

Social Dimensions of U.S. Trade Policies

Alan V. Deardorff and Robert M. Stern, *Editors*

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Ann Arbor

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Preface

This book contains the papers and discussants' comments prepared for a conference on the "Social Dimensions of U.S. Trade Policies," which was held on April 16-17, 1998 at the U.S. Library of Congress in Washington, D.C. [Each of the papers was revised subsequent to the conference to take into account the comments of discussants, conference participants, external reviewers, and the editors.] The discussants' comments are based on the conference versions of the papers and thus have not been altered to reflect the changes that authors made in their papers.

The impetus for the conference was provided by a grant received from the Ford Foundation to study the role of interest groups in U.S. trade policies. We are grateful to the Foundation for its support and to Seamus O'Cleireacain and Bernard Wasow for their encouragement of our research and policy outreach program. The conference was co-sponsored by the Congressional Research Service (CRS) of the U.S. Library of Congress. Arlene Wilson of the CRS was instrumental in arranging this collaboration and for overseeing the organization and implementation of the conference.

We also wish to thank Judith Jackson for her superb assistance in helping to organize the conference and especially for editing and preparing the manuscript for publication.

Alan V. Deardorff
Robert M. Stern

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CHAPTER 1

Introduction and Overview

Alan V. Deardorff and Robert M. Stern

I. Introduction

This volume contains the papers and comments that were commissioned for a conference on the "Social Dimensions of U.S. Trade Policies," which was held at the U.S. Library of Congress in Washington, D.C. on April 16–17, 1998. This conference was part of a program of policy outreach activities supported by a grant from the Ford Foundation to the University of Michigan School of Public Policy to study the role of interest groups in U.S. trade policies. Previous activities included a conference on "Constituent Interests in U.S. Trade Policies," held in Ann Arbor in November 1996. The proceedings of this November 1996 conference were published by the University of Michigan Press in 1998 (see Deardorff and Stern, 1998). We also had a one-day workshop on "U.S. Trade Policies and the Public Interest," in Ann Arbor in November 1997.

Our Washington conference provided an opportunity to address the salient issues of the social dimensions of U.S. trade policies in a setting on Capitol Hill where we were able to attract a number of Congressional staff as well as representatives from the broader trade policy community comprising staff from a number of Executive Branch agencies, international organizations, think tanks, public interest organizations, and universities. All of the papers were made available in advance to conference participants in hard copy and to a wider audience via the web site of our University of Michigan Research Seminar in International Economics. This helped considerably to focus the discussion and comments in each of the sessions.

The conference papers were revised following the conference to take into account the discussants' comments as well as points raised during the floor discussion. It was decided to include the discussants' comments as they were originally prepared based on the conference versions of the papers, in order to capture the concerns and criticisms raised in the conference sessions. The panelist remarks are also based on the conference versions. We trust that readers

will find the comments and panelist remarks interesting and informative in their own right and useful supplements to the individual papers.

To assist the reader in determining which chapters may be of greatest interest, we provide brief summaries in Section II that follows. Then, in Section III, we reflect on what we have learned from the papers and commentaries about the social dimensions of U.S. trade policies and offer our suggestions on a number of issues that merit further exploration.

II. Overview

In **Chapter 2, Foreigners and Robots: Assistants of Some, Competitors of Others**, Edward E. Leamer notes that over the last three decades, unskilled workers in the United States and Europe have been experiencing stagnating or declining real wages and higher rates of unemployment. This has stimulated an intense academic debate in the United States that has focused on two potential drivers: skill-biased technological change associated with the computer revolution and the economic liberalizations in the third world that have greatly increased the effective global supply of unskilled workers with no commensurate increase in physical or human capital. His chapter reviews the theory and evidence, particularly regarding the role of trade.

