to me that you met in Davos and discussed issues of mutual concern. My staff has also brought to my attention an article written by a former World Bank employee, Mrs. Helen Hughes, questioning Australia's continuing support for IFAD.

The purpose of this letter is to reaffirm my personal support and commitment to cooperation between IFAD and the World Bank. The collaboration between our two institutions, through co-financing or the Bank acting as executing partner for the appraisal and supervision of projects, has been excellent. I also appreciate IFAD's continued support for the research activities of CGIAR, your cooperation with EDI especially for project training in Africa, and your role in other Bank/IFAD joint activities such as work on monitoring and evaluation methodology.

Within a relatively short time since opening its doors in 1977, IFAD has made an important and significant contribution to the development of the poorest of our member countries. As you know, I believe that, through pluralism among multilateral development institutions, we can better contribute to growth, development, and poverty alleviation in these countries. Each of the multilateral development institutions has a unique function or comparative advantage. We can optimize our effect through the kind of collaboration to which IFAD and the World Bank are committed.

I have not yet had the pleasure of meeting you, but look forward to doing so sometime either when you are in Washington or during my visit to Rome in May.

With kindest regards.

Sincerely

(Signed) Barber B. Conable

Dr. Idriss Jazairy  
IFAD  
107 via del Serafico  
00142 Rome  
Italy

cc: MQ/DH

THE WORLD BANK  
Washington, D.C. 20433  
U.S.A.

BARBER B. CONABLE  
President

March 30, 1987

Dear John:

Thank you for your very kind letter of March 12th. I haven't yet had the opportunity to read your article, having just today returned from a visit to Japan and Indonesia, two of the Bank's member countries, but I will do so. As you know, I have a continuing interest in trade issues, and I respect your integrity on the subject.

I trust you will continue to maintain your contacts here in Washington and will grace our fair city with your presence from time to time.

Best personal wishes.

Sincerely,



John H. Jackson  
Distinguished Visiting Professor of Law  
Georgetown University Law Center  
600 New Jersey Avenue, N.W.  
Washington, D.C. 20001-2022





*Pusml*

GEORGETOWN UNIVERSITY LAW CENTER

John H. Jackson  
Distinguished Visiting Professor of Law

March 12, 1987

*Acknowledge?*

*d / for STR ~ 6/2 \**

Mr. Barber B. Conable, Jr., President  
The World Bank  
1818 H. St. N.W.  
Washington, D.C. 20433

Dear Barber,

I enclose an article of mine just published, which I thought might interest you.

I have enjoyed reading about your activities in your new position, and as usual find myself admiring those greatly. I also enjoyed your interview about potential trade legislation published in the Journal of Commerce. I have had several occasions to draw the attention of others to this interview, especially when I have been contacted by foreign persons or press representatives who seem understandably perplexed by Congressional activities regarding trade!

While I am located in Washington only a few more months, it promises to be a very busy period!

Very truly yours,

John H. Jackson

# LOOKING AHEAD

## Anticipating Trade Policy in 1987

by John H. Jackson

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**T**his will be a pivotal year for world trade policy. A new General Agreement on Tariffs and Trade round of trade negotiations (the eighth) was launched in Punta del Este in September 1986. The approaching entry of China into the GATT will pose formidable problems. Dramatic short-term shifts in exchange rates and Third World debt questions are intimately linked to trade. There is increasing worry that the current world trading institutions, particularly the GATT, are inadequate to cope with the strains of the world's growing economic interdependence. Finally, U.S. congressional leaders have promised that in 1987 Congress will pursue important trade legislation.

The new negotiation will undoubtedly be the last such GATT endeavor for this century. The incredibly broad scope of this negotiation and the number of new perplexing issues demanding a place on its agenda (such as trade in services) make it likely that the results will establish the land-

scape for trade and international economic policies well into the 21st century. Consequently, activities in 1987 in the United States as well as other countries can have an unusually profound effect.

Central to any discussion of trade policy today is the GATT. Although it is the key international institution for trade, the GATT was never intended to be such. After the 1944 Bretton Woods Conference, attention shifted to the need for institutions regarding trade. In a discouraging story, from 1946 to 1948 the postwar Western democracies struggled to create an International Trade Organization, only to see their effort scuttled by the U.S. Congress. Left on the scene was an agreement never meant to be an organization and substantially lacking the useful constitutional and structural clauses found in the charters of the International Monetary Fund (IMF) and the World Bank. The GATT has had to "fill the gap." Indeed, the GATT, as such, has never come into force; it is still applied by the "Protocol of Provisional Application!"

WINTER 1987



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The National Planning Association is a private, nonprofit, nonpolitical organization engaged in research and policy formulation in the public interest. Among its activities, NPA brings together influential and knowledgeable leaders from business, labor, agriculture, and the applied and academic professions to serve on policy committees dealing with key issues affecting the U.S. private sector.

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Despite all this, the GATT has served the world far better than that world has had a right to expect. Major trade liberalization has occurred during those four decades, and most of that period has been accompanied by great and rising prosperity; not without stress, however. The problems of trade in the context of issues that the GATT was designed to address have become increasingly difficult, aided by the extraordinary advance of world economic interdependence. This in turn can be causally linked not only to the mind-boggling technological improvements in communication, transport and marketing, but also to the very success of GATT trade liberalization.

Added to the complex traditional problems of trade policy are a series of new issues, rarely or never contemplated by GATT's midwives: trade in services; greater government ownership in economies; nonmarket economies; high technology products with short life cycles and production techniques that raise questions about the continued applicability of traditional economic doctrines of comparative advantage; and of course the trauma of underdeveloped countries and their debt service dilemmas. Can the GATT cope? Serious doubts are tempered only by the record of a GATT coping more successfully than anticipated in the first place.

#### THE PROBLEMS OF GATT

There are indeed many problems with the GATT. To begin with, for all practical purposes the GATT cannot be amended. Thus, during the Tokyo Round a series of "side agreements" or "codes" were negotiated with the objectives of clarifying and extending international rule discipline to diverse subjects such as customs valuation, antidumping and countervailing duties, government procurement, and product standardization. Many new problems arise, however, with a side-agreement approach.

Furthermore, much concern exists about whether the various rules are working. One of the major ways by which an international system tries to promote rule integrity is through a respected and efficient dispute settlement procedure. Such a procedure for GATT and comparable procedures for various codes have been in the spotlight in recent years, with many thoughtful leaders suggesting that these procedures are seriously flawed.

As more countries have entered the GATT, the question of voting and decisionmaking processes has begun to cast a longer shadow over what started as a cozy club of 22 like-minded nations. Consensus decisionmaking, touted by many national diplomats, has certain concomitant defects: it yields effective veto power to one or a few countries; tends to re-

duce initiatives to a lowest common denominator; and encourages bilateral or pluralateral initiatives by self-selected groups of countries who may or may not adequately take into account the multifarious interests of nations left outside the negotiating rooms of power.

Certain basic principles of the GATT, most notably the most-favored-nation (MFN) clause or principle of international nondiscrimination as well as the rule prohibiting quantitative restrictions (whether arranged by importing or exporting countries), have been increasingly challenged or ignored.

#### **ORIGINS OF THE TRADING SYSTEM**

The current international trading system can be viewed as part of a broader international economic system sometimes characterized as Bretton Woods. This system includes international monetary institutions (such as the IMF, developed at the 1944 conference), investment (e.g., the Organization for Economic Cooperation and Development), trade (the GATT), and various other institutions. It also involves interlinking national laws and processes. The whole system is a complex web of hundreds of treaties, thousands of national laws, dozens of government agencies in each of over 100 countries, and a vast array of private and enterprise interest groups.

The origins of the trading system, and particularly the GATT, can be traced back for centuries into bilateral friendship, commerce and navigation (FCN) treaties, MFN clauses, League of Nations activities, and national legislation such as the U.S. 1897 countervailing duty law.

The modern origins, however, can most plausibly be traced to the 1934 U.S. Reciprocal Trade Agreements Act, in turn part of the troublesome landscape furnished to trade policy by the U.S. Constitution. A "perpetual war between the branches" is structured within the Constitution, and this constant struggle has additional dimensions of perplexity for international trade subjects. Although these areas are part of "foreign affairs" and therefore might partake of the traditional deference that courts and the electorate seem to grant to the President, trade is different: the Constitution explicitly allocates power to Congress in "interstate and foreign commerce." Congressional committees and leaders rarely pass up an opportunity to remind the public and the executive branch of this basis for Congress's special role of power over trade matters.

The 1934 act was an important milestone in the history of this problem. The thrust of the act was the delegation by Congress to the President of im-

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*"Can the GATT cope?  
Serious doubts are  
tempered only by  
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in the first place."*

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*“Congress has become increasingly grudging in renewing or extending powers over international trade to the President.”*

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portant powers over U.S. tariff setting, partly as an antidote to the damage caused by the 1930 Smoot-Hawley Tariff Act. Debate on the floor of Congress recognized the “discouraging” experience of Congress “in writing tariff legislation. . . .” As one senator stated in that debate: “. . . Log-rolling is inevitable, and in its most pernicious form. We do not write a national tariff law. We jam together, through various unholy alliances and combinations, a pot-pourri or hodgepodge of section and local tariff rates, which often add to our troubles and increase world misery. . . .” (78 Cong. Rec. 10379).

Thus the 1934 act represented an important change in the pragmatic allocation of power—a change, however, that was not perpetual and that troubles members of Congress to this day. The 1934 act has been renewed many times and is still the centerpiece for thinking about U.S. trade legislation. (In fact, the GATT was accepted for the United States by the President without referral to Congress, under the authority of the 1945 renewal of this act.) Yet, since the 1962 renewal expired in 1967, Congress has become increasingly grudging in renewing or extending powers over international trade to the President. The traditional reciprocal trade agreements tariff authority lapsed from 1967 to 1975 and has again lapsed since 1980. The shock to thinking about the allocation of power to the President caused by both the Vietnam War and the Watergate scandal has had its effect on trade. Alternative statutory phraseology, necessitated by the shift of concern from tariffs to nontariff barriers (NTBs), has been similarly circumscribed, as we note below. In short, Congress has become increasingly stingy in following the precedent set in the 1934 act, and therein lies a major difficulty of U.S. implementation of trade policy.

**T**he so-called fast track (clearly a central issue of any 1987 legislative scenario) is part of this picture. When international negotiations shifted focus to nontariff measures, the question of how the U.S. executive branch could effectively negotiate rules about NTBs was raised by those foreign governments disappointed by Congress’s multiple rejec-

tions of the results of the GATT negotiations that had to be submitted to Congress. Jealous of its power, Congress has not been inclined to give advance delegations to the executive branch on the many complex and politically supercharged issues involved in nontariff measures. In the formulation of the 1974 Trade Act, a mechanism was worked out that would give U.S. negotiators sufficient “credibility” so that foreign governments would be willing to negotiate with them, while preserving ultimate approval authority for Congress. Thus was born the fast track provisions of the 1974 act: Congress was consulted extensively during the negotiation, but at the end the executive could submit a single bill to Congress for approval of the agreements negotiated and implementation of their rules into domestic law. Under fast track procedures, this bill could not be amended, had to be reported out of committee within fixed time limits, and was subject to time-limited debates in the Senate and the House. The procedure worked splendidly in 1979 when the Tokyo Round results were approved by votes of 90 to 4 and 395 to 7.

