

labor demanded by firms is reduced and unemployment (supply minus demand) rises. A similar story can be told with labor standards (as in, they can often be interpreted as increasing in the wage or the cost of labor).

- The result for welfare illustrated on the graph is ambiguous. Some workers are made better off, because they have higher wages and some are made worse off by becoming unemployed. (Analysis similar to what we've used for tariffs and other markets – consumer and producer surplus – can be used to show that the net effect of the minimum wage is negative, but this is less important than the harm that it does to those who lose.)
- Major concern: Imposing higher labor standards in LDCs may create unemployment thus leaving more people with even less money.
- Example: Suppose we go into Indonesia and insist companies treat their workers better. Some companies may leave Indonesia in search of places with higher productivity (assuming workers in Indonesia were receiving lower wages because they were less productive). This will cause a very large increase in unemployment. So, it turns out that workers can be hurt by labor standards.
- Note that previous wage increases in DCs is not entirely due to increases in the minimum wage or labor standards.
- If employers have too much market power (thus making the labor market noncompetitive) it makes sense for workers to be allowed to organize and to form unions to counteract the firms' power.

III. Should Standards Be Linked to Trade?

- NO, say most economists (including most trade economists). Trade lawyers are a prominent “NO” group, as are many LDCs (even some LDC labor unions). LDCs often worry that trade sanctions will be used against them to make them pay higher wages, thus eroding their comparative advantage (abundant and relatively inexpensive labor). MNCs are also part of the “NO” group, even though they usually provide higher wages and better working conditions than many local companies.
- YES, says the Clinton Administration, most Democrats, most unions in DCs are routinely in favor of linkage, and many NGOs (Non-governmental Organizations).