It is apparent that there exist differences in wages at different points on the globe. Arbitrage might be expected to eliminate these differences, which suggests a fundamental question. If it is inward-looking isolationist government policies that have historically prevented arbitrage from eliminating geographic wage differences for equivalent workers, what will happen now that these barriers are being torn down? To answer this question we ought to use a clear conceptual framework. A one-cone fully diversified Heckscher-Ohlin (HO) model has been the implicit or explicit foundation for most of the data analysis regarding trade and wages. An HO diversified equilibrium has wages set completely by external competitiveness conditions, but the HO model also allows specialized equilibria in which the internal margin affects wage rates. Specialization is one way to limit international labor arbitrage and leave substantial wage differences among countries. Another isolating force is distance. Leamer discusses both distance effects and specialization effects.

Both the diversified and the specialized HO models suggest looking at relative prices to determine the impact of *globalization* on the world's labor market. The Stolper-Samuelson Theorem implied by the one-cone fully diversified HO model maps product prices into wage rates. This theorem has served as a theoretical foundation for several studies of the prices of tradables. At least one of these studies argues that there were significant price declines of labor-intensive tradables in the 1970s. But the relative price of labor-intensive tradables stabilized in the 1980s when most of the rise in U.S. inequality occurred. To argue that the 1980s rise in inequality is driven by trade forces us to look at mechanisms not captured by HO models. There are many other ways

that trade could matter, the most promising of which may be threat effects or *contestability*.

Lawrence Mishel notes in his comment that Leamer's paper is a corrective to the writings and views of most trade economists and policy makers that globalization and its trade consequences have a minimal impact on wages and income distribution. But he takes issue with Leamer about how bad U.S. schools are and notes that there has been a deterioration of wages for high school graduates irrespective of the alleged decline in school quality. Mishel also questions the impact of changes in technology on wage inequality, citing evidence from the 1990s that is contrary to the experiences of the 1980s that Leamer considers. To help explain wage inequality, Mishel cites especially the erosion of the U.S. minimum wage and the erosion of union power as well as the redistribution of income from wages to capital as important factors. He suggests that Leamer's conception of the policy options available to deal with wage inequality needs to be broadened to make allowance for the variety of social safety net and wage-shaping policies that the U.S. and other governments pursue. Furthermore, he is critical of the claim that U.S. productivity levels exceed those in Europe, and he questions whether "more education" is a sufficient policy option in its own right. He takes issue, finally, with claims of high tech firms that there is a shortage of technology workers in the United States.

Also commenting on Leamer's paper, T. N. Srinivasan notes that it offers a varying set of conclusions derived from different highly stylized models. But it does not provide what Leamer once characterized as "good empirical estimates of the relative effects of technological change, globalization and education on the U.S. labor markets." Instead it offers a variety of conclusions based on a variety of models, with the connections between conclusions and models not always clearly identified. For example, some models suggest that a fall in the relative price of labor-intensive goods arising from increasing import competition from labor-abundant developing countries need not result in a fall in the relative wage of unskilled labor in skilled-labor abundant developed countries. Nor is it the case competition in world markets for, say, apparel by developed and developing countries necessarily implies that the wages of unskilled labor have to be the same in both. Attention is drawn to some recent theoretical and empirical works that arrive at conclusions different from Leamer's on the role of innovation and the use of computer-based technology in explaining trends in the relative wages of U.S. unskilled labor.

In Chapter 3, **Economic Research and the Debate Over Immigration Policy**, George J. Borjas notes that in the next few years, the debate over immigration policy will begin to stress the character and consequences of *legal* immigration. Although economic factors alone will not decide the outcome of this debate, economics has often set the questions that frame the immigration debate: Who benefits? Who loses?

The existing research establishes a number of stylized facts:

- The relative skills of successive immigrant waves declined over much of the postwar period. In 1970, for example, the latest immigrant arrivals had .4 fewer years of schooling and earned 17 percent less than natives. By 1990, the most recently arrived immigrants had 1.3 fewer years of schooling and earned 32 percent less than natives.
- Because the newest immigrant waves start out with such an economic disadvantage and because the rate of economic assimilation is not very rapid, the earnings of the newest arrivals will probably not reach parity with the earnings of natives.
- The large-scale immigration of less-skilled workers had an adverse impact on the economic opportunities of less-skilled natives. Immigration may account for almost one half of the recent decline in the relative wage of high school dropouts. The new immigrants have higher rates of welfare reciprocity than earlier immigrants, as well as higher rates of reciprocity than natives.
- The net gains from immigration are relatively small, on the order of .1 percent of GDP per year.