This procedure, like elements of the original Reciprocal Trade Agreements Act, is not perpetual. The current principal version found in Section 102 of the 1974 act will expire in January 1988. A major question for 1987 and Congress is whether the procedure should be renewed, and when. An important subsidiary question is whether the executive branch feels it needs this procedure or can get along without it. Legally, of course, the President can negotiate to his heart’s content. But to accept the negotiation results or to implement them, he will have to have congressional participation in some form. Can the President risk launching into a major trade negotiation without at least a significant congressional pat on the back? Can he risk proceeding and only later ask Congress to reenact the fast track procedure, or even wait until the end of the negotiation (likely to occur in another Administration) and then submit the results for congressional approval? Obviously these are momentous and delicate judgments, difficult to appraise with accuracy. However, history suggests much danger in waiting.

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*“The fact remains that there is inadequate national or international agreement about what is ‘unfair’ in trade practices.”*

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### “UNFAIR” TRADE PRACTICES

Since the sixth GATT round (the Kennedy Round, 1962–67), the focus of national trade policy leaders has turned from tariffs to nontariff barriers. NTBs have become the principal impediments to the relatively free flow of trade in today's world, and it has been recognized that the only sensible way to reduce this plethora of impediments is to establish international disciplines derived through careful consultation by concerned nations. Thus the seventh round (the Tokyo Round, 1973–79) devoted the bulk of its attention to NTBs, establishing the series of codes about many of them.

In the concern over trade impediments other than tariffs, there have been many statements by numerous political leaders who claim to avoid “protectionism” but condemn “unfair trade practices” and urge the need for a “level playing field.” In some ways such attitudes are very constructive. Attention is certainly needed to these concepts. International and national agencies have inventoried thousands of specific instances of national government or private firm practices of nontariff measures inhibiting trade that damage the basic policies of comparative advantage and liberal trade. Some of those measures are blatantly protectionist. Others, however, raise difficult issues of balancing opposing legitimate governmental goals. It is the latter issues that are beginning to cause great concern about the trends of trade policy and government action as well as the ability of GATT and its related codes to adequately cope.

Congressional efforts (unfortunately without much leadership from the executive branch) that resulted in the adopted trade legislation of 1984 and the attempted legislation of 1986 contain some laudable proposals. However, many other provisions misconstrue the problems that exist and could cause considerable damage to the trading system. In many cases the provisions and proposals manifest an intensity of feeling about the power struggle between Congress and the executive that overshadows and sometimes submerges the real issues. Indeed, the 1986 bill (H.R. 4800) could in some ways be called the new version of the 1930 Smoot-Hawley Tariff

Act, not because it is a single-minded effort to prevent import competition, but because, as the Senator said in 1934, the bill represents a “jam[ming] together . . . a hodgepodge” of various constituent interests. A number of proposals in the 1986 bill are designed to overturn actions by administrative agencies or the courts. Those actions were taken in good faith that they best carried out the legitimate policies of the law while balancing with fairness various countervailing policy considerations of vital concern to alternative constituencies, including those in foreign countries.

The fact remains that there is inadequate national or international agreement about what is “unfair” in trade practices today. There is also evidence that attempts to restrain imports on the ground of unfair practices are sometimes manipulated by special interests with the primary goal of reducing competition in the U.S. market. For these and other reasons, today we have to be cautious in interpreting the term unfair when applied to trade. It is easy to be against unfair trade; it is often extremely difficult to define appropriately what is unfair, as the following examples demonstrate.

**M**any statements are made condemning dumping, although some economists and others dispute whether dumping, meaning price discrimination, has bad economic effects. It is asked why, when the government is not enforcing the domestic price discrimination statute (the Robinson-Patman Act), should the government take a different approach when goods come from outside the border. Apart from that, even if we believe that government should act to offset a lower price on imported goods compared to their price in their home market, many intricate issues are involved in establishing the price comparison. Under current U.S. law, for example, in some circumstances a “constructed cost” approach is used to establish the home market price to be compared, and U.S. rules require that an 8 percent profit margin must be included in that “price.” This rule is generally regarded as a violation of U.S. obligations under the GATT and the an-

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*“Responsible U.S. action under 301 . . . is one of the more creative challenges for U.S. trade policy.”*

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tidumping code, and as a measure that artificially inflates the “discovered” discrepancy between the price of the imports in the United States and the home market price. A number of other highly technical benchmarks used under U.S. law also inflate this “margin,” so that when the U.S. government announces that imports have been found to be “dumped,” careful work with a red pencil can lead to a different conclusion. This is not to say that there is no dumping or no dumping problem. It is only to say that the issues are complex and not internationally agreed upon and that statements of “unfair dumping” need to be evaluated in the context of the real objectives of those who are speaking.

Another example is the troublesome subject of foreign subsidies that benefit imported goods. Statements about unfair trade and the level playing field often condemn imports that benefit from foreign government subsidies. A major problem, however, is how to define subsidy. If broadly defined, the concept can include roads, schools, fire and police protection, and many tax policies. If defined even moderately broadly, subsidies would be found to benefit virtually all imports, and an expansive countervailing duty policy would defeat the purpose of much of the GATT’s 40 years of trade liberalization. Fortunately, the U.S. government (so far the only government that makes major use of antisubsidy countervailing duties) follows concepts derived from statutory language that tend to exclude from a definition of subsidies for countervailing duties most of the generalized government practices found in all societies. But these concepts are under attack by

various interests and are being narrowed by the courts. In addition, the U.S. government professes to be unable to take into account in a countervailing duty case that it sometimes subsidizes goods in the same manner as foreign governments. U.S. domestic competing goods sometimes benefit from government subsidies in this country. For those truly seeking a level playing field, it can be argued that when a countervailing duty is set on imported goods, it should be reduced by the amount that represents the subsidies benefiting U.S. domestic products. This would equalize the subsidy effect for imports and domestic goods, allowing them to compete on the level playing field. Yet no one seriously thinks that U.S. law will be changed to follow that approach.

Section 301 authorizes the President to take various trade actions against foreign nations that engage in “unjust” or “unfair” actions affecting U.S. commerce. The very broad language of this law carries the potential of abuse, although in general the U.S. government seems to have exercised these powers in a restrained and responsible manner. The basic problem, once again, is that often there is no international agreement on what is unfair. The United States has pursued 301 cases to persuade foreign governments to cease actions that only the United States has officially deemed to be unfair. This self-defining power of “policeman for the world” approach has its costs and raises complex questions about the potential of changes that might be made to this law. On the other hand, it must be recognized that many issues raised by the United States in the context of a 301 case should engage the constructive attention of the GATT and other international processes—and they unfortunately have failed to do so. Responsible U.S. action under 301, deferring to existing international rules or encouraging other nations to help develop new responsible rules, is perhaps one of the more creative challenges for U.S. trade policy. Indeed, Section 301 represents a unique new approach to age-old international law doctrines of “diplomatic protection,” and has to some extent now been emulated by the European Economic Community.

#### **THE COST OF ADJUSTMENT**

Perhaps the most substantial and fundamental policy problem of international trade today is the question of adjustment, which is related to the subject of safeguards. Competition from many sources for many reasons causes established producers distress. New technology can force older firms out of business. Changes in consumer tastes, shifts in government procurement policies and natural disasters can all play a similar role. In addition, foreign pro-

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*“Perhaps the most substantial and fundamental policy problem of international trade today is the question of adjustment. . . .”*

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duction benefiting from comparative advantages can likewise cause important competitive challenges for older producers. These circumstances force older producers to “adjust”: either become more competitive or leave that line of business. Adjustment has a cost, and while the consumers or downstream users of the product may benefit, the producers may experience a concentration of distress that evokes sympathy from not only political leaders, but co-citizens as well. The degree to which government should come to the rescue, however, is hotly debated. For most of the causes mentioned, economic principles accepted in the United States would lead government to keep hands off. With respect to imports—meaning “fair” imports—the situation has traditionally been different.

The appropriate role of government to help alleviate concentrated distress, particularly that felt by workers and impacted communities, is a subject that can benefit from wiser heads than mine. The two most prominent approaches are to slow down imports (a safeguards approach) or to grant some sort of direct aid such as adjustment assistance. The former is often more expensive than the latter, but is relatively disguised, “off budget” and often has a diffused cost. The latter has, unfortunately, appeared not to work very well. Whether significant legislative changes could help either of these remedies or assist in developing new remedies is hard to predict. Yet it seems to be much more directly related to the real problems of trade effects than at least some of the manipulation concerning unfair trade practices. Constructive possibilities include tying escape clause im-

port relief to a reasonable plan of adjustment, with appropriate enforcement or appraisal of the plan and its implementation. To some this smacks too much of industrial policy, but the existing law already has some pointers in this direction. Other possibilities might include increased attention to employment search facilities, provision for developing alternative employment opportunities in impacted communities, and more attention generally to unemployment compensation and early retirement options as well as to retraining. As unsuccessful as many of the existing similar programs have been, it seems unnecessary to assume that improvements would not work better.

**T**he rapid advance of world economic interdependence, new technologies and the problem of incorporating very different economic systems into the GATT trading system are causing a series of new or renewed issues to push their way into the foreground of GATT attention. Trade in services, intellectual property protection and government state trading enterprises are deservedly on the agenda for the new trade round. Each poses difficult conceptual challenges to the existing system and will require considerable ingenuity by the negotiators in the months and years to come. The troublesome and now almost perennial question of the adequacy of the GATT and the GATT system cast a cloud over these subjects. The actions of policy leaders, in and out of Congress, in this country and many others, will shape the landscape for these negotiators for many years.



*Dr. Jackson is Distinguished Visiting Professor of Law, Georgetown University Law Center, and Hessel E. Yntema Professor of Law, University of Michigan.*



## Why New Trade Legislation Is Needed

by Alan Wm. Wolff

**T**his country is obviously in trouble in the trade area. Fa-

vorable predictions for a turnaround in the U.S. trade balance have proved to be premature. The trade deficit—about \$170 billion in 1986—has caused extensive damage to the fabric of the nation's economy. In 1986 we became the world's largest debtor nation, beginning to mortgage our children's and our grandchildren's futures. The right policies have neither been found nor adopted.

Yet, incredibly, some commentators have called for inaction, warning against the dangers of overreaction rather than fearing the costs of continued passivity. Inaction, however, is at best a recipe for continued erosion of the country's productive capabilities and at worst a prescription for irreversible decline.

The challenge of restoring the U.S.'s position in the world economy ranks among the more formidable that this country has faced. At stake is nothing short of our standing

as a world power, our defense capability and our standard of living.

