

LABOR STANDARDS IN INTERNATIONAL TRADE AGREEMENTS: THE CURRENT DEBATE

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In recent years, the impact of international trade on the American workforce has become a prominent issue.¹ Controversy over the extension of the North American Free Trade Agreement (NAFTA) to Mexico centered around the labor issue. During the 1992 presidential election, candidate Ross Perot argued that NAFTA would produce a "giant sucking sound" of jobs moving to Mexico. President Clinton ultimately achieved Congressional ratification of NAFTA after negotiating a supplemental accord with Mexico and Canada dealing with labor and environmental issues. But he had to rely on Republican votes in Congress to override the objections of his own party.

Similar controversy surrounded the later ratification of the Uruguay Round agreement which established the World Trade Organization (WTO), lowered trade barriers, and created new international mechanisms for adjudicating trade disputes. In the 1996 presidential primary, candidate Pat Buchanan received substantial media attention by making strident arguments that American workers needed protection from foreign cheap labor competition.² Clearly, the debate over trade and its impact on American labor continues.

An important element in the debate about the impact of international trade on American labor has been the proposal to make labor standards a component of the new international trade regime, perhaps enforced in some way by the WTO. The Clinton administration has favored such an approach.³ So have many countries in the European Union (EU). But some observers have seen such proposals as hidden protectionism. They see high-wage developed countries deviously seeking to protect their home markets by enforcing unrealistic labor standards on developing

¹ A longer version of this paper was presented to a conference sponsored by the East-West Center and the Korean Development Institute. The longer paper contains detailed references omitted here due to space limitations. A copy of the longer paper is available from the authors:

² "No matter what the cash benefits, we don't want to merge our economy with Mexico, and we don't want to merge our country with Mexico. We don't want to force American workers to compete with dollar-an-hour Mexican labor. That's not what America is all about." *Patrick*

J. Buchanan, 1992 and 1996 Republican primary presidential candidate, cited in "America First, NAFTA Never," position paper available at Buchanan web site dated November 7, 1993.

³ "... (W)e simply cannot separate our trade discussions from the conditions under which workers produce for the international market." *U.S. Secretary of Labor Robert Reich cited in "Text of Labor Secretary Reich's Speech During Annual ILO Conference in Geneva," Daily Labor Report, June 11, 1996, p. E6.*

countries. Such countries, it is argued, have economies which cannot support first-world conditions.⁴

Critics of the proposal to tie trade to observance of labor standards also argue that such standards would retard growth.⁵ They note that some of the major success stories in economic growth have been found in countries—particularly in Asia—which did not set elaborate labor standards during their early stages of development. Rather, these countries relied on growth itself to raise their wages and other standards.

Despite these views, others argue that modest enforcement of "core" labor standards would in fact safeguard and foster trade liberalization.⁶ They suggest that only by ending the worst abuses of child and forced labor, and thus removing such conditions from the political debate, can the progress since World War II toward reduced import barriers be sustained. If labor standards are not part of future trade agreements, developed countries will begin to close off their markets to export-oriented developing countries. And they will cite such emotional issues as child labor as the rationale.

I. THE DEBATE IS NOT NEW

Many proponents of free trade see the discussion of labor standards as a new element in the long-standing debate surrounding trade policy. But there is a lengthy history of such proposals, certainly going back into the 19th century. In the American context, the debate on international labor standards paralleled the internal discussions of national—as opposed to state-level—standards. Proponents then argued that the federal government should lay down basic labor standards to "take wages out of competition" between the states. But actual implementation of such ideas did not begin until the 1930s with enactment of a federal minimum wage, overtime regulations, and limits on child labor. Since that time, the labor market has been the target of substantial federal regulation, often overriding—or putting a floor on—state law.

In the international context, the idea of fostering worldwide labor standards came to fruition before the 1930s. Immediately after World War I, the International Labor Organization (ILO) was established with strong support from American union leader Samuel Gompers. The ILO was designed to operate in a tripartite format with representatives of labor (unions), management, and government. It proposes a variety of labor standards to member countries as recommendations and conventions. Once ratified by a country, the standards contained in ILO conventions are theoretically binding, although enforcement machinery is lacking.

Initially, the U.S. did not join the ILO as a result of the isolationist sentiment in public opinion that developed after the First World War. But toward the end of World War II, the U.S. actively promoted creation of international agreements and

⁴ Jagdish Bhagwati, "A View from Academia" in G.P. Schoepfle and K.A. Swinerton, eds., *International Labor Standards and Global Integration: Proceedings of a Symposium* (Washington: U.S. Department of Labor, Bureau of International Labor Affairs, 1994), pp. 57-62.