Borjas investigates the implications of these facts for immigration policy. He argues that every immigration policy must resolve two distinct issues: First, how many immigrants should the country admit? Second, which types of persons should be awarded the scarce entry visas? Before these issues can be solved, however, we have to ask ourselves: What does the United States want to accomplish with its immigration policy? In other words, what is the nation's objective function?

In the conclusion, Borjas stresses that if the social welfare function places a heavier emphasis on the well being of the U.S. native-born population, the "optimal" immigration policy would probably lead to a smaller immigrant flow, as well as a mix of immigrants more heavily weighted towards skilled workers.

In his comment, Jack Otero is in agreement with the main points made by Borjas, especially with regard to the importance of economic factors that condition the national debate on immigration. Otero notes that there is an apparent lull in this debate because of favorable economic conditions, but a variety of events could occur that might rekindle the debate. He calls attention to the special role that Hispanics play in the California economy especially and to their potential vulnerability as they are singled out in anti-immigrant political campaigns. He is also critical of the use of non-immigrant H-1 Bond D-1 visa programs designed to permit employers to bring in workers with specialized skills that may serve to undercut the employment and earnings of U.S. workers.

Jagdish Bhagwati, in his comment, disputes most of Borjas's claims on the effects of immigration and nearly all of his recommendations in regard to U.S. immigration policy. Bhagwati's differences arise on several issues: (1) Borjas's reliance on partial equilibrium rather than general equilibrium tools of

analysis; (2) a range of theoretical and policy issues that have been considered by others in recent decades but are absent from Borjas's analysis; (3) Borjas's failure to consider ethical and sociological factors in his analysis; (4) Borjas's cautious and skeptical view of immigration; and (5) Borjas's view that U.S. policy should favor skilled over unskilled immigrants.

In **Chapter 4, U.S. Trade Adjustment Assistance Policies for Workers**, Gregory Schoepfle notes that since the early 1960s, the U.S. Department of Labor has maintained a variety of programs to assist displaced workers—those with some labor market attachment who lose their jobs and are unlikely to be recalled—in finding new employment. In the case of those adversely affected by expanded international trade, special trade adjustment assistance programs have been established to meet their needs. Qualified dislocated workers are provided job search assistance, job counseling, retraining, and other supportive services to assist them in finding suitable jobs. Recipients may also receive income support while in training. The intervention of government in the process of worker adjustments, both to international trade and to other changes in government policies, has been based on several underlying motivations. These have included equity notions of compensating those injured by governmental policies undertaken in the national interest, improved labor market efficiency, and political efficacy in the pursuit of further liberalizations of international trade and investment policies.

The Trade Adjustment Assistance (TAA) program for workers displaced by U.S. imports was first introduced as part of the Trade Expansion Act of 1962. However, the requirement to establish a direct link between specific trade liberalizations and a worker's dislocation resulted in few worker groups applying for assistance and even fewer being certified as eligible for benefits under the program. In 1974 legislation authorizing U.S. participation in the Tokyo Round of multilateral trade negotiations, TAA eligibility criteria and benefits were substantially streamlined and liberalized. Worker groups could now qualify for assistance if an increase in imports "contributed importantly" to their dislocation, i.e., increased imports—not necessarily linked to a specific trade liberalization—were an important cause but not necessarily more important than any other cause. With less stringent program requirements and procedures, TAA worker certifications began to increase rapidly. During the 1975–79 period, the permanently displaced were a fairly small portion of TAA recipients and the program provided mainly income support to workers on short-term layoff who eventually returned to work with their previous employer. As a result, few certified workers took advantage of the program's retraining opportunities. Major changes were introduced to the TAA program in 1981 and the number of TAA petitions submitted and approved declined when income support benefits were reduced to the level of weekly unemployment insurance payments and were only available after exhaustion of regular unemployment benefits, making TAA a program of extended unemployment insurance with training. As conditions changed in the 1980s and trade-induced layoffs became more long-term and permanent, the assistance that was provided

shifted more to a mix of income support and the provision of training and other reemployment services. Since in many cases reemployment meant finding a job in another industry or profession, training was emphasized and eventually required in 1988 for certified workers to receive extended income support.