There is no impediment to finding solutions given a willingness to try. Over the past four decades, we have attacked economic problems of a similar magnitude and achieved the almost unimaginable, starting with the rebuilding of Europe and Japan. In concert with our trading partners, we created surprisingly serviceable international economic institutions. With these instruments the United States has participated in three postwar decades of unparalleled growth, witnessed the reduction of famine and disease in the developing world, and at least muddled through oil and debt crises. When Sputnik soared into space in 1957, we responded with an outpouring of scientific training and research and development, and achieved renewed technological superiority over the Soviet Union. This, too, was both an economic and a strategic challenge.



*Mr. Wolff is a senior partner with Dewey, Ballantine, Busbby, Palmer & Wood in Washington, D.C., and was President Carter's Deputy Special Trade Representative.*

The basis for these accomplishments has always been to understand the nature of the challenge, and then to establish a working political consensus to find successful solutions. That is what is required now.

The current crisis is equal to any that has come before. The trade imbalance is not only unsustainable: if we are to service and begin to reduce our debt, there must be a trade surplus, and the largest share of that surplus must consist of manufactured goods. The alternative of relying on continuing capital inflows, in the form of purchases of American securities for portfolio investment or the acquisition of American companies or real estate, is not an acceptable solution. Indeed, even if we were prepared to accept the consequences of these continuing inflows, they are limited, and the longer the current imbalance persists, the more severe will be the adjustments ultimately needed to affect a cure. We face the task of turning a gargantuan trade deficit into a substantial trade surplus.

#### **REVERSING THE TRADE DEFICIT— HOW TO BEGIN?**

The trade deficit is both a symptom and a problem. Reversing it will require an understanding of its causes and a wide range of responses. The solutions can be grouped into a variety of categories.

##### **Macroeconomic Measures**

Under this broad heading fall a number of fundamental changes in policy that would have more of an overall impact in the near term than any other actions that could be taken.

First, the fiscal and monetary policies of the United States and its major trading partners must be revised to provide for sustained growth in a manner that reduces imbalances. The U.S. federal budget deficit must be reduced. We must consume less and save more, both in the private and public sectors. This obviously is no minor feat. Our key trading partners must work toward the opposite goals, saving less and consuming more. We cannot underestimate the difficulty of reversing policies. Ironically, the United States is adopting a tax package more appropriate to Japan, and Japan is adopting a tax program more like the one we should put into place.

Consideration must also be given to the adjustment problems that will be created through continued accumulation of large trade deficits and international debt obligations by this country. At the end of 1985 the U.S. debtor position was \$107 billion and exceeded \$200 billion at the end of 1986. The cumulative effects of increasing debt service obligations, the counterpart of the very large trade deficits, will eventually return to haunt future policy-makers. At some point, net capital inflows will no longer be sufficient to offset the magnitude of the trade deficit. Trade flows will have to change. Significant trade surpluses, primarily in manufactures, will be required to service just the interest on the accumulated debt, and even larger trade surpluses will be required to stop the growth of debt accumulation.

The longer the process of debt accumulation continues—and the longer the U.S. trade deficits accumulate—the greater will be the magnitude of adjustments required in trade flows and the more disruptive these inevitable adjustments will be. If we fail to act, we will only be waiting for international

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*“The longer the process of debt accumulation continues—and the longer the U.S. trade deficits accumulate—the greater will be the magnitude of adjustments required in trade flows and the more disruptive these inevitable adjustments will be.”*

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capital markets to force the adjustments on both us and our trading partners.

**I**n addition, attention must be given to international monetary reform. The dollar has depreciated with respect to the yen and the major European currencies over the past year. This change in currency values should improve the trade imbalance with those countries. However, improvement in the U.S. manufactured trade balance with the world because of the dollar's depreciation so far should not be overstated. Potential improvements are limited by the volume of trade with those countries (in 1986 the European Economic Community countries accounted for 22 percent of U.S. manufactured exports and 21 percent of manufactured imports, while Japan's share was 7.4 percent and 27 percent, respectively). There has been little or no change in currency values between the dollar and the currencies of the Asian newly industrializing countries and other developing nations. Those countries accounted for 31 percent of U.S. manufactured exports and 26 percent of manufactured imports. Canada, another country whose currency has not appreciated against the U.S. dollar, accounted for 26 percent of U.S. manufactured exports and 19 percent of manufactured imports.

The third general area of macroeconomic concern consists of policies toward the Third World. These policies must be tailored to allow the developing nations to resume more rapid economic growth. We have let worries over debt repayment severely constrict those countries as markets for U.S. goods and the goods of others.

### Competitiveness Policies

Even if we achieved a world in which other economies were growing more rapidly, and in which exchange rates were never misaligned, American firms and farms would still have to be internationally competitive to sell products abroad or compete with imports at home. This theme of enhancing U.S. competitiveness is the rubric under which most new thinking will take place in the next few years about dealing with the trade problem. The Young Commission on Competitiveness has already given birth to several important progeny whose ideas will no doubt shape legislation in the 100th Congress.

New legislative proposals will affect many areas, including worker training; capital formation; the patience of capital and its cost; tax incentives and disincentives for savings, investment and consumption; promotion of education, research and development and competition policy; and trade legislation. The debate should itself be very healthy for U.S.

policy. It should remove some of the past emphasis on direct control over the level of trade flows, an emphasis fostered by the lack of creative alternatives in macroeconomic policies and competitiveness measures.

### Trade Measures

Economists and many U.S. government officials often overlook the reality that the macroeconomic and competitiveness factors listed above are not the sole determinants of trade flows in particular industries. Perhaps their attitude is attributable in part to the fact that they are not overly concerned about the sectoral composition of the U.S. economy.

But other countries' policies are not merely of academic interest. American telecommunications, semiconductor, construction engineering, or airline companies can be more productive, have lower costs, be more innovative and more competitive in every known way, and still lose in international competition. This occurs because the role of the U.S. government in each of those sectors differs markedly from the role of government in other countries. In telecommunications, for example, U.S. firms' competitive position is shaped both by our government's willingness to open the U.S. market on a nonreciprocal basis and by discriminatory government procurement abroad that is being replaced by a more subtle buy-national preference. In semiconductors, a world-class industry was built up abroad in a closed market, and this has led to foreign overcapacity and dumping. American construction engineering firms also find markets closed abroad. U.S. airlines compete with state-owned enterprises while operating in a deregulated atmosphere at home.

These are not macroeconomic problems; they are industry specific. They do, however, significantly affect U.S. economic performance in the world economy. It is in this sphere of issues that are specific to particular goods and service industries, and agricultural sectors, that trade legislation operates.

**T**rade legislation in the 99th Congress and in particular H.R. 4800 (the controversial Omnibus Trade bill that passed the House in Spring 1986) was re-introduced early in the 100th Congress as a starting point for consideration of trade law reforms. It should be seen as a serious reaction to a range of problems that are real and important. While new trade law provisions constitute an incomplete response, they are a necessary part of the array of responses that the country will adopt. That is why to simply oppose consideration of a trade bill

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*“While new trade law provisions constitute an incomplete response, they are a necessary part of the array of responses that the country will adopt.”*

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without dealing with the causes that gave rise to it is ultimately a futile exercise. The Administration has also come to this conclusion, prompted in part by the reality of Democratic control of both the House and the Senate.

In analyzing Congress's actions in the coming two years, it is worth recalling that despite the rhetoric used by critics of the congressional trade initiative of 1986, that bill was in fact not far from traditional U.S. trade legislation. Given the alterations that would likely have occurred during consideration by the Senate, in conference and in negotiations with the Administration, the bill would easily have become more clearly centrist, well within the tradition of prior trade law, and would not have been seen as extreme.

#### **TRADE LEGISLATION IN THE 100th CONGRESS**

Several basic questions and topics must be addressed in discussing the consideration of trade legislation by the new Congress.

#### **Is Trade Legislation Needed?**

The answer is clearly yes. First and foremost, U.S. negotiators need a congressional mandate. The so-called fast track legislative procedures (no amendments allowed and an up-or-down vote required within a limited time) expire on January 2, 1988. It is not only legally necessary for the Administration to have this mandate, but it is politically essential.

Congress has the authority to regulate commerce under the U.S. Constitution. It is odd that this is forgotten given the sad history of the Congress repeatedly rejecting the results of negotiations it did not authorize in one form or another. This series of misfortunes includes the International Trade Organization in 1947, the World Trade Organization in the early 1950s, the two Kennedy Round nontariff agreements, and the U.S.-Soviet trade agreement in 1974. Nor has Congress fared better in attempting to control trade policy by itself—notable examples include Smoot-Hawley (1930), the Mills bill (1970) and Burke-Hartke (1973). Learning from this difficult history of each branch seeking to control trade policy, an executive-legislative partnership was formed in the 1974 Trade Act for the coordinated exercise of the commerce and foreign affairs powers by the two branches. This has worked very well, particularly through the period of negotiation and implementation of the Tokyo Round. However, this partnership needs to be re-formed for the conduct of the current round of trade negotiations.

A second reason for trade legislation is that the trade laws and the trade policy process are not functioning particularly well. This can be evidenced by noting simply that the largest trade problems, such as those in automobiles and steel, are being dealt with outside any legislative framework.

Trade legislation is not only needed but needed now. It would be far better to have legislation enacted at the beginning of the trade talks than in midstream, after participants have begun to take positions. Seeking legislation later will only be more disruptive. Moreover, the price can only rise in terms of what the Administration will have to pay to obtain authority after its current authority has expired. Third, there is no guarantee that the pressures from trade will be so much diminished, or diminished at all, in a few years. Thus, it is highly uncertain that seeking trade legislation at some future date will be an easier and less risky task than it is at present.

#### **What Should Be Included in the Legislation?**

- A negotiating mandate

As noted above, it is imperative to get Congress and the public (business, agriculture and, to the extent possible, labor) on board supporting both the idea of a new round of trade negotiations and the particular elements in it. *A fait accompli* cannot be forced on an unwilling Congress or public. Moreover, important ideas are emerging from Congress that deserve consideration in international negotiations. These include legislative mandates for dealing with excessive imbalances in current and

trade accounts, unstable exchange rate relationships, and the debt burden of developing countries. The debate at home over what should be negotiated abroad is extremely important and should be welcomed rather than avoided.

- Renewal of the fast track implementing procedures

This is essential. Without these special legislative procedures, the results of any negotiation can never be final. Congress, through amendment or simply delay, can force renegotiation of particular parts of a trade agreements package. This unraveling of commitments would very likely be fatal to the negotiating process and must be avoided.

