The Issues

- Environment
  - Does trade hurt the environment?
  - Does international competition weaken environmental laws?
- Labor Standards
  - Does trade hurt workers?
  - Does international competition weaken labor standards?
- Role of the WTO in both
  - Do WTO rules
    - Limit countries' abilities to raise standards?
    - Or lead them to reduce standards ("race to the bottom")?
  - Should trade policy be used to improve standards?
  - Should trade policy be used if countries' standards or policies differ?
Outline: Environment, Labor Standards, and Trade

• The Issues
• Environment
  – Examples
  – Policies
  – International Problems
  – Role of the WTO
• Labor Standards
  – Fundamental ILO Conventions
  – United States Role
  – Issues

Environment

• The problem: Externalities
  – Externality is: Cost or benefit of an activity that is not borne by the actor.
  – Examples: Pollution, global warming, destruction of species
• The issues:
  – How should externalities be dealt with?
  – Is doing this made harder or easier by trade and trade policy, or by the WTO?
Environment: Examples

• Pollution along the Mexican border
  – Caused by production, for export to U.S.
  – Stimulated by
    • Maquiladoras (Firms given special tariff treatment on processing for U.S. firms)
    • NAFTA

• U.S. laws struck down by GATT / WTO
  – Tuna-dolphin case
  – Shrimp-turtle case

Fishing for these... hurts these US laws banned imports

Struck Down by GATT/WTO!

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Environment: Policies

• How to deal with a negative externality
  – Regulate: Prohibit or limit activity
  – Tax: Make activity more costly
    • By setting tax equal to cost to others, we "internalize" the externality.
  – Hybrid: Tradable licenses
    • Number of licenses set by regulation
    • Market determines who uses licenses
    • = "cap and trade"
Environment: Policies

• What is the “Optimal” level of a negative externality?
  – It is **not** zero!
  – It is found by equating
    • marginal benefit (of reducing externality) to
    • marginal cost (of reducing externality)

Environment: Policies

• What is the “Optimal” level of a negative externality?

![Graph showing marginal benefit and marginal cost](image)

Environment: More Examples

• Air pollution
• Water pollution
• Acid rain
• CO\textsubscript{2} emission (global warming)
• Destruction of rain forest
• Destruction of species
  – Endangered (sea turtles)
  – Favored (dolphin)
• Overuse of natural resources (over-fishing)
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Environment: International Problems

- Cross-border Externalities
  - Contrast with local externalities
    - Local government has ability and incentive to act
  - Cross-border: No incentive to incur a local cost in order to limit harm to foreigners.
  - Need international agreement
  - Example:
    - CFCs (Chloroflorocarbons) that caused the hole in the ozone.
    - Dealt with by Montreal Protocol (1987)

Environment: International Problems

- Effects on Competitiveness
  - Pollution tax raises costs of
    - Exporters
    - Import-competitors
  - If foreign firms are not taxed, this is viewed as unfair
  - Countries with weak regulations become “pollution havens”
    - But Jones says there is little evidence that this happens – it’s not worth it
  - “Race to the bottom”: Countries compete by lowering their environmental standards
  - Solution (?): International agreement for all to tax equally
    - Called “harmonization”
Environment: International Problems

- Differences in Optimal Policy
  - Optimal policy may depend on a country’s income
  - Poor countries can’t afford strict regulations
  - The environment is “income elastic” or a “superior good” – that is, countries demand more of it as their incomes rise.
  - Thus taxes on local pollution should not be the same

Environment: International Problems

- Example: Internal memo by Larry Summers when at World Bank:
  
  "'Dirty' Industries: Just between you and me, shouldn’t the World Bank be encouraging MORE migration of the dirty industries to LDCs?"

  [He goes on to give several reasons.]

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Environment: Role of the WTO

- Does WTO permit limits on imports for environmental reasons?
  - Yes, if the imports themselves would do damage inside importing country.
  - No, for damage done abroad.
  - Any policy must not discriminate.
  - May not limit imports based on process by which they were produced.