To address workers' concerns about further North American economic integration under the North American Free Trade Agreement (NAFTA), a special trade adjustment assistance program was introduced as part of the NAFTA implementing legislation in 1993. This NAFTA-Transitional Adjustment Assistance (NAFTA-TAA) program provides early and rapid response by state units as well as the opportunity to engage in long-term training while receiving income support. Assistance is available not only to those directly affected by import increases from Mexico or Canada, but also to those affected by a shift in production to Mexico or Canada. In addition, assistance is available for secondarily affected workers in plants that provide materials to or process further the products produced by a directly affected firm.

While the benefits available to certified workers under the TAA and NAFTA-TAA programs are similar, program certification criteria and procedures differ slightly. The Clinton Administration is considering measures to expedite the application and certification process and to improve the timing and delivery of assistance and services. Proposals have also been made to extend TAA eligibility to those affected by a shift in production to another country and to secondarily affected workers.

While trade-related worker dislocations may account for a small portion of all long-tenured dislocated workers in the U.S. economy, they may represent a significant portion in some manufacturing industries, and reemployment for some of these workers in the industry of their last employment may be more difficult than for other displaced workers seeking reemployment. For these workers, the income support payments and other adjustment assistance services (such as training, job search, and relocation allowances) may be vital in securing their reemployment.

Over the last quarter century, questions have been raised about the appropriateness, adequacy, and utilization of the TAA programs. Evaluations of the TAA program have provided mixed results on the usefulness of training, with some observing that provision of job search services may be more effective than training. Others have proposed additional modifications such as some form of wage insurance program to allay fears of displacement due to further globalization. What emerges from the popular debate and workers' concerns about globalization is a clear message to policymakers that they must take account of transitional adjustment costs and distributional issues (a more equitable distribution of the gains from trade and investment) in designing policies aimed at easing adjustments to changing economic circumstances brought on by globalization if they expect to garner popular support for further trade liberalization.

In his comment on Schoepfle's paper, Steve Beckman notes that UAW members have been important "consumers" of the Trade Adjustment Assistance program. That experience has led to the UAW suing the Labor Department numerous times over various aspects of the TAA process, including certification and regulatory interpretations. This indicates the contentiousness of the program, and its inadequacy in the eyes of those it is intended to benefit. Too few workers are certified for benefits due to the excessively narrow certification criteria. "Secondary workers," those making parts for products that are displaced by imports, remain outside coverage of the program despite the obvious connection between increased imports and their job losses. The reality of training opportunities often fails to live up to its promise. There are not enough effective training options available in the areas where workers have been laid off. The tight rules for the training requirement of the NAFTA-TAA program are a serious impediment to qualifying for benefits under that program.

While laudatory of Schoepfle's survey of the motives and programs for U.S. worker adjustment assistance and the special adjustment program under the NAFTA in his comment, J. David Richardson identifies a variety of recent studies that are especially deserving of attention and that are not covered by Schoepfle. These include analysis of job-mobility and earnings-insurance policies, studies of the effectiveness of different policies, equity issues, and how trade adjustment assistance programs actually impact workers. These new avenues of research, Richardson notes, suggest ways in which labor adjustment programs can be redesigned and improved in effectiveness.