- Recognition that adjustment and enhanced competitiveness are objectives of import relief

The current law (Section 201 of the 1974 Trade Act) has not been very successful in obtaining anything more than a decision on whether to grant protection. If protection is granted, there is little likelihood that adequate efforts will be made to pull industry, labor and government together to ensure that each fully utilizes the period of relief to enhance the industry's competitive position. Absent such efforts, import relief is, in the truest sense of the word, purely protectionist—the entire program for dealing with injurious import competition consists of the granting of protection. Worse yet, the industry often is no better off at the end than at the beginning of the period of relief. Additional periods of relief are often necessary to avoid further injury, perpetuating the import restrictions. Again, the cases of autos and steel presented opportunities to employ more constructive policies. Any revision of the laws should include an optional adjustment track.

- Improved remedies addressed to specific problems

*Telecommunications.* Last year's House bill presented a negotiating plan for telecommunications, and new legislative proposals will likely also include those provisions. The proposed statute set objectives to be achieved by the executive branch, required offsetting actions against foreign barriers if negotiations were unsuccessful (without specifying the nature or degree of the offsetting actions), and allowed payment of compensation if the existing balance of concessions were upset by U.S. remedial action. The telecommunications provision is a microcosm of the entire House bill. Its approach was followed repeatedly in other areas. The remedy of choice is al-

ways negotiations first and reaction later if negotiations are unsuccessful, with an ability to negotiate a rebalancing of concessions if the United States is forced to act unilaterally.

Telecommunications-related activities will be a very large part of the world economy in the next decade — the information sector is estimated to be worth over \$1 trillion by the early 1990s. It is appropriate to treat this sector as a special case, just as agriculture and manufacturing have been singled out in the past, and to accord it special negotiating authorities.

*Natural resources.* Whether it is Canadian lumber or Mexican ammonia, a distinct problem is caused when countries choose to limit access by foreigners to their raw materials, subsidize the input of these raw materials into downstream products, and then expect the United States to maintain a completely open market for those products regardless of any injury this trade may cause. This occurred in the case of cedar shakes and shingles. The Canadians restricted cedar log exports and sold the input at perhaps one-tenth its market value to its industry, causing its market share in the United States to skyrocket. When the United States took countering actions, the Canadians claimed we were being protectionist. Some rule making is obviously required in this problem area. The appropriate offsetting action in most such cases should be an additional tariff through a countervailing duty, equal in amount to the amount of subsidy. The remedy should be designed to remove the trade distortion without further interfering with the flow of trade.

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*“The use of fines and a right of action for damages should be more effective in discouraging dumping.”*

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*Injurious industrial targeting.* The broader question, in part raised by natural resource subsidies, is how to deal with distortions caused by governments that promote their domestic industries in every way possible, including illegal import limitations, subsidies of all kinds and waiver of competition laws. Currently, only partial and inadequate remedies are available in the United States. The most appropriate response to this injurious targeting will not necessarily be import restrictions. For example, in the case of semiconductors, the preferred remedies are access to the Japanese market and rigorous antidumping prevention measures. Under last year's House bill, the U.S. Trade Representative was given discretion to craft an appropriate remedy that might or might not include import restrictions. Most often it would involve opening the foreign market through negotiations; it may also involve considering what domestic policy changes might enhance the competitiveness of the American industry.

*Private right of action against dumping.* This is one of the few areas where the desired result cannot be achieved under existing law. Under the House bill, it would have been possible for a party injured by the economic tort of dumping to recoup damages for the injury suffered. Currently the antidumping law is not remedial; it operates prospectively. The injured party can at best halt dumping a few years after it began. Another option that merits consideration is fining repeat offenders. The use of these two measures—fines and a right of action for damages—should be more effective in discouraging dumping.

*Transfer of authority to the U.S. Trade Representative.* Under the House bill, the authority to administer import relief, import relief with respect to non-market economy countries, the Generalized System of Preferences, Section 301 remedies, and several other authorities were granted to the USTR. When the President is the final decisionmaker, every trade decision, however minor, tends to become a foreign policy issue. The current arrangements also rely upon an excessively cumbersome interagency decisionmaking process, often reaching a lowest common denominator result. This undermines the administration of trade policy. No other Cabinet officer functions primarily as a committee chairman in setting policy, and even then, often a super-committee on economic issues is imposed on top of the statutory trade policy structure. Thus, in terms of the legal authorities possessed, the office of the USTR tends to be one of the weaker Cabinet positions. This results in the subordination of trade policy to other policies — no doubt the outcome sought by several departments and their constituencies who oppose this transfer of authority. The result is also a less effective trade policy.

#### **The Process by Which Legislation Is Enacted**

Many lament the process of obtaining trade legislation, regarding Congress as exercising a negative, perhaps even dangerous, role. In fact, while they might prefer a more elitist approach—a trade policy dictated by the White House—the process is and will

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remain a reflection of the constitutional separation of powers, with the negotiating authority under the foreign affairs power of the President and the power to regulate trade under the commerce powers of Congress.

The trade policy process reflects our democratic form of government. The messiness of the process by which trade legislation is drafted, with a host of competing forces—importers and exporters, manufacturers and agricultural interests, high tech and basic industries, organized labor and regional and local interests—making their views known, is what our system of government is all about. From the point of view of both the results, which tend to be better informed and thought out, and the preservation of our democratic system, it is important to allow the process to play out. This is also vital because it enables a trade policy to be formed that will have broad support. The political process is necessary in creating this consensus.

Failure by any Administration to participate in fashioning legislation has great costs in terms of the quality of the ultimate legislation and the ability to work on trade issues in general. Nevertheless, each

Administration has to be reminded afresh that Congress does possess the commerce powers, that legislation is inevitable and that Administration participation in the process is ultimately unavoidable, even if it consists only of signing the final bill.

#### THE RESULT OF CURRENT LEGISLATION

The new Omnibus Trade bill is not likely to become a Smoot-Hawley bill or an import quota bill like the Mills bill or a Burke-Hartke bill. Each of these exercises in unguided congressional legislation resulted in a highly restrictive protectionist bill. This bill will undoubtedly be roughly what we would expect in the current trade experience of the United States. It will reflect the trade problems that the country faces. It will build upon last year's bill and will probably address the relationship of the industrialized countries' policies toward the developing countries' debt burden and the drop in U.S. exports. It will also address the need for reform of the international monetary system. In short, the new trade bill will likely be an expression of centrist policy in the tradition of internationalism that has been the hallmark of U.S. policy since World War II. This is not to say that initial legislative proposals will not have some provisions that are clearly outside the area of consensus. However, they will present a workable framework for constructing sound legislation.

Often mentioned as “extreme and regrettable” in last year's bill were the Gephardt provision for dealing with surplus countries and the provision that finds substandard fair labor standards unreasonable. The problems they address, however, are very serious and deserve attention.

The Gephardt provision pointed to a major problem of serious imbalances between certain countries and the rest of the world. It would not have applied any sanctions to debt-burdened developing countries, even though they might be in surplus, and it gave the President the ability to waive its provisions regarding countries such as Japan. The fact is that the problem is real, and some response is warranted. Other means may be preferable. The issue is still likely to be addressed in the new legislation.

The legislative result can easily be quite good. Representatives Gibbons and Frenzel, Senators Matsunaga and Danforth, the chairmen and ranking minority members of the trade subcommittees in both Houses, are neither protectionists nor extremists on the subject of trade. Neither the leadership in the Senate nor that in the House is looking for extreme solutions. If last year's House bill had been as bad as the Administration painted it, there might be cause for concern, but it was not. In fact, the Senate trade bills were rated by the Congress-

### Some Observations on the Functions of Trade Legislation

#### Case 1

Was the 1985 Gephardt-Rostenkowski-Bentsen surcharge proposal terrible? In retrospect even critics would have to admit, however grudgingly, that in putting forward a shocking trade measure of this kind, the sponsors of this provision made a very positive contribution. All the economists' arguments had little impact on the Administration's doctrinaire insistence on the absence of a connection between the trade deficit and the budget deficit. That legislation, repugnant as it seemed to many, succeeded where the Business Roundtable, Lee Morgan and the entire economics profession had failed over a period of five years. The one expression of congressional concern in the form of a proposed trade bill was sufficient to move the Administration to a position where the Group of Five's agreement on exchange rates and the pledge to vigorous use of Section 301 against unreasonable and unjustifiable foreign trade measures became a reality.

#### Case 2

It was not just the Gephardt-Rostenkowski-Bentsen surcharge bill that prompted the Administration; the movement through Congress of broad trade legislation also changed the Administration's stance from reluctance to enforce Section 301 to acceptance of a more aggressive posture in representing U.S. trade interests abroad. The Administration was forced to adopt a trade policy distinctly different from what the Council of Economic Advisors envisaged in 1981. The *sans souci* policy of pure *laissez faire* had to yield somewhat to a conscious attempt to manage trade problems.

#### Case 3

No President likes the statutory mandate contained in the import relief provisions of Sections 201-203 of the Trade Act of 1974. Under this law, when increased imports cause serious injury or threat of serious injury to domestic industries, the President is supposed to grant relief unless he determines that this would not be in the national economic interest. Presidents are "free traders." They do not come naturally to the view that this "escape clause" is necessary to maintain a balance between overall trade liberalization and protection for particular industries threatened by liberalization. Nor do they automatically see import relief as necessary to allow excess pressure to be vented. Every Administration requires some practical experience before it can view the escape clause as a valve that lessens the pressure for across-the-board protection against injurious imports. Without the escape clause, there is greater danger of a Smoot-Hawley response to the dislocations caused by the increasing interaction of the U.S. economy with foreign economies through trade. Trade actions are eventually taken because of accountability to Congress. Those actions avert an overall collapse of U.S. trade policy.

#### Case 4

There are a number of sector-specific issues that would receive a response through direct legislation unless the Administration moved to resolve them. For example, the Administration demonstrated very little concern in coming to grips with the Canadian lumber problem before the current interest in Congress to pass new major trade legislation. Absent occasional remedial action where real grievances exist, a "coalition of the aggrieved" is created, and nothing less than loss of the current, relatively open, trading system is threatened.

sional Research Service as more restrictive than the House bill. In particular, the bill with the broadest bipartisan support, H.R. 1860 (the Packwood bill), was considered the most restrictive of all the pending bills. This bill would have removed discretion entirely from the President and the executive branch in the administration of import relief provisions. This provision would no doubt have evolved in the course of legislative consideration, especially if the Administration were actively participating in the process.

### CONCLUSION

The process of considering trade legislation should begin immediately in 1987. Trade legislation is needed now because:

- the Uruguay Round should not proceed without an explicit mandate from Congress for these new trade talks;

- the likelihood of implementing executive agreements is slight if no congressional mandate has been received in advance;

- the trade remedy laws are widely and correctly regarded as inadequate to the realities of the current trading world;

- U.S. trade policies need reexamination, a process last done in the 1974 Trade Act;

- the result of any Administration's unwillingness to participate in the legislative process will not be the absence of trade legislation, but a bill that, frankly, would benefit from active executive branch participation in its formulation.

A number of realities must be faced. Macroeconomic policies should be adopted here and abroad to address the major imbalances in the world's trading relationships. A series of changes are needed to improve capital formation, and new policies are needed toward education, research and development, and competition policy. The trade bill will address only some aspects of the question of improving American competitiveness, but it is indisputably part of what is needed.