⁵ "Those countries in the Far East that have relied on indirect methods of pulling wages and employment opportunities up through supply and demand have progressed much more rapidly than have countries in other parts of the world that have attempted to push labour standards up through minimum wages, government pay policy, support of trade unions, extensive labour codes, and the like. Other countries may wish to consider the indirect approach to raising labour standards." Organisation for Economic Co-operation and De-

velopment, *Trade and Labour Standards: A Review of the Issues* (Paris: OECD, 1995), p. 22.

⁶ "At its core, the idea of fair labour standards is not protectionist. It is anti-protectionist. While workers everywhere would benefit from the further division of labour made possible by international commerce, freer trade is stymied whenever any trading partner questions the underlying fairness of the labour practices used by another. Establishing a floor for worker rights has the potential of removing one of the chief justifications for import restrictions." Steve Charnowitz, "The Influence of International Labour Standards on the World Trading Regime," *International Labour Review*, vol. 126 (September-October 1987), p. 581.

organizations such as the United Nations. It was felt that isolationism had contributed to the war and that the mistake should not be repeated. The ILO, in particular, was endorsed and rejuvenated under the 1944 Declaration of Philadelphia.⁷ With some interruptions related to the Arab-Israel conflict, the U.S. has remained an active ILO participant over the past half century.

[T]he fact that wage trends in the U.S. have not been favorable (and that there is at least the possibility that trade has something to do with these trends) has helped to keep the issue of linking labor standards to trade in front of policy makers.

Despite its participation, the U.S. has ratified only 11 ILO conventions, a relatively low number when compared with countries in Western Europe. One factor in this low ratification rate is the reluctance of Congress to see U.S. laws and practices be subject to foreign jurisdiction. However, ratification and performance are not necessarily identical. Although the ILO has investigatory powers and can provide technical assistance, as noted above it has no real enforcement powers. Other than possible embarrassment over an investigation, countries which do not live up to the conventions they have ratified face no penalties.

Apart from its ILO affiliation, the U.S. participated in international trade agreements containing labor standards prior to ratification of NAFTA in 1993. For example, the 1983 Caribbean Basin Initiative—which provides preferential access to the U.S. market for certain Caribbean countries—incorporates labor standards. It provides for investigation and withholding of preferences for countries not meeting such standards. In 1984, Congress renewed the Generalized System of Preferences (reduced U.S. tariffs for developing countries). But it authorized the President to withhold preferences from countries not “taking steps” to meet specified labor standards.

II. WHAT STANDARDS?

Although there has been a long history of proposals for incorporating international labor standards into trade agreements, the precise standards proposed have generally been far less specific than those enforced within the U.S. No one has seriously proposed an international minimum wage, for example.⁸ Generally, the kinds of standards put forth in the international context have involved limits or prohibitions on use of child labor and forced labor along with endorsement of freedom of association and collective bargaining. In some cases, the standards proposed have been only tangentially related to trade. For example, the U.S. has subsidized efforts in several countries to discourage child prostitution.

The issue of child labor has an especially emotional component. Consumer-oriented companies such as Wal-Mart, the Gap, and Disney have been anxious to avoid being labeled as child labor exploiters. Such companies have begun adopting procedures to assure consumers that their wares are not being produced by child labor or in violation of other basic labor standards. Perhaps most prominent in this regard have been the efforts of entertainer Kathie Lee Gifford to push for such

⁷ Eddy Lee, “The Declaration of Philadelphia: Retrospect and Prospect,” *International Labour Review*, vol. 133 (4:1994), pp. 467-484; John D. French, “The Declaration of Philadelphia and the Global Social Charter of the United Nations, 1944-45” in Werner Sengenberger and Duncan Campbell, eds., *International Labour Standards and Economic Interdependence* (Geneva: International Institute for Labour Studies, 1994), pp. 19-26.

⁸ “We are not interested in a global minimum wage.” Deputy U.S. Trade Representative Jeffrey Lang cited in “U.S. to Raise Labor, Corruption Issues at WTO Singapore Ministerial,” *Daily Labor Report*, April 2, 1996, p. A3.

standards after embarrassing disclosures about production conditions of her own line of apparel.

Despite the emotional appeal of avoiding use of child labor, a number of economists have argued that banning such practices could hurt developing countries. In some cases, they argue, work is a better alternative for children in poverty than other realistic options, e.g., prostitution. Some have proposed labeling products concerning use or nonuse of child labor or other practices and letting consumers decide whether to purchase them.⁹

III. THE BACKGROUND TO U.S. CONCERNS

Several factors have colored the debate in the U.S. over trade and labor standards. *First*, American real wages, which rose rapidly after World War II until the late 1960s or early 1970s, seemed to stagnate thereafter. *Second*, wage inequality has widened during the period that average real wages stagnated. Generally, those with advanced educations have seen real gains in pay. But those with high school or lower levels of education have seen their real wages deteriorate.