Policy Options

- Use WTO (These options are not in fact permitted, and they are not good ideas)
  - Treat environmental violations as trade violations
    - Some environmentalists would like this, because the WTO has “teeth”
  - Define environmentally harmful production of exported goods as unfair, and permit AD & CVD

Policy Options

- Carbon Tariff
  - If some but not all countries
    - Use carbon tax or cap-and-trade to raise price of carbon
    - To fight global climate change
  - Then many would advocate a carbon tariff on exports of goods from non-participating countries
  - Problem:
    - Benefits (to world) of reducing carbon may be the same
    - But the costs (to the country) are not
Policy Options

• Carbon Tariff: Arguments for and against
  – Krugman is for
    • Failure to use them will cause consumer substitution toward cheaper products made in countries that do not tax or restrict carbon emissions
    • Should be legal under WTO, as “border tax adjustments” used when countries taxation systems differ
  – China (per Reuters) is against
    • Calls carbon tariffs “protectionist”
    • Predicts use of carbon tariffs would cause trade war
    • Says not legal under WTO
Labor Standards:
Fundamental ILO Conventions

1. Freedom of Association
   a. Right to Organize (154)
   b. Right to Collective Bargaining (164)

2. Abolition of Forced Labor
   a. Forced Labor (178)
   b. Abolition of Forced Labor (175*)

3. Equality
   a. Discrimination (174)
   b. Equal Remuneration (173)

4. Elimination of Child Labor
   a. Minimum Age (169)
   b. Worst Forms of Child Labor (180*)
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Lab Standards:
Fundamental ILO Conventions

*Fundamental Conventions ratified by U.S.:

ONLY:
  – Abolition of Forced Labor
  – Worst Forms of Child Labor

Lab Standards:
Fundamental ILO Conventions

• United States
  – Has not ratified many of the conventions
  – But… in spite of that, US enforces many labor standards through its trade laws
Labor Standards:
Found in U.S. Trade Law
- Freedom of Association
- Right to Organize and Bargain Collectively
- Forced Labor
- Minimum Age for Employment
- Acceptable Conditions of Work
  (not “Fundamental” in ILO)
  - Minimum wage
  - Hours of work
  - Safety and Health
  - Enforcement

U.S. Labor Standards
- US pushes labor standards in trade agreements
  - Side agreement in NAFTA & was included in TPP
  - Purpose is to
    - Improve labor conditions abroad
    - Protect labor standards in the US
  - Do they work? No, says Porter

U.S. Labor Standards
- Porter:
  - US labor standards are
    - Among the lowest in OECD countries
    - Weaker than in EU
    - Also weak in US:
      - Unions
      - Safety net
  - Could a trade agreement help?
    - Porter says yes: the TTIP with EU could harmonize labor standards in US up to EU levels
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Labor Standards: Issues

Should labor standards be promoted?
• Of course?
• Yes, but only if it will help the people involved
• What if the true purpose is to help workers in rich countries?

Effect of labor standards:
Labor Standards: Issues

Effect of labor standards: Minimum wage

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But lowers employment

And creates unemployment

Raises wage

But lowers employment

And creates unemployment

Effect of labor standards: Legislatively Better conditions

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Raised costs of employers, thus lowers the benefit of hiring labor. Thus shifts demand curve down

Lowers wage

And lowers employment

Labor Standards: Issues

Should trade policies be used for labor standards?

• No, say
  – Trade economists
  – Trade lawyers
  – Developing countries (even some of their labor unions)
  – MNEs
  – Most Republicans
Labor Standards: Issues

Should trade policies be used for labor standards?

• YES, say
  – Most Democrats
  – US unions
  – Many NGOs
    (NGO=non-governmental organization)

Labor Standards: Issues

Should trade policies be used for labor standards?

• PRO (assuming standards themselves are good):
  – Trade is the only tool we have (ILO is "toothless")
  – WTO already does this in TRIPs
  – It is wrong to benefit from abuse of labor

Labor Standards: Issues

Should trade policies be used for labor standards?

• CON:
  – Slippery slope to enforcing harmful labor standards
  – Trade restrictions make countries poorer, hurting their workers
  – Trade restrictions cost everybody
  – Incentive for protectionist claims of low labor standards
Labor Standards: Issues

Are trade policies used to enforce labor standards?

- No, not in the WTO in the way some would like (by limiting imports from weak-standard places)
- But US is including them in FTAs.

Labor Standards: Issues

What to do when labor standards are violated

- Example: Fires in garment factories in Bangladesh and Pakistan (see Bhagwati)
- Stop buying the brands who manufactured there?
  - No. That just destroys the jobs of poor-country garment workers.
- Hold local governments responsible?
  - Yes. They need pressure to enforce labor standards.

Labor Standards: Issues

- UM response to Bangladesh fire (from University Record, 4/12/14):
  - President Mary Sue Coleman announced Tuesday that U-M will adopt the recommendation of the President's Advisory Committee on Labor Standards and Human Rights that all U-M licensees either sign and abide by a worker safety initiative called the Accord on Fire and Building Safety in Bangladesh or demonstrate that they have an equivalent safety plan.
  - Accord on Fire and Building Safety in Bangladesh
    - calls for public reporting, independent fire and building safety inspectors at factories, and a commitment to workers in improving factory safety practices.
Next Time

- Final Exam: Tue, Apr 25, 8:00-10:00 AM