It is not possible to exclude Congress from the making of the country's trade policies, and it would be unwise to do so. Now is not the time to create an adversarial relationship between all the actors on the national scene. We have a serious international competitive challenge across-the-board in industry and agriculture, and the United States is not doing well in responding. It is time for bipartisanship and for Congress and the executive branch to work closely together. It is time to put aside finding scapegoats and to begin seeking solutions.



# 1987 Is Different from 1947

by Peter Morici

**T**he international trading system, established in 1947 with the creation of the GATT, is in serious jeopardy. As we embark on the Uruguay Round, the usual compendium of problems includes the inability of industrialized countries to accept adjustments and more imports from newly industrializing countries; the failure of the GATT code to control subsidies effectively; and the inadequacies of international trade rules in matters relating to investment, services, agriculture, and intellectual property rights. Frustrations engendered by these issues give important impetus to pressures for new trade legislation in the United States. Yet the problems are symptoms more than causes. The underlying reality is that the world has changed since 1947 in ways that fundamentally undermine the GATT system. If the United States wishes to continue to lead the international community in the successful pursuit of effective rules to govern trade, we must reckon with these realities in the formulation of domestic policies and in our approach to the international trade and financial systems.

## THE INTERNATIONAL FINANCIAL SYSTEM AND U.S. POLICIES

The Bretton Woods system, conceived with the creation of the International Monetary Fund in 1944, sought to ensure the convertibility of currencies and stable exchange rates, while avoiding the shortcom-

ings of the old gold standard. By permitting official borrowing from the IMF, governments could avoid painful deflationary policies and unemployment that would reduce imports and increase exports when the value of their currencies temporarily weakened. The dollar was established as the key reserve currency. The United States provided a growing supply of dollars that accommodated the needs of a growing international economy through moderate annual balance of payments deficits.

From 1945 to 1971, the operations of the IMF nurtured the impression that exchange rates could be kept stable most of the time. Several factors were important in the demise of the system. The weakness of a major currency is too often not a temporary phenomenon when productivity is changing, savings are growing and investment opportunities are expanding in some countries much faster than in others. Ultimately, countries with weak currencies experienced chronic balance of trade and payments problems. They faced deflating their economies and persuading their trading partners to adopt more expansionary policies, or devaluing their currencies. Countries with strong currencies were reluctant to inflate. Devaluations of the British pound and French franc and revaluations of the German mark set precedents for the ultimate chosen course, and speculators learned to help the process along by betting against the weak currencies. The system finally came unglued when

the dollar, the central currency, became increasingly overvalued, and growing trade deficits caused moderate U.S. payments deficits to become immoderate, expanding the global supply of dollars faster than demand.

What is important for this discussion, though, is that for many years the system provided a more or less stable basis for the growth of trade. It was trade imbalances that created financial imbalances (balance of payments deficits) and that required adjustments in the financial system. Today the opposite is true: financial imbalances, namely U.S. budget deficits and capital imports, are driving U.S. trade deficits and creating pressure for corrections in the international trading system that the trading system cannot make.

**T**he Bretton Woods system was riddled with inconsistencies—it did not work well in the late 1960s and would not solve our problems today. However, it did have the virtue of imposing an element of discipline that is not now



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*“The dollar may have fallen more against the yen and the mark than is warranted to reduce the U.S. trade deficit, and the dollar will have trouble finding an equilibrium value.”*

present. Under the system, it is unlikely that the United States could have maintained the kind of budget and trade deficits, financed by large foreign borrowing, that we have for the past five years. As the U.S. budget deficit and capital imports grew, rising U.S. interest rates and resulting downward pressures on the values of other major currencies would have precipitated a crisis. It is doubtful that the major players would have been willing to accept devaluation of their currencies to accommodate the U.S. fiscal problems, which had their origins in massive tax cuts and unproven economic assumptions, without a revision in U.S. policies. Lacking such systemic discipline, the United States has built up a considerable external debt, and extensive damage has been imposed on U.S. import-competing and export industries. These dynamics have contributed to domestic pressures for protection and hurt the credibility of legitimate U.S. complaints about foreign monetary and fiscal policies and protectionist actions.

Present exchange rate arrangements are flawed as well. While the dollar has adjusted to new values against the yen and the mark, many other currencies are directly or indirectly linked to them. In particular, the currencies of several newly industrialized countries—e.g., Korea, Singapore, Hong Kong, and Taiwan—are linked to the dollar, and these countries are also important U.S. trading partners. As in the Bretton Woods system, the United States has a limited capacity

to persuade Japan and Germany to expand their economies as it reduces its budget deficit. Consequently, the dollar may have fallen more against the yen and the mark than is warranted to reduce the U.S. trade deficit, and the dollar will have trouble finding an equilibrium value.

To make the most of opportunities to open foreign markets through trade talks, the United States will have to exhibit greater self-discipline in fiscal policy; as it does so, convince its trading partners to undertake more expansionary policies to compensate; and seek realignment of currency relationships with the important East Asian NICs and other developing countries.

#### **CONTEMPORARY TRADE BARRIERS**

The GATT, as envisaged by the original contracting parties, offers members the following guiding principles for the conduct of trade policy: (1) protection through tariffs rather than reliance on other commercial measures and the provision of a stable basis for trade through negotiated tariff bindings; (2) trade without discrimination—the most-favored-nation principle guarantees all GATT signators equal access to each signator's market; and (3) settlement of disputes through consultation, conciliation and, as a last resort, dispute settlement.

The GATT's basic aim is trade liberalization, and through seven rounds of negotiations, the GATT

*“The GATT, being oriented toward tariffs and other measures with contemporaneous consequences, does not provide effective procedures to counter such strategic trade policy.”*

process has substantially reduced the importance of tariffs as impediments to trade. The growth in trade and international economic integration fostered by this process has brought into sharp relief, as barriers to commerce, the different ways individual countries organize and manage their economies—e.g., internal distribution and regulatory systems for goods and services, use of subsidies, frameworks for business-government cooperation, approaches to the regulation of foreign investment, and treatment of intellectual property. Moreover, reducing tariffs has enhanced opportunities to use such nontariff practices as instruments of trade policy. This shift in emphasis is quite significant, because nontariff measures, strategically applied, can affect trade and employment long after they are removed.

Generally speaking, the tariffs as applied in many industries during the 1950s and 1960s did not have lasting consequences after they were lowered or removed. In contrast, in high technology industries with steep learning curves and rapid product innovation, subsidies that are coupled with restrictions on market access can permit a country to keep out imports today and establish domestic producers to compete globally tomorrow. It is critical that the protection be provided in a way that permits the domestic industry to catch up on the technological learning curve. Consider the

success of the Japanese semiconductor industry. If U.S. access to the Japanese market had not been initially limited and Japan's exports then dumped into the United States, the Japanese industry might not now be in a position where it could threaten the survival of U.S. producers. It is very difficult to prove the role of government intervention and the causal effects of these kinds of protectionist policies, or to establish injury clearly. The GATT, being oriented toward tariffs and other measures with contemporaneous consequences, does not provide effective procedures to counter such strategic trade policy. Yet the ability to deal with this protectionism is critical to U.S. competitiveness in rapidly changing, high technology industries.

The reduction of tariffs, coupled with the emergence of the NICs, set in motion a process of increased specialization among trading nations. Earlier in the decade, many believed this meant increased U.S. reliance on exports of high technology products and services. Just as high technology producers face the nontariff problems described above, service exports face formidable barriers that lie outside the GATT. Some developing countries, notably India and Brazil, have been reluctant to see negotiations initiated in this area. Unless effective ways can be found to assure free access for U.S. exports in critical industries such as electronics, com-

puters and telecommunications, as well as banking, insurance and a host of other services, the United States will not be able to absorb growing imports in mature manufacturing industries, and it will prove increasingly difficult to muster U.S. domestic support for the GATT process.

#### **THE NATURE OF ADJUSTMENTS**

In recent years, the scope of adjustments imposed by trade has become more difficult. First, in early GATT rounds (1947, 1949, 1950–51, and 1961–62), tariff reductions in most manufactured products essentially opened up trade and the potential for economies of scale among the United States, Canada and Western Europe, and later significantly with Japan. In North America and Europe, adjustments were limited by the fact that all the major players were converging on reasonably comparable wage and benefits scales for industrial workers and the costs of capital were being increasingly equalized by the integration of financial markets. With the emergence of Japan and then the East Asian and Latin American NICs, these cost differentials became more important. Given that new NICs are on the way, there seems to be no end to the supply of low cost imports or any floor on the adjustments they impose.

Second, the 1950s and 1960s were a period of rapid growth generally. While the service sector was expanding in importance (even then), structural change was not causing stagnation in the number of high paying manufacturing jobs. A significant consequence was that even though some workers were required to relocate by various forms of structural change, including import displacement, there were other good paying jobs in expanding industries.

**A** few statistics show how much the environment for adjustment has changed. From 1947 to 1969, the number of U.S. manufacturing jobs grew from 15.5 million to 20.2 million. It took 10 more years for the number of those jobs to reach 21 million in 1979, and today the figure is only 19.2 million.

A recent study for the Joint Economic Committee revealed that a large share of the new jobs being created are at the lower end of the wage scale. For example, from 1979 to 1984, more than one-third of the jobs taken by men over age 35 paid less than \$7,000 a year. The availability of so many people to work at low wages is in no small measure the result of downward pressures on wages created by the stagnating employment situation in manufacturing. Plainly, a worker that loses a manufacturing job to competitive imports today has fewer opportunities to relocate for

good paying work than in the 1950s and 1960s.

These U.S. adjustment problems are exacerbated by the fact that the European Economic Community, although about the same size as the United States, does not absorb the same share of NICs' exports as the United States. Consider the following figures for 1983:

#### Destination of Exports

	<u>United States</u>	<u>EC</u>
Korea	34%	13%
Taiwan	46	10
Singapore	18	9
Hong Kong	32	16

#### **FACING THE FUTURE**

How much of the stagnation of employment in manufacturing and the growing number of low wage jobs is caused by imports and how much is caused by other, domestic sources of structural change is an important economic question, but it has much less relevance in the world of politics. Whether the recent dominance of low paying jobs is a marginal development that will pass or signals a trend toward a two-tiered society with a disappearing middle class is a subject of considerable debate among economists. But this debate has little relevance for the unemployed steelworker who cannot find a job or the auto-worker worried about falling into the marginal world of \$5 an hour

fast food jobs. Until there are improvements in the adjustment environment—specifically, improvements in reemployment prospects of workers displaced from manufacturing and in economic prospects of communities adversely affected by plant closures—workers and communities are going to exert strong pressures on Washington to limit the one source of competition that can be controlled by law—imports.

The adjustment environment in the United States for manufacturing workers will remain tough until the federal government can: (1) bring its budget deficit under control; (2) persuade our major trading partners in Europe and Japan to expand their economies more rapidly and to absorb a larger share of NICs' exports; and (3) negotiate currency realignment with many NICs.