Third, the theory of international trade—notably the Heckscher-Ohlin model—argues that trade patterns might have some role in these unfortunate wage trends. In trade theory, imports and exports contain implicit amounts of the labor (skilled and unskilled) and capital used to produce them. In particular, the workforces of various countries are depicted as being in indirect competition with one another via trade. Trade with a low-wage country might undermine wage standards in a high-wage country in this model, just as unrestricted direct immigration might pull down labor standards in the labor-receiving country.

Of course, the Heckscher-Ohlin model is only a theory. There remains the issue of whether trade is actually having such an impact or, even if it is, whether the impact is large enough to evoke concern. Still, the fact that wage trends in the U.S. have not been favorable (and that there is at least the possibility that trade has something to do with these trends) has helped to keep the issue of linking labor standards to trade in front of policy makers.

i. International Wage Convergence

In fact, as Table 1 shows, there has been a tendency for foreign wages in the developed world to rise to—or even surpass—American levels. European wages were generally a fourth to a half of U.S. levels in the early 1960s. Although erratic exchange rate movements cause the figures to gyrate, by the 1980s and 1990s, American wages were in the mid range when compared to Western Europe. Several European countries paid well in excess of American levels when translated into U.S. dollars.

Particularly notable in Table 1 is the performance of Japan, whose wages were only a tenth of the American level in the early 1960s. By the end of the period shown, Japanese wages had more than caught up. Also notable is the performance of the four Asian “tigers”—South Korea, Hong Kong, Taiwan, and Singapore—which seems to be tracking the earlier Japanese example. The tigers appear now to be where Japan was in the early 1970s, suggesting that notable wage differentials between those countries and the U.S. could persist for another couple of decades.

⁹ Richard B. Freeman, “A Hard-Headed Look at Labor Standards,” undated unpublished paper; T.N. Srinivasan, “International Labor Standards Once Again,” undated unpublished paper, both Bureau of

International Labor Affairs, U.S. Department of Labor. An example is the RUGMARK label that some carpet-exporting countries have agreed to use, certifying non-utilization of child labor.

Rapid growth rates in the tiger countries seem to be linked in an important way to their access and aggressive competition in the import markets of the U.S. and other developed countries.¹⁰ In some instances and periods, governments in the tiger countries have actively tried to hold down wages or have discouraged unionization. Such policies of wage restraint were justified on grounds that higher labor costs would erode international competitiveness. Additionally, persistent complaints of labor shortages in some of the tigers raise suspicions that wages—for whatever reason—are not rising fast enough to clear the market.

Further complicating the concerns about trade's impact on labor standards in the U.S. is the performance of countries whose wages have not shown signs of rising toward the American level. As Table 1 shows, wages in Mexico have not demonstrated an upward trend despite NAFTA and growing Mexican trade with the U.S. Trade with China raises even bigger concerns with regard to its eventual impact. Data on Chinese wages are not readily available but Table 2 shows one indicator. Despite very rapid economic growth, Chinese wages remain a fraction of the U.S. level and do not exhibit a rising relative trend.

Mexico's geographic proximity to the American market, and China's labor force of over 600 million workers, raise concerns about the impact of trade with these countries on U.S. wage trends *in the future*.¹¹ That is, even if trade has not so far accounted in large part for the trend toward stagnant wages and/or wage inequality in the U.S.—which is the consensus (but not unanimous) view among economists—the future might not look like the past.¹² As long as that possibility remains plausible, the international labor standards debate will likely remain active.

ii. The Labor Content of U.S. Trade

The reason why the trade-to-wage-trend connection remains plausible, but not proved is that trade data do not provide unambiguous evidence. A large fraction of U.S. trade—about 60 percent—is not carried out with low-wage countries. Rather it involves countries such as Canada, Japan, and those in Western Europe with living standards and factor endowments roughly similar to that of the U.S. There is also important trade which is based on natural resource endowments, e.g., trade with the oil states, rather than on labor intensity of production or skill-intensity.

Since overall trade is not a large fraction of GDP in the U.S. case, and since much of the trade that does occur is not linked to labor characteristics, it is hard to make the case that the pattern of trade is the villain in American wage trends. Trade with selected low-wage countries does show the expected Heckscher-Ohlin pattern. Figure 1 shows capital usage/full-time equivalent employee, calculated at 1987 levels, for U.S. exports and imports. The figure refers only to trade with the "Five Tigers," defined here as the four Asian tigers plus China.¹³ As anticipated, U.S. exports to these countries are relatively capital-intensive; U.S. imports from them are relatively labor intensive.

