

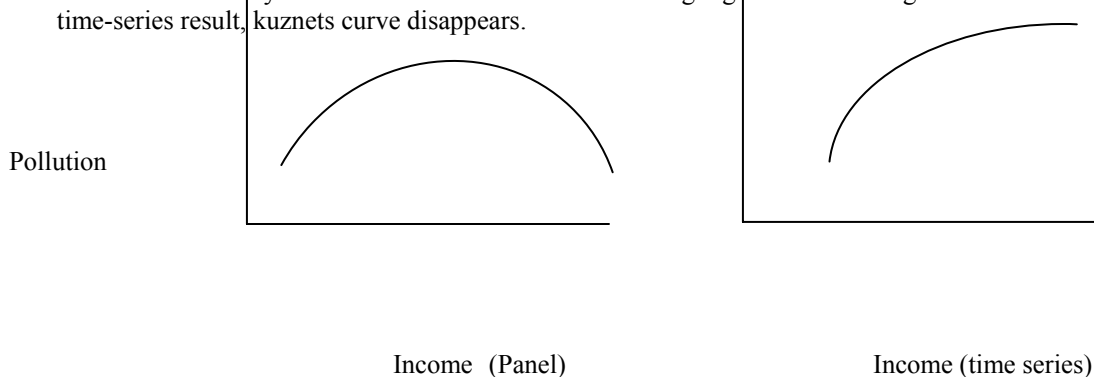
Lecture 27
Economics 181
International Trade and Labor Standards

Outline for rest of course:

- Today: a comment on the environmental kuznets curve; then trade and labor standards
- Next Tuesday: industrial country trade policy with a focus on strategic trade policy
Assignment 4 DUE (posted on class website).
- Next Thursday: Anti-sweatshop activism. Begin semester review.
- Final Class (May 11): Summary/Review of whole semester
- Office hours until May 11: Tuesdays 10-11:30, 2-3 and Thursdays 2-3

Comment on the environmental Kuznets curve

- Three kinds of data: cross-section (across cities at one point in time), time series (across time for one city), panel (across cities and over time). Can make a panel be “like” a time series by just focusing on the variation within each city over time. Do this by adding dummy variables for each city, which eliminates cross-city variation. When Grossman and Krueger go from focussing on cross-section to time-series result, kuznets curve disappears.



Question: Can including labor standards in trade agreements help improve labor conditions in developing countries?

I. What do we mean by labor standards?

Two kinds:

- “Core” standards are related to fundamental human rights and can be universal in their application, such as a prohibition on forced labor. Defined by the International Labor Organization (ILO), created in 1919. Defines core labor standards as: (1) freedom of association and the effective recognition of the right to collective bargaining; (2) elimination of all forms of forced or compulsory labor; (3) effective abolition of child labor; and (4) elimination of discrimination in respect of employment and occupation.
- “Economic” labor standards, by contrast, are tied more closely to a country’s level of economic development and include minimum wages and working conditions.

What is the US position on core standards?

Let’s talk today about whether it makes sense to try to change country behavior on one type of “economic” labor standard—wages—and one type of core labor standard—child labor.

II. Should we force countries to pay a living wage? Why or why not?

A. Why not? Back to Ricardo. What does Ricardo say about why wage differences exist?

No evidence (OECD study) that countries which fail to adopt labor standards gain market share in export markets at the expense of high labor standard countries.

So:

- Best way to raise wages is to raise productivity, through development, growth, encouraging direct investment.
- Suggests bans on trade, shutting down sweatshops, bans on multinationals likely to be counterproductive
- If sweatshops are closed, where will these workers go?

But....

B. Why force countries to pay a living wage....

- Despite all the good arguments in part A, there is no denying that NGO activism has led to profound changes for many targetted companies
- Suggests that despite slim margins, is room for improvement.

III. Enforcing Core Labor Standards and Trade Policy: Should there be a link?

A. Statistics

- In 1995 < 120 million of the world's children between 4 and 14 did full time paid labor (ILO)
- Official definition of child labor: if a child under the age of 15 is employed in the production of a good that will be sold on the market.
- Over time, declining trend in participation rates of children aged 10-14 but absolute level is much higher in Asia (15.19 percent in 1995) and Africa (27.82 % in 1995).
- Numbers probably double if include in definition unpaid work (ie household help)
- But many children working do not end up in school if they stop working.

B. Possible policy interventions

1. Intra-national efforts (within a country):

- Government activism. Ban child labor within a country and/or make schooling compulsory. See attached article by Krueger (same Krueger who wrote about environmental Kuznets curve).
- Consumer boycott eg Berkeley students
- Company boycotts eg Nike

2. Supra-national efforts (organizations consisting of many countries): ILO, WTO, UNICEF

3. Extra-national efforts: 'Harkins Bill' in the US

4. Encourage Growth

C. What to do? Clearly, 1,2, and 4 do make a difference. But is 3—imposing bans on trade—if the country fails to reduce child labor—a good idea?

Usual views on whether labor standards should exist:

- For: Since lower labor standards give a country a trading advantage in labor-intensive goods, there should be a social clause in trade agreements to deter such illegitimate advantages.
- Anti: countries trade on the basis of relative advantage: labor standards are simply a 'protectionist' measure that will reduce consumer surplus in high income countries and harm third world workers

In a number of cases, a ban on imports from countries that use child labor will make the very group it is designed to protect, actually worse off:

-