Having lived through the trade deficits and dislocations of the 1980s, Americans and their Congress are extremely sensitized to the need to be competitive. While recognizing that much of what needs to be done is self-help, the United States cannot be expected to be forthcoming with concessions in trade negotiations during the Uruguay Round and Congress cannot be expected to be supportive of the GATT process unless our trading partners agree to substantial market-opening and opportunity-enhancing concessions and rules in areas of major U.S. concern—subsidies, investment, agriculture, services, and intellectual property rights.

*“Until there are improvements in the adjustment environment. . . workers and communities are going to exert strong pressures on Washington to limit the one source of competition that can be controlled by law—imports.”*

# Possibilities for Expanding U.S. Exports

by John Mutti

**U**nited States exports have essentially stagnated since 1981. From a peak value of \$237 billion in that year, totals in succeeding years have shown a decline to \$202 billion in 1983 and only modest recovery since then. This experience contrasts with the record of the 1970s when the trade balance also worsened but exports grew steadily. The decline has affected both manufactures and agriculture and is not confined to a single sector or geographic market.

## REASONS FOR CONCERN

This performance has caused considerable concern among many groups in the United States. Strong growth in export markets has been viewed as a source of high paying jobs to replace those being eliminated in import-competing industries. Strong export growth is also viewed as a critical source of additional demand to generate a higher growth rate of GNP in 1987. On another level, the interest of

exporters in maintaining an open international trading system has been an important political counterweight to pressure for greater protection in import-impacted industries.

However, steps to expand U.S. exports will not necessarily reduce the trade deficit or create more jobs in the United States. Greater exports may simply strengthen the value of the dollar and thereby result in some combination of an offsetting increase in imports and a reduction in exports. Such an outcome is likely when no change in underlying saving and investment incentives occur. For example, if neither U.S. private nor public saving increases and U.S. investment opportunities remain more attractive than foreign opportunities, no basis for acquiring more foreign assets will arise. Under those circumstances, an initial increase in export opportunities will result in a dollar appreciation.

The less developed country debt crisis also demonstrates the link between export sales



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and foreign asset purchases. In the late 1970s and early '80s, strong U.S. export sales to countries such as Mexico and Brazil coincided with a willingness of commercial banks (and ultimately their stockholders) to extend credit to those foreign buyers and to acquire their IOUs. Unless banks again judge that foreign investment prospects are better than domestic alternatives, or an international lending agency plays a similar role, U.S. export sales to those markets are not likely to revive.

Thus, efforts to open foreign markets and expand exports should not be expected to accomplish major macroeconomic objectives. Nevertheless, success in such initiatives still can be of major importance to the United States. When foreigners block access to their markets, the allocation of resources in the United States is distorted. Labor and capital are shifted from uses where they are relatively more efficient to sectors where they are less efficient. Or U.S. opportunities to benefit fully from developing new products and techniques are reduced, as is the incentive to commit time and talent to high technology sectors where those factors are important.

Foreign governments generally have not been very successful in setting a level of restrictions that best takes advantage of their market power internationally and makes them better off. Regardless of the degree of foreign success, the United States is likely to face worsened terms of trade and a lower standard of living. The mix of goods we export is shifted from areas of greatest relative efficiency, and what we do sell will be exported on less favorable terms than would be possible in the absence of foreign intervention. Gaining access to foreign markets, then, can be a way of increasing national income, similar to a faster pace of technical progress that allows us to produce and earn more from existing resources.

#### **REFORMING INTERNATIONAL TRADE RULES**

One potential avenue for gaining greater access to foreign markets is through multilateral negotiations to establish and enforce a clearer set of international trading rules. When both U.S. and foreign markets become more open, both can benefit from using resources more efficiently. The recognized mutual gains from trade stand behind multilateral efforts over the past 50 years to liberalize the world trading system. Those efforts generally have centered around multilateral negotiations, as countries are more likely to make concessions and dismantle existing barriers when they can see new opportunities becoming available as foreigners take similar actions. With the start of a new round of multilateral trade negotiations in 1987, the United States and other na-

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*“Whether the GATT should have broader jurisdiction and be more than a small claims court remains an issue to be addressed.”*

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tions have an opportunity to renew this process and to take into account new situations and circumstances not envisioned when the rules of the post-war trading order were conceived.

A market-opening strategy must deal with the enforcement of existing international trading rules. Although the principles set out in the General Agreement on Tariffs and Trade establish a presumption in favor of open markets, that expectation often is not fulfilled. When trade disputes arise, parties may request the formation of a GATT panel to investigate the situation. Because the panel's findings must be accepted by both sides to become binding, objectionable practices can persist in spite of a panel finding to the contrary. The United States has particularly objected to the opportunities for delay under current procedures, and in 1986 was able to resolve several small disputes, one of which had been outstanding since 1970.

Although a stronger GATT dispute settlement procedure would promote more open markets internationally, an attempt to achieve major progress in this direction will force the United States to consider how strong a procedure we really want. Because some rulings can be expected to run counter to U.S. interests, any movement away from consensus decisionmaking toward binding arbitration, for example, warrants careful evaluation. Whether the GATT should have broader jurisdiction and be more than a small claims court remains an issue to be addressed.

In spite of the uncertainties of current dispute resolution procedures, the GATT does provide a framework for establishing trade rules, and it sets some limitations on the type of restrictions a country can impose. This discipline applies primarily to trade in manufactured goods, while less stringent standards are relevant in the case of primary products, and coverage of service trade and foreign investment is nonexistent. The latter three areas repre-

sent sectors where progress may occur in the new round to develop a more comprehensive set of trading rules. Again, any rapid advances will depend upon the willingness of countries to reevaluate their own domestic practices, since trade and international commerce in those areas are affected not simply by traditional barriers such as tariffs. In the case of the United States, for example, what constraints would be acceptable on domestic agricultural programs that set high target prices and make large deficiency payments, thereby encouraging greater output and exports than would occur otherwise? Just as modifications in U.S. policy would be difficult to adopt, other countries would face major transformations of traditionally closed and often monopolized sectors of their economies if rules were adopted to establish a more level playing field and to provide greater foreign access.

Consequently, negotiations will be long and complex. Yet some progress seems possible, given past success in defining internationally acceptable practices in the case of dumping and countervailing duty actions. At least government rulings in these areas are not regarded as so politicized and lacking in substance that one action automatically sets off retaliatory actions by other governments. A similar consensus in other areas may not be so broad that progress will be possible among all countries in a most-favored-nation context. Still, even codes applicable only among signatory countries are important steps to consolidate some common ground in favor of less government intervention and more open markets.

**B**ilateral trade talks now under way with Canada represent another way in which the benefits of more open markets can be explored without forcing all countries to reach agreement on the

basis of the lowest common denominator. Because of their geographic proximity and relatively comparable stages of economic development, the United States and Canada may be able to reach agreement on certain principles for trade and investment where other countries would be less likely to see mutual gains and therefore would resist any change in current practices. Present government practices that may appear limited in scope nevertheless can be significant impediments to trade among countries where low transportation costs and common cultures mean that other natural barriers to trade play a small role. For a marked expansion in North American trade to occur, though, serious issues must be resolved over policy commitments by federal versus subfederal governments and over the way trade policy remedies are applied within the partnership. If such obstacles are overcome, an agreement may serve as a catalyst in generating faster progress in multilateral trade talks. Other countries may demonstrate a greater commitment to compromise to avoid being disadvantaged relative to an expanding North American market.

#### TAKING UNILATERAL ACTIONS

U.S. impatience with delays under current GATT procedures, or dissatisfaction with the lack of GATT coverage in major areas of interest to the United States, has led to the active use of Section 301 of the Trade Act of 1974. This provision allows the United States to investigate unfair or unreasonable foreign practices that limit U.S. exports. Failing successful negotiations to eliminate the objectionable practice or to obtain compensation, the President can authorize U.S. retaliation. The variety of actions taken in 1985–86 indicate the rationale behind this provision, the potential to obtain greater access to foreign

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markets and the risk involved in such a strategy.

One use of Section 301 is illustrated by the case brought against the European Economic Community over conditions of its expansion to include Spain and Portugal. The loss of U.S. feed grain markets in Spain, in spite of previous Spanish tariff bindings at far lower levels, essentially shifts part of the expense of running the EC Common Agricultural Policy onto the United States. A tentative settlement has been reached in this case that will allow some levy-free access to the EC grain market. This type of outcome clearly is preferable to a scenario of retaliation and counter-retaliation that imposes high costs on both economies with no direct gain for the originally affected exporters. The latter possibility demonstrates the downside risk of any 301 action, that retaliation may be viewed as a necessary step to demonstrate credibility in dealing with any other country or product.

A 301 case involving manufactured tobacco products in Japan combined a different set of issues. A GATT legal tariff together with a domestic manufacturing monopoly and a restrictive distribution system have made U.S. penetration of the Japanese cigarette market extremely difficult. Somewhat surprisingly, resolution of the dispute centered on reduction of the tariff and the way excise taxes are levied, rather than domestic market restrictions.



Other actions chart further new ground. Two cases involve Korea, one regarding its insurance market and the other the inadequacy of its copyright and patent protection. These actions were taken under the 1956 Treaty of Friendship, Commerce and Navigation between Korea and the United States because the practices did not fall directly under GATT provisions. The cases were resolved

successfully in 1986 with Korean agreement to change certain practices. This outcome avoided the need to seek compensation or to assess retaliatory damages. In this and other cases, though, the U.S. government must monitor closely the actual implementation of agreed changes if significant new opportunities are to be created.

A Brazilian case involving its informatics law, which restricts imports and foreign participation in broad technology sectors of the economy, is the basis for an ongoing 301 case. Brazilians defend their practices as consistent with GATT provisions for infant industry protection in developing countries, but a law that has been interpreted so broadly with no firm termination date demonstrates the problematic nature of this and other exceptions to a GATT commitment to open markets. The profitable position of many U.S. firms already in Brazil raises a further dimension to the case, since their interest may differ from those of potential new entrants to the market. The highly nationalistic response in Brazil supporting the current practice suggests that successful resolution of the case, short of retaliation or withdrawal, will be difficult.

A final 301 case that merits attention here involves Japanese semiconductors. This privately initiated case claimed the Japanese government encouraged domestic practices that limited U.S. sales. The final resolution of the case did not require a public judgment over the practices and in fact was much more broadly drawn. The agreement dealt with provisions to detect more quickly any dumping in the U.S. market, to ensure foreign access in the Japanese market and to limit below cost sales in third country markets. It remains to be seen whether sufficient agreement can be reached in the measurement of dumping in high technology industries where learning economies are significant, or how U.S. com-

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*“The downside risk of any 301 action. . . that retaliation may be viewed as a necessary step to demonstrate credibility in dealing with any other country or product.”*

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panies can adapt their production, development activities and marketing strategy to achieve greater sales in Japan. Short of establishing a worldwide cartel, no government agreement can be expected to guarantee a prescribed result in these areas.