¹⁰ International Bank for Reconstruction and Development (World Bank), *The East Asian Miracle: Economic Growth and Public Policy* (New York: Oxford University Press, 1993).

¹¹ Edward E. Leamer, "Wage Effects of a U.S.-Mexico Free Trade Agreement" in Peter M. Garber, ed., *The Mexico-U.S. Free Trade Agreement* (Cambridge, Mass.: MIT Press, 1993), pp. 57-125, especially pp. 112-122.

¹² For alternative perspectives, see Richard B. Freeman, "Are Your Wages Set in Beijing?" *Journal of*

Economic Perspectives, vol. 9 (Summer 1995), p. 17; and Adrian Wood, "How Trade Hurt Unskilled Workers," *Journal of Economic Perspectives*, vol. 9 (Summer 1995), p. 78.

¹³ Data were drawn from the national income accounts. Import capital and labor content was calculated using U.S. relationships. More details are available in the paper cited in footnote 1.

Similarly, as Figure 2 shows, the labor contained in U.S. exports to the "Five Tigers" has been consistently of a higher wage level (and, therefore, probably of a higher skill level) than the labor contained in imports from them. Thus, if in the future the trade volume with these countries—and others like them—reaches a much higher level, and if their wages have not by then approached U.S. levels, the case would be easier to make for a notable and significant overall domestic wage effect. Were that day to come, the pressure in the U.S. for overt import protection would likely become much stronger. Until that time, however, the proposal to link labor standards to trade agreements—as an alternative to protection—will probably remain the centrist position between free traders and protectionists.

iii. Privately-Bargained Standards?

There has long been discussion of international collective bargaining as a means of privately enforcing labor standards. Scattered examples can be cited of unions in different countries trying to coordinate their bargaining strategies with a single multinational firm. So-called "international trade secretariats"—loose world federations of unions in the same industries—have sometimes been involved in such coordination attempts. Within the EU, there are also some mechanisms of cross-border union coordination. However, the major barriers of differences in language, labor law, culture, and ideology have proved very difficult for unions to overcome in practice.¹⁴

Perhaps the best illustration of this difficulty can be found in the U.S.-Canada case. Except for Quebec, the two countries share a common language and have labor law systems that are at least related. In some cases, the same unions and companies operate on both sides of the border. Yet, efforts at international coordination of wage bargaining across the U.S.-Canada border have, if anything, been in a decline.

In the case of automobile manufacturing, for example, the United Auto Workers did succeed in a measure of coordination up until 1984. At that point, the Canadian branch of the union split off from its U.S. parent. It has largely gone its own way since the break.

In any event, the notion of coordinating labor standards internationally through private collective bargaining assumes a high degree of unionization across countries. This assumption is clearly not valid in the U.S. where, in the private sector, unions represent only about an eighth of the workforce. Thus, international labor standards, if they are to be achieved, are much more likely to come about through treaties and international agreements than through private bargaining.

iv. The Politics of Trade and Labor Standards

Surprise was expressed in the media that a Republican primary presidential candidate, such as Pat Buchanan, would espouse protectionist views—and would link them to labor standards. But a longer historical perspective reveals that there is nothing surprising in this outcome. Indeed, from the Civil War through World War II, the Republican Party—which was linked in its origins to the manufacturing north—was the party of protection. The Democrats, with a base in the agricultural south, were the party of free trade. Until the post World War II period, northern manufacturers tended to view themselves as import-competing.

¹⁴ Herbert R. Northrup, Duncan C. Campbell, and Betty J. Slowinski, "Multinational Union-Management Consultation in Europe: Resurgence in the 1980s?" *International Labour Review*, vol. 125 (5:1985), pp.

525-543; Ben Sharman, "Obstacles to Effective International Collective Bargaining" in Ward Morehouse, ed., *American Labor in a Changing World Economy* (New York: Praeger, 1978), pp. 205-213.

Only a few American firms operated on a multinational basis and saw a benefit to free trade. The agricultural south in contrast was export-oriented.

Thus, on the eve of the Great Depression, it was a Republican president and Congress which enacted the Smoot-Hawley Tariff to protect declining American jobs. And it was a Democratic president and Congress which adopted the principle of reciprocal tariff reduction negotiations during the New Deal. This principle was retained after World War II and ultimately became part of the world trade regime. Reciprocal tariff and trade barrier reductions became the guiding force behind the major Kennedy Round, Tokyo Round, and Uruguay Round of trade barrier reductions.

In the postwar period, the geographic bases of the two parties began to shift. Business interests became more multinational in scope, changing the policy outlook of many Republicans. At the same time, labor unions—which are inherently nationally based—and which have been connected to the Democratic Party since the 1930s, saw themselves as threatened by imports.

