Econ 340
Lecture 23
Environment, Labor Standards, and Trade

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?

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... Struck Down
by GATT/WTO!

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: 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?

$\text{Marginal cost} \ldots$
$\text{Marginal benefit} \ldots$
$\text{Zero pollution}$
$\text{Optimal pollution}$

Environment: More Examples

• Air pollution
• Water pollution
• Acid rain
• CO₂ 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 (Chlorofluorocarbons) 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.]
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

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Labor Standards

- What are they?
  - Formal list of “conventions” (189) and “recommendations” (204) regarding treatment and conditions of labor, established by
  - The ILO = International Labour Organization
  - These include 8 “Fundamental ILO Conventions”
    - Numbers in parentheses below: numbers of countries that have ratified the conventions (as of 12/2/2016) out of 187 members
**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*)

**Labor Standards:**

**Fundamental ILO Conventions**

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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**Labor Standards:**

**Fundamental ILO Conventions**

*Fundamental Conventions ratified by U.S.:

**ONLY:**
- Abolition of Forced Labor
- Worst Forms of Child Labor

**Labor 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
  - 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:

Minimum wage

- Raises wage
- But lowers employment
- And creates unemployment

Legislating Better conditions

- Lowers wage
- And lowers employment
- Raises costs of employers, thus lowers the benefit of hiring labor. Thus shifts demand curve down

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

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

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

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.

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