The success of another type of unilateral policy measure to expand exports also depends on the response by foreign governments. Export subsidy programs, whether through the tax code, concessional financing or outright grants, are most likely to succeed when they force foreign governments to reevaluate and reduce their own subsidy programs. However, attempts to target particular countries regarded as the most egregious subsidizers (as in the case of U.S. agricultural exports directed against the EC or the proposed export credit war chest to combat tied aid credits offered by France) are often hard to implement because homogeneous goods sold in world markets can simply be diverted from one country to another. In that case, importers are most likely to gain from competition among exporters that drives down the price of the affected good.

#### THE KEY ROLE OF PRIVATE RESPONSES

Even if changes in subsidy, foreign trade and investment practices occur, the eventual increase in U.S. exports still depends critically upon the response of U.S. business and labor. And this response depends upon some of the same factors

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*“Attention must be concentrated on areas of greatest potential gain where significant precedents can be set, rather than maximizing the number of pending cases merely to demonstrate a commitment to trade activism.”*

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relevant in assessing the opportunities created by the substantial decline in the value of the dollar. Will profit margins be increased, leaving the volume of exports and U.S. production largely unchanged? Or if the change is perceived to be more permanent, will new efforts be devoted to developing business organizations, economic and technical intelligence, sales and service networks, and products better geared to compete in foreign markets? The unexpected strength of the dollar in the early 1980s appears to have led to a more cautious response in how readily businesses move away from a worldwide production base to serve foreign markets, compared to greater reliance on exports from the United States. As a consequence, the link between market access and greater U.S. exports, contrasted with U.S. controlled production, may be weaker than in the past.

#### CONCLUSION

No simple and costless way of increasing U.S. exports exists. The largest shifts in export performance are likely to occur as the result of macroeconomic changes — exchange rate depreciation, the potential for debtor nations to become creditworthy again, or the pace of economic expansion in Europe and Japan. Trade policy changes offer the prospect for shifting the mix of exports to sectors of greater U.S. comparative advantage.

Multilateral agreements to open markets are preferable to unilateral interpretations of what is fair and reasonable in international trade. If such a consensus among nations cannot be reached, as each country individually hopes to benefit from the concessions of others, then a shift toward bilateral and unilateral approaches is likely to follow. Such a trend is most likely to benefit large countries, who can extract the greatest concessions in return for access to their domestic market. The United States would have considerable leverage in such a fragmented trading system and might well command a larger share of a shrunken pie. Fortunately, the United States does not yet face such an outcome, where its relative position might be strengthened but its national income still reduced.

Nevertheless, that possibility underscores the importance of setting priorities in whatever market opening initiatives are taken. Attention must be concentrated on areas of greatest potential gain where significant precedents can be set, rather than maximizing the number of pending cases merely to demonstrate a commitment to trade activism. Finally, when opportunities are created through government-to-government negotiations, the response of the private sector will be critical in determining the eventual expansion of U.S. output and exports.

## Agricultural Trade Issues

by Paul R. Johnson

**R**eal commodity prices, real farm incomes and agricultural exports have seen a series of ups and downs in the past 15 years. The changes in these agricultural variables have been accompanied by changes in exchange rate regimes, monetary and fiscal policies and agricultural policy. Their interaction has led to a great deal of confusion about what caused what that is not confined to journalists, Congress or farmers, but appears in the technical economic literature as well.

The question that pervades any current discussion of U.S. agriculture is why, since 1981, has this country lost market share in most of its export markets? Many explanations have been offered, and after a brief chronology of the events leading to this situation, I will examine those explanations and then explore what might lie ahead for U.S. agricultural export markets.

Differential inflation rates

among the United States and its trading partners in the late 1960s put pressure on the U.S. dollar. As a consequence, the dollar was devalued in 1971 and 1973 and by 1974 was floating against the other major currencies. Those exchange rate changes came at the same time as an overall boom in world commodity prices, including agricultural commodities. Wheat prices in 1973, for instance, doubled from their 1972 level and rose again in 1974. U.S. exports of grains and soybeans expanded greatly, and real farm incomes increased sharply.

In the short run, when a country devalues its currency, exports become cheaper and imports more expensive. The conjunction of the devaluation and the surge in exports led some observers to attach too much causality to the dollar's devaluation. This is not to deny that some effect occurred, but that the size of the effect was overestimated (an observation relevant to the current situation).



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After 1975 the U.S. inflation rate accelerated. Although nominal commodity prices did not fall very much, real agricultural prices dropped. Inflation was accompanied by quite low, and sometimes negative, real interest rates. Coupled with the short boom in commodity prices, those rates were associated with an increase in U.S. land values that persisted until 1981.

Two extremely significant events occurred in this period: the decision by the Federal Reserve Board to tighten monetary policy in late 1979, and the passage of the 1981 farm bill. The first was important because it led to a reduction in the inflation rate, and the second because it contained built-in inflationary expectations that were not fulfilled.

Agricultural policy in the 1960s resulted in ever-increasing government stocks of grain as price supports kept U.S. prices above world prices. This accumulation was reversed in the early 1970s, and world prices climbed rapidly (see Table 1), leading

to predictions of a rosy picture for U.S. agricultural exports. However, U.S. exports fell off, only to be followed by another spurt in growth in 1979 and 1980, and optimism continued for an expansion in exports.

**T**he 1981 farm bill devised a program for grains and oilseeds, the major U.S. agricultural export commodities, that in simplified form consisted of the following: a target price for the commodity was set so that family farmers were rewarded with a certain income. A second price, the loan rate, was established, to be a floor below which the price could not fall. At that price the Commodity Credit Corporation stood ready to acquire the commodity through a nonrecourse loan. In design, then, the program acted as a "safety net," with growers compensated if the market price fell below the target. The hope was that the market price would

**TABLE 1. U.S. AGRICULTURAL EXPORTS, 1970-85  
(\$ BILL.)**

	Agricultural Exports		Agricultural Trade Balance	
	Current \$	Constant 1967 \$	Current \$	Constant 1967 \$
1970	7.3	6.3	1.5	1.3
1971	7.7	6.3	1.9	1.6
1972	9.4	7.5	2.9	2.3
1973	17.7	13.3	9.3	7.0
1974	21.9	14.8	11.7	7.9
1975	21.9	13.6	12.6	7.8
1976	23.0	13.5	12.0	7.0
1977	23.6	13.0	10.2	5.6
1978	29.4	15.0	14.6	7.5
1979	34.7	16.0	18.0	8.3
1980	41.2	16.7	23.9	9.7
1981	43.3	15.9	26.6	9.8
1982	36.6	12.7	21.2	7.3
1983	36.1	12.1	19.5	6.5
1984	37.8	12.1	18.5	5.9
1985	29.0	9.0	9.1	2.8

Sources: *Economic Report of the President*, 1985, p. 342; and *Foreign Agricultural Trade of the United States*, January/February 1986, p. 5.

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*“Two extremely significant events occurred in this period: the decision by the FRB to tighten monetary policy in late 1979, and the passage of the 1981 farm bill.”*

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be near the target price. If it moved above the target, there was no government expense. If the market price fell to the loan rate, government payments would be large, and the CCC would acquire the commodity. The situation would worsen dramatically if the domestic market price and loan rate were above the world market price; market share would then be lost in export markets.

The problem with the 1981 farm legislation was not in its basic premises but in the legislated prices, which included the expected inflation rates of the late 1970s. But by 1982 the inflation rate had been halved, and it continued downward. The market-oriented legislation had become an expensive government acquisition program.

When the farm programs came up for renewal in 1985, the Administration's position was to keep the basic legislative intent of the 1981 bill, but to lower the target price and loan rate closer to market clearing prices. The legislation as passed froze target prices and substantially lowered loan rates in an attempt to recapture foreign markets for U.S. commodities. However, world commodity prices were below loan rates for basic commodities and, as a consequence, a large quantity of grains went under loan. The program continues to be expensive.

#### **THE LOSS OF MARKET SHARE**

Among the many reasons cited for causing this stagnation of agricultural exports are an overvaluation of the dollar; a worldwide recession; the debt burden of less developed countries; a deterioration in the quality of U.S. agricultural products; actions by foreign buyers and sellers; and high U.S. support prices.

During the late 1970s when the United States had

higher inflation than most OECD countries, the dollar fell against those trading partners' currencies. But from 1981 to 1985 when the United States experienced less inflation than most of those trading partners, the dollar rose against their currencies. Because real (inflation adjusted) exchange rate changes affect export and import values, the change in the value of the dollar was targeted as a culprit in the decline in U.S. exports. Since Spring 1985, the value of the dollar has again fallen against many of these same currencies. However, apparently not all U.S. exports have responded to this change.

**T**here are two issues in these exchange rate considerations. One is a measurement problem. While an exchange rate change of the dollar against a particular currency is straightforward, in measuring changes in the value of the dollar against a group of currencies, an index is needed. The currencies that go into the index and the weight each gets are crucial in determining whether the index is an accurate measure of the change sought. The often quoted Morgan Guaranty Trust and FRB indexes show a steep fall in the dollar since Spring 1985, yet recent calculations by Manufacturers Hanover indicate little if any decline. The variance is due to the difference in coverage and the weights used in each index. This issue is very clear in the case of U.S. wheat exports. The U.S. dollar has not fallen against the Australian or Canadian dollar. These countries are two of our major competitors in world wheat markets, and we have not gained any competitive advantage from a dollar depreciation against their currencies.

The second issue is the size of market response from a dollar depreciation. It is difficult to make pre-

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cise a concept of overvaluation or undervaluation of a currency if exchange rates are truly floating. A market for dollars is like any other market—it establishes a price that equates quantity demanded with quantity supplied, with quantities being dollars in this case. In terms of the overvalued dollar, some observers believed that the exchange rate of the dollar against certain currencies did not reflect simply the differential rates of inflation in the particular countries. As U.S. inflation slowed, the expectation was that certain exchange rates would change at the same rate. The issue of overvaluation can become quite complicated. For instance, inflation rate changes occurred at the same time as large changes in capital flows. Foreign investment in the United States increased significantly. Exchange rate changes can have short-run real effects, but the concern in agriculture is the long-run dollar price of commodities. It is unlikely that exchange rate changes have any effect on fundamental behavior in the wheat market. If there is not a prolonged overvaluation of the dollar, there cannot be a prolonged effect on commodity markets.

Also cited as a cause of the decline in agricultural exports is a worldwide recession. Although there are certainly income effects on the demand for U.S. agricultural products, there are problems in blaming recession for loss of markets. For instance, it is not at all clear that the customers for U.S. products have been experiencing a recession since 1981. More

generally, a recession will affect all sources of supply of those products. It is widely believed that the U.S. loss of markets has occurred because of competitor economies. A worldwide recession would have to affect the United States differentially to have the alleged effect on markets. Like exchange rates, a recession will have short-run, not long-run, effects on agricultural markets.