The result is that there are now voices in both parties favoring protectionism and other voices favoring freer trade. And a byproduct of this confusion is that labor standards can be seen as a compromise position when trade issues arise. Trade should be free, but also “fair.” Countries should compete based on their comparative advantages, but should also avoid a “race to the bottom” in establishing working conditions. It is these sorts of countervailing pressures and positions that produced the previously-cited legislation linking trade and labor standards in the 1980s. The same mix of pressures also led to the labor side accord attached to NAFTA in the 1990s.

IV. THE NAFTA EXPERIENCE

Under the NAFTA side accord general objectives are set forth. These include “improving working conditions and living standards in each Party’s territory” and “promot(ing) compliance with, and effective enforcement by each Party, of its labor law.” Each of the trade partners agreed to establish a National Administrative Office (NAO) to deal with complaints about non-compliance with labor obligations. Given these agreements and mechanisms, the subsequent experience under NAFTA provides some indication of how a wider trade regime might deal with labor standards issues.

With China entering the world market economy in an important way, and Mexico as an important U.S. trade partner, there will continue to be concerns about the impact of trade on American income distribution.

At the time the side accord was signed, it was widely assumed that most complaints would be raised against the low-wage partner, Mexico. The fear was that low Mexican standards would drag down those prevailing in the U.S. and Canada, absent a supplemental agreement. However, it was not necessarily the case that Mexican standards were always below those of its two NAFTA partners. For example, employers in Mexico are required by law to offer profit sharing; those in the U.S. and Canada are not.

It is true, however, that much of the activity under the labor side accord has involved complaints about Mexican practices, complaints often made by U.S.-based unions. For example, the Teamsters and the United Electrical Workers

brought charges against Mexican subsidiaries of Honeywell and G.E. These firms were alleged to have denied workers the right to join an independent union not linked to the semi-official labor federation. The NAO, however, was unable to conclude that Mexican labor laws were not being properly enforced in those cases. Complaints have also been made against union practices at Sony in Mexico and against the Mexican government itself with regard to its civil servants.

But not all the investigative activity has been directed at Mexico. In one highly-publicized case, a firm in the U.S.—the telephone carrier Sprint—was the target of a complaint from Mexico. Sprint had closed a Spanish-language telephone service in California, leading to complaints that the shutdown was a response to a union organizing drive by the Communications Workers.

An administrative law judge at the National Labor Relations Board (NLRB) found that the Sprint closure was based on economic considerations rather than illegal anti-union animus. Nonetheless, a complaint was brought by a Mexican telephone union operating in concert with the Communications Workers. The complaint led to public hearings by the NAO concerning the Mexican allegation that the U.S. was not properly enforcing its own labor laws. These hearings by themselves did not resolve the Sprint labor dispute. But they did point to the fact that NAFTA's side accord has created a new channel for airing labor disputes.

Since it resulted in a challenge to American collective bargaining regulation, the Sprint case has implications for the larger issue of linking trade and labor standards. The idea of, say, the WTO challenging decisions of the NLRB or U.S. courts on domestic labor relations matters would almost certainly encounter strong resistance in Congress. Thus, Congress might be reluctant to support a world collective bargaining labor standard which raised this possibility.

V. LABOR STANDARDS AND THE EU

Just as North America has had some experience with labor standards in an international trade agreement, so, too, have the EU countries. Although the EU is today more than just a trade agreement, it had its origins in a customs union of six Western European nations in the late 1950s. Generally, Western European countries have had more elaborate social welfare arrangements and labor-market regulation than the U.S. Thus, it is not surprising that such arrangements would spread into the larger EU.

In the early 1970s, the European Economic Community (as the EU was then known) created a "social action plan" as part of its community-wide institutions. But when further integration of the economies of the member countries was being planned in the 1980s and early 1990s—the so-called "Europe 1992" initiative—a more extensive "Social Charter" was created. The Charter covers such areas as protection of temporary workers, equal treatment of the sexes in the workplace, occupational safety and health, and bans and limits on child labor. Still other extensions of the Charter are under consideration.

The impetus behind this heightened activity has been the widening of EU membership to include countries with relatively low wages, such as Greece and Portugal. Also looming as a possibility is the eventual extension of EU membership to some formerly-communist countries in Eastern Europe. Fears have arisen in the high-wage core countries of the EU that "social dumping" could occur, with their labor standards falling to the lower levels of the new members.¹⁵ Although there is

¹⁵ Christopher L. Erickson and Sarosh Kuruvilla, "Labor Costs and the Social Dumping Debate in the European Union," *Industrial and Labor Relations Review*,

vol. 48 (October 1994), pp. 28-47. See also Robert J. Flanagan, "European Wage Equalization Since the Treaty of Rome" in Lloyd Ulman, Barry Eichengreen,

no evidence of such a slide as yet, incorporating labor standards into the institutions of the EU has quieted these concerns. And it is interesting to note that some Eastern European countries, anxious to affiliate with the EU, have adopted EU-compatible labor codes to make themselves more attractive.