In **Chapter 5**, John Kirton addresses the question, **Has Trade Strengthened or Weakened U.S. and Foreign Environmental Quality? The NAFTA Experience**. He notes that the experience of the United States under NAFTA shows that trade liberalization has a weak but positive effect on environmental quality, both in the United States and its partner countries of Mexico and Canada. An analysis of NAFTA trade liberalization that emphasizes the role of foreign direct investment, of the intervening processes of production, infrastructure, social organization and government policy in specific sectors, and of NAFTA's intergovernmental institutions demonstrates isolated instances of increased ecological pressure, but several channels and areas of environmental advance.

Consistent with recent findings about the environmental impact of trade liberalization in general, NAFTA-associated trade and foreign direct investment, through an intensification of comparative advantage and technology transfer, are fostering general region- and economy-wide positive environmental effects. Post-NAFTA trade is not concentrating in environmentally-intensive sectors, but in environmentally-friendly intermediate goods and service sectors, while NAFTA is not adding to the environmental burdens of the maquiladoras. NAFTA-induced FDI shows no migration to pollution havens or general tendency to concentrate in geographically stressed areas, but has encouraged environmentally-enhancing technology transfer, investment,

subsidies and voluntary standardization among regionally integrated firms and industries.

Studies of how NAFTA-associated trade and investment flows interact with processes of production, management and technology, physical infrastructure, social organization and government policy in key sectors suggest generally favorable environmental impacts in the automotive and cattle-feedlotting industries, with outcomes in the electricity sector critically dependent upon national policy choices yet to be made.

Among the 50 trilateral intergovernmental institutions created or catalyzed by the core NAFTA (trade) agreement, those with the most direct environmental responsibility have had a mixed record in fostering a regular, balanced, trilateral communication, capacity building, high level regulatory convergence, and regional co-operation in multilateral forums and dispute management. The successful performance of bodies dealing with chemicals, in contrast to the poor performance of those in the automotive field and the mixed performance of those in agriculture, can be explained by the presence of visible ecological intervulnerability, a multilateral nest, government insulation from societal pressures, a functional need to harmonize in order to reap trade gains, low cost to powerful industries, MNC support, and the regional export interests of U.S. industry.

On balance, the record suggests that NAFTA's dedicated environmental organization, the Commission for Environmental Co-operation (CEC), has autonomously engendered balanced environmental co-operation and improvement amidst the trade liberalization brought by NAFTA. However, it has done little to foster trade-environment equality and integration, and it is currently in danger of being rendered less effective.

In his comment on Kirton's paper, David van Hoogstraten agrees with most of Kirton's conclusions, although it is still relatively early to draw conclusions concerning the effects of NAFTA. Also, he notes that more documentation is needed in a number of places in the paper, particularly on the key issue of enforcement of environmental regulations and the lack of adequate resources in Mexico to achieve effective enforcement. In general, van Hoogstraten views the NAFTA as an environmentally activist document, which is an objective sought by the U.S. negotiators. While it may be said that the NAFTA has had a weak positive impact on the environment, there is concern about population pressures on the Mexican side of the border and resulting stress on the delicate and diverse ecosystem. Finally, van Hoogstraten approves of the role of the NAFTA Committee on Environmental Cooperation (CEC) in publicizing information on environmental issues, and he urges that more attention be paid to these issues in the broader hemispheric context.

Also commenting on Kirton's paper, Alan Deardorff notes the importance of Kirton's conclusion that the NAFTA has not brought any significant environmental degradation and that the institutions created by the NAFTA have on the whole worked well to date. Aside from some questions about Kirton's terminology and the interpretation of his sectoral analysis of trade, Deardorff

notes that some ex post analysis would have been useful to learn the mechanisms by which the NAFTA has affected the environment. That is, did the cleaner industries in Mexico tend to expand? Can it be established that techniques of production used in Mexico have become more friendly to the environment? How important was the peso crisis and subsequent decline in Mexican income and employment for the environment? Has the NAFTA in fact fostered a "race to the top" as Kirton suggests, and if so how? Deardorff offers some suggestions to explain why a race to the top may be occurring, but concludes that more information is needed to establish the facts and interpretations.

In **Chapter 6, The Role of Labor