Another issue cited as a reason for declining trade in agricultural products is the debt burden of LDCs. It is true that some Latin American nations currently having difficulties with their debt servicing are significant importers of certain U.S. foodstuffs. However, careful examination of the data by researchers at N.C. State University has revealed only a small negative effect of that debt service on U.S. exports and unlikely to be a major cause of our export decline.<sup>1</sup>

The notion that U.S. agricultural products are of lower quality than our competitors' products has arisen in the trade issue. A related problem concerns the reliability of the United States as a source of supply, specifically in terms of certain U.S. embargoes. However, this problem no longer appears to be a major cause of U.S. loss of markets. A recent ERS, USDA study concluded that the embargoes of the 1970s did not affect the performance of exports in the 1980s.<sup>2</sup> Grains and oilseeds are fungible and easily traded, therefore temporary embargoes should have no long-run effects. Political embargoes will influence trade flows, but there does not appear to be any reason for the overall level of trade to be affected if the rest of the world is engaged in competitive trade.

The quality issue is also used to help explain a phenomenon that must have other causes. Quality has a market dimension. If U.S. grade standards do not meet a specification of quality, then the contract can be changed. Major grain exporting firms will not willfully and persistently breach contracts.

A fifth purported cause of loss of market share is anticompetitive behavior on the part of buyers of U.S. products and competing suppliers. Other countries have institutions that intervene in agricultural markets. Canada and Australia have Wheat Marketing Boards that have monopoly and monopsony power and thus the capability of affecting both the domestic price to farmers and the export price. The European Economic Community intervenes on the

1. J. Dutton, T. Grennes and P.R. Johnson, "International Capital Flows and Agricultural Exports," *American Journal of Agricultural Economics* (December 1986).
2. U.S. Department of Agriculture, ERS Staff Report No. AGES860910 (November 1986).

import side of the wheat market with a variable levy, and the EC now has in place an explicit export subsidy for wheat. Obviously these institutions affect world agricultural markets in ways that can be harmful to U.S. exporters. But some of these institutions (for example, the wheat boards) have been in place while the United States was both gaining and losing market share. The issue for market share considerations is whether there have been changes in the institutions or in their behavior. A case can be made that the EC wheat export subsidy (which has turned the EC from a net importer into a net exporter) has cost the United States some market share. However, that does not explain the lost market share for feed grains, soybeans, tobacco, and other U.S. exports.

We cannot rule out future changes in behavior. Brazil, for instance, could increase its soybean export subsidy and erode U.S. market share. Yet the simple existence of these institutions does not seem to be a serious causal agent for the current loss of market share in all export commodities.

**I**f the above observations are correct, the major contributing factor to lost market share is the structure of prices of U.S. agricultural products. As noted earlier, the 1985 farm bill continued to legislate prices that were above world market clearing prices, albeit with lowered loan rates. Simply put, even with lower loan rates, the United States has priced many U.S. commodities out of world markets. Unless these loan rates are lowered, or unless renewed inflation occurs, the United States will experience difficulty in regaining market share. The 1985 act leaves a small amount of administrative discretion in loan rates, but not enough to affect market share. More important, the act allows the Administration to invoke explicit export subsidies for grains. Such subsidies are currently in place for cotton and rice. There will no doubt be proposals in the 100th Congress to extend these subsidies to other commodities. With target prices so high, the program would become extremely costly.

#### PROBLEMS TO COME

Assuming that the 1985 legislation stays in place and that inflation rates remain relatively low, the vexing problem of declining agricultural markets will not go away. Part of the support for extending export subsidies to commodities other than cotton and rice will come from sources who view the subsidies as justified retaliation against our trading partners. Such actions would have considerable political support as they have a ring of fairness. However, a trade war

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*“Even with lower loan rates, the United States has priced many U.S. commodities out of world markets.”*

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could be extremely costly for at least two reasons. Extending the subsidy to wheat, say, would raise the already high costs of agricultural programs to U.S. taxpayers. Second, such a move would not guarantee the recapture of market share. In the case of wheat, the EC could just increase its subsidy to maintain market share. In addition, such protectionist moves could spill over to other products and shrink the volume of world trade, making all nations, including the United States, poorer.

Another proposed solution to the agricultural problem is mandatory supply control. Under the current program, the acreage diverted has not been sufficient to bring the U.S. price up to the loan rate. An alternative would be to reduce output enough to bring the domestic price up to a given level. Such a program would simply remove U.S. agriculture from world markets, or else would pay enormous subsidies per bushel for any exports. The export picture clearly worsens the further we move from a market-oriented agricultural program.

**A**n additional set of problems will also prove difficult in the near future. U.S. negotiators have accepted agricultural trade as part of the agenda of the upcoming GATT negotiations. Our current trade difficulties with the EC and Japan are generating considerable protectionist sentiment that extends to agricultural as well as other products

and creates an unlikely domestic atmosphere for support of trade liberalization. In addition to the general problem of trying to negotiate a lessening of trade restrictions with long-time political allies, some of whom are now viewed with suspicion as trading partners, at least two aspects of the GATT negotiations are exceptionally troublesome.

One concerns export subsidies for agricultural products in the rest of the world. Unfortunately, the United States does not come to the bargaining table with clean hands on this issue. As discussed above, U.S. export subsidies are currently in place for cotton and rice. Unless Congress is ready to repeal the provision allowing such subsidies, the United States is simply not in a position to negotiate on export subsidies.

The GATT negotiations have typically dealt with tariffs and have not addressed nontariff barriers such as quotas and health regulations, which are more difficult to measure. Much agricultural protection in the developed world involves nontariff barriers. The political strength of the agricultural sectors in developed economies is reflected in the size of the income transfers that occur. It is difficult to believe that such transfers can be negotiated away at an international bargaining table when they cannot be legislated away in each economy separately. It would be globally efficient and improve welfare if the EC would import without barriers all the butter that New Zealand could supply, and if the United States would import without tariff or quota all the cheese Europe could supply (and the United States has failed to increase tariffs on certain cheeses). For now, however, those events are very unlikely.

**T**his analysis makes the picture for improved agricultural export performance very bleak indeed. But there are several factors that might ameliorate the situation.

First, current legislation allows some discretion in setting loan rates, and these are being lowered for 1987. Although the magnitude of the changes is not large, the effect is in the right direction. Second, markets operate with lags. Current world prices are depressed, in part by large stocks of basic commodities. If these inventories were reduced, and world prices rise, U.S. prices might be more in line with world prices. Third, the agricultural policies of the EC have put enormous pressure on its budget. The EC has already lowered the support price for most commodities. That pressure, there and elsewhere, may make GATT members more willing to negotiate. If the world community starts to remove systematically the trade barriers in agriculture, U.S. exports could increase.

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*“Unless Congress is ready to repeal the provision allowing such subsidies, the U.S. is simply not in a position to negotiate on export subsidies.”*

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## NPA COMMITTEES

**The British-North American Committee** comprises leaders from the U.S., U.K. and Canada who seek better private sector responses to major challenges facing their countries in the increasingly competitive world economy. These include initiating new forms of management-labor cooperation, solving problems arising from the growth and spread of new technologies, and influencing changes in the world trading and financial order.

**The Canadian-American Committee** brings together over 130 North American private sector leaders to work out solutions to common problems. The committee has made major contributions to the ongoing bilateral trade negotiations. It also focuses on Canadian direct investment in the U.S., the role of adjustment policies in the bilateral trade agreement, and common environmental problems.

**The Committee on Changing International Realities** for over 10 years has been at the forefront of authoritative research on U.S. international competitiveness and on U.S. interests in and relations with developing countries. It has also proposed ways to protect important U.S. interests in matters such as remedying strains in the international financial system, promoting U.S. exports, protecting U.S. intellectual property rights around the world, and increasing cooperation and policy coordination through the GATT and other multilateral forums.

**The Food and Agriculture Committee**, which includes representatives from virtually all sectors of the U.S. farm and agribusiness communities, has been active for more than four decades in public policy analysis and development. The committee has contributed to policy debates in Congress and assisted USDA and numerous other public and private institutions on matters ranging from farm legislation and the credit crisis in rural America to declining U.S. agricultural exports.

**The Committee on New American Realities** concentrates on domestic U.S. economic policies, including the effects of budget deficits, taxes and the changing domestic and international competitive environment. Its agenda also focuses on the political and economic adversarial relationships that have developed among government, business and labor, and on the educational and training needs to respond to technological and employment developments.

## NPA COMMITTEE MEETINGS, 1987

Committee	Date	Location
New American Realities	March 13 - 14	Atlanta, Ga. <i>(Ritz-Carlton)</i>
Canadian-American	March 19 - 20	Chicago, Ill. <i>(The Drake)</i>
Food and Agriculture	April 3 - 4	Washington, D.C. <i>(Park Terrace)</i>
Changing International Realities	May 1 - 2	Washington, D.C. <i>(The Madison)</i>
British-North American	June 19 - 21	Near Edinburgh, Scotland <i>(Gleneagles Hotel)</i>
Canadian-American	September 25 - 26	Montreal, Canada <i>(Four Seasons)</i>
New American Realities	October 9 - 10	Charlottesville, Va. <i>(Boar's Head Inn)</i>
Food and Agriculture	October 16 - 17	To be announced
Changing International Realities	November 6 - 7	Palm Beach, Fla. <i>(The Breakers)</i>
British-North American	December 4 - 6	Washington, D.C. <i>(Capital Hilton)</i>



## NPA PUBLICATIONS, SPRING - SUMMER

**Technology and Work: Jobs, Displacement and Education in the Workplace of the Future**, by Chrystal Cousins Campbell. This NPA Working Paper reviews the current literature on emerging issues associated with the impact of technology on employment and the workplace. Available to interested scholars. *Sponsored by the New American Realities Committee.*

**Seeds and World Agricultural Progress**, by Neil McMullen. In an in-depth analysis of the international seed indus-

try, the author examines past and prospective changes in seed technology and their influence on world agriculture. *An NPA Report.*

**The East Asian NICs: Challenges and Opportunities**, by Jon Woronoff. This study evaluates the dynamic economic progress of Hong Kong, Korea, Taiwan, and Singapore and suggests how the United States may improve its trade and investment relations with these countries. *Sponsored by the Committee on Changing International Realities.*

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THE WORLD BANK  
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U.S.A.

BARBER B. CONABLE  
President

February 27, 1987

Dear Henry:

Thank you for your nice note. One of the nice things about returning to public life is that friends are able to make contact.

I appreciate having the pamphlet on the wildlife and natural history of Guana Island. While my new position requires me to travel abroad considerably more than my previous roles, my travel is for business to member countries of the World Bank.

I will keep the pamphlet, however, and let you know if the opportunity arises for a personal visit to the West Indies. It is most tempting, and thank you for thinking of me.

Best personal wishes.

Sincerely,

*Barber Conable*

Dr. Henry G. Jarecki  
Group Chief Executive  
Mocatta  
Four World Trade Center  
New York, New York 10048