However, as in the case of NAFTA, adoption of labor standards can mean that domestic laws and practices will come under international scrutiny. Britain, for example, has seen elements of its private pension system—which had originally allowed different retirement ages for men and women—overturned on sex discrimination grounds by the European Court of Justice.¹⁶ More such decisions and outcomes are likely in the future within the EU. However, as in the NAFTA case, the labor standards provisions applicable in the EU go beyond what would likely emerge should labor standards be added to the worldwide trading regime under the WTO.

VI. WHAT TO DO?

From the viewpoint of economists strongly in favor of free trade, adding a labor standards component to existing or new trade agreements is unambiguously a Bad Thing. It could lead to disguised protectionism. It could hinder the growth of developing countries. And, if it were added to the menu of provisions the overstrained WTO bureaucracy must already oversee, it could overtax an important international institution with limited resources at its disposal. At most, if a political compromise is required, those holding such views argue labor standards should be left to the ILO, with its long expertise in the area.

But there are problems with this purist approach. *First*, it has not been conclusively established that trade has no adverse impact on domestic labor, or—if it does—what the magnitude is. As noted above, economic theory in fact suggests an adverse impact on unskilled labor in high-wage countries could occur. With China entering the world market economy in an important way, and Mexico as an important U.S. trade partner, there will continue to be concerns about the impact of trade on American income distribution. (And similar concerns will continue to be raised within the high-wage countries of the EU.) The reality is that the trade and labor issue will not just quietly die. If anything, it will become a more lively debate.

Second, the kind of labor standards generally considered for the trade regime are unlikely to deprive developing countries of their comparative advantage. The issue is not a global minimum wage. Rather, it is one of limits on child and forced labor, and some—probably vague—statement about worker freedom of association and bargaining rights. Economic development will not be stymied by such standards.¹⁷

Third, the proposal to leave labor standards to the ILO is disingenuous.

Although the ILO does have long-standing expertise in labor matters, it has no enforcement power. Leaving it to the ILO is a transparent proposal to do nothing at all. Since the proposal is so transparent, it will probably not alleviate concerns in high-wage countries about the impact of trade on labor.

(Footnote Continued)

and William T. Dickens, eds., *Labor and an Integrated Europe* (Washington: Brookings, 1993), pp. 167-187.

¹⁶ Daniel J.B. Mitchell and Jacques Rojot, "Employee Benefits in the Single Market" in Lloyd Ulman, Barry Eichengreen, and William T. Dickens, eds., *Labor and*

an Integrated Europe (Washington: Brookings, 1993), pp. 129-131.

¹⁷ However, some do suggest that imposing an Anglo-American style of adversarial bargaining on certain cultures could have an adverse effect on productivity.

But the ILO could play a key role in enforcing an explicit labor standards component of the world trade regime, in conjunction with the WTO. Basically, complaints about violations of labor standards should first be referred to the ILO for investigation. As is the case now, the ILO could offer technical assistance to countries which face complaints and wish to bring their labor standards to appropriate levels. Only if an investigation revealed violations which a country then refused to address, would the matter be referred to the WTO. It is unlikely that more than a handful of cases would ever reach this stage. Such an approach may not appeal to purists, but as a compromise it might be attractive to those pragmatists in the business community involved in trade and to developing countries pinning their hopes on access to export markets.

Of course, proposing a mechanism for enforcement is not the same as proposing specific labor standards. At this stage, it would be best to propose criteria for negotiating such standards rather than the standards themselves. Peter Dorman has proposed three such criteria: 1) transparency (a clear reason for the standard), 2) flexibility (respect for local culture and stage of development), and 3) reciprocity (rewards of market access in exchange for adopting appropriate standards).¹⁸ With such an approach, concerns about hidden protectionism in high-wage countries and retarding economic growth in low-wage countries should be alleviated.

¹⁸ Peter Dorman, "Policies to Promote International Labor Standards: An Analytical Review," unpublished

report to U.S. Bureau of International Labor Affairs, May 1995, p. 64.

Table 1: HOURLY COMPENSATION OF PRODUCTION WORKERS IN MANUFACTURING: U.S. DOLLARS

(U.S. WAGE = 100%)

Country	1960	1970	1975	1980	1985	1990	1995
U.S.	100	100	100	100	100	100	100
Canada	80	83	94	88	84	106	93
Japan	10	24	47	56	49	86	138
Belgium	31	49	101	133	69	129	156
France	31	41	71	91	58	102	112
Germany (W.)	32	56	100	125	74	147	160
Italy	23	42	73	83	59	119	96
Netherlands	26	51	103	122	67	123	141
Sweden	45	70	113	127	74	140	124
U.K.	32	36	53	77	48	85	80
Korea (S.)	-	-	5	10	9	25	43
Hong Kong	-	-	12	15	13	21	28
Taiwan	-	-	6	10	12	26	34
Singapore	-	-	13	15	19	25	42
Mexico	-	-	23	22	12	11	9

Note: Compensation includes wages, benefits, and payroll taxes.

- = not available

Source: Daniel J.B. Mitchell, "International Convergence with U.S. Wage Levels" in Barbara D. Dennis, ed., *Proceedings of the Thirty-Sixth Annual Meeting*, Industrial Relations Research Association, December 28-30, 1983 (Madison, Wisc.: IRRA, 1994), p. 249; U.S. Bureau of Labor Statistics, *International Comparisons of Hourly Compensation Costs for Production Workers in Manufacturing, 1975-1995*, supplementary tables for BLS report 909 (Washington: BLS, 1996).

Table 2: Chinese and U.S. Wages: U.S. Dollars

	Chinese Monthly Wage Converted to U.S. Dollars*	Average Weekly Earnings in U.S. Multiplied by 4**	Ratio: Chinese Wage/ U.S. Wage (%)
1980	\$42.38	\$940.40	4.5%
1985	\$31.27	\$299.09	2.6%
1990	\$37.91	\$1381.40	2.7%
1991	\$37.24	\$1415.92	2.6%
1992	\$40.93	\$1454.44	2.8%
1993	\$48.82	\$1494.56	3.3%
1994	\$44.68	\$1544.84	2.9%

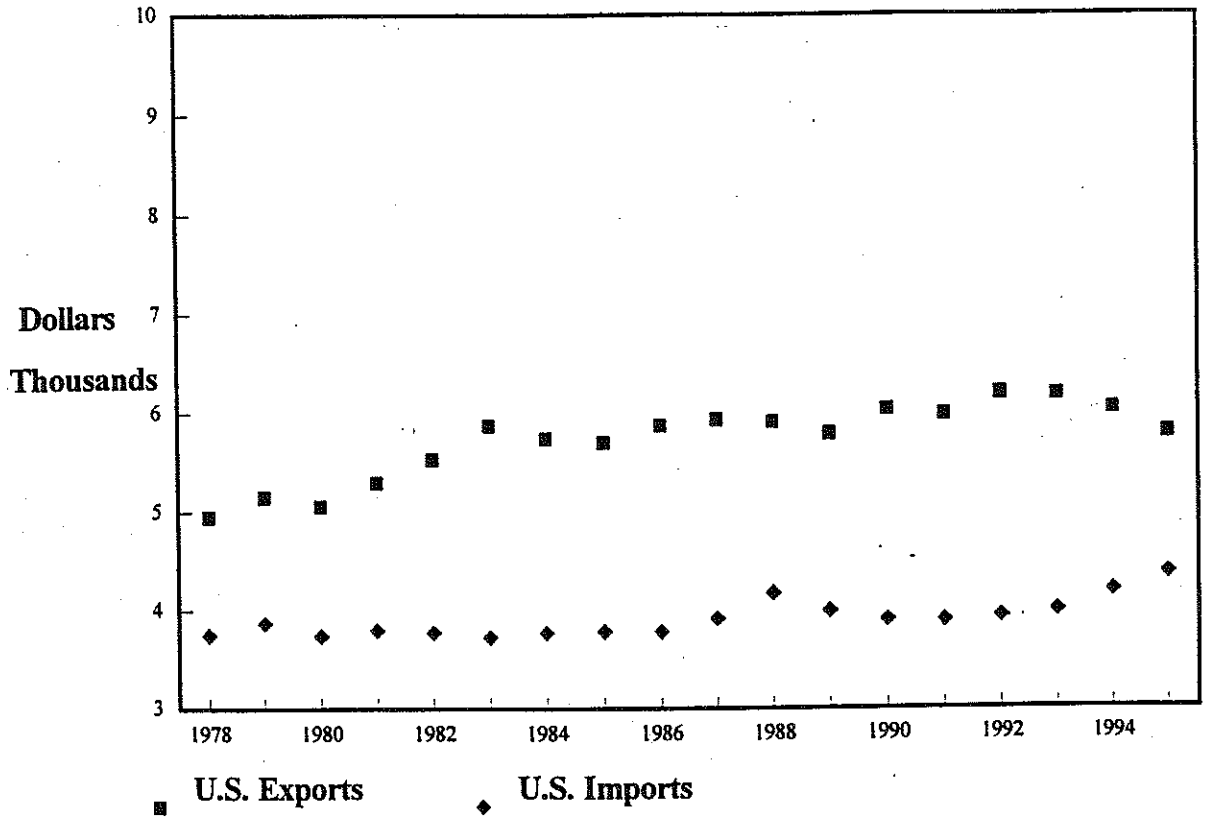
* Data refer to all industries, socialized sector and exclude nonwage benefits. Two exchange rates were used in 1985. At the alternate rate, the ratio of Chinese to U.S. wages would be slightly higher.

** Data refer to private sector production and nonsupervisory workers. Nonwage benefits and payroll taxes are excluded.

Source: International Labour Office, *Year Book of Labour Statistics*, various issues; *International Monetary Fund*, *International Financial Statistics*, various issues; U.S. Bureau of Labor Statistics.

Figure 1

Capital Usage/Full-Time Equivalent Employee: "Five Tigers"

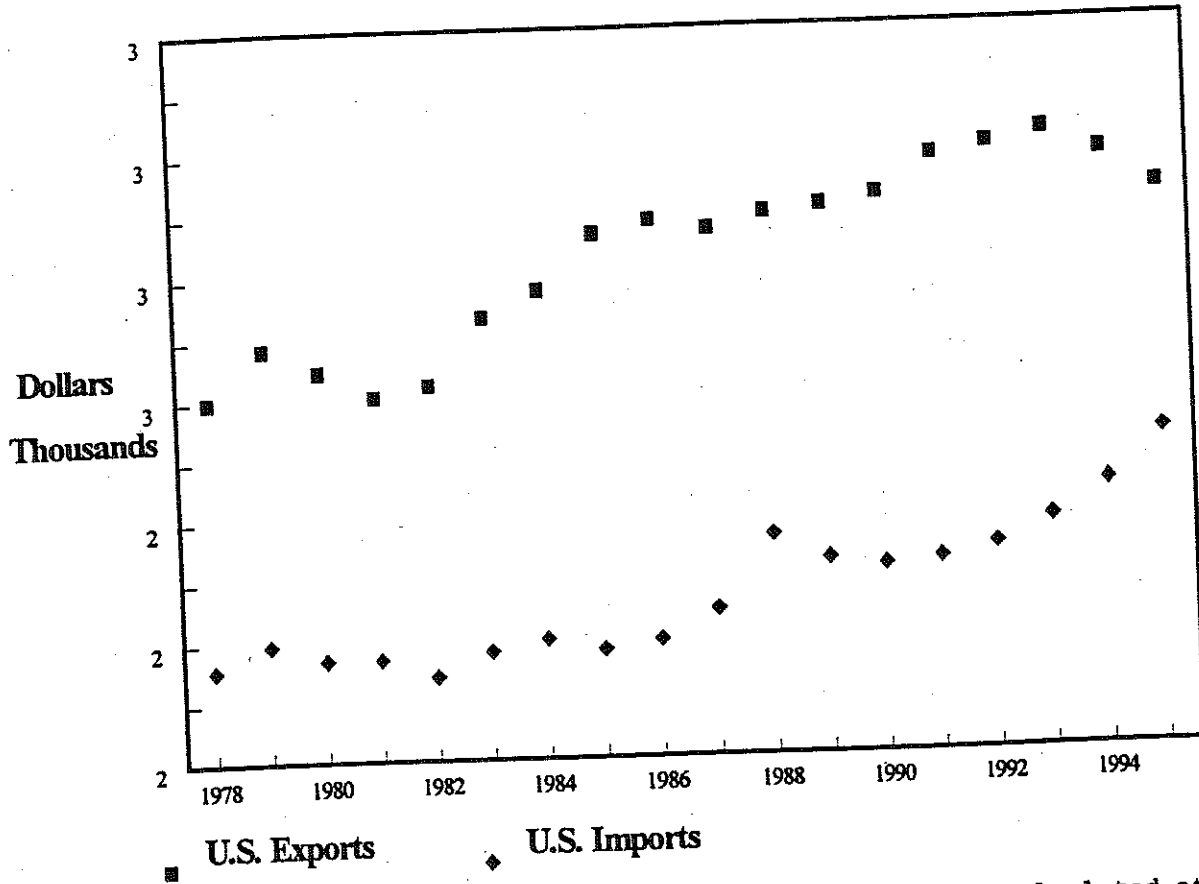


Note: Based on 1987 rates of capital and labor usage.

Source: Data drawn from national income accounts. See text for details.

Figure 2

Compensation/Full-Time Equivalent Employee: "Five Tigers"



Note: Compensation includes wages, benefits, and payroll taxes calculated at 1987 rates of pay.

Source: Data drawn from national income accounts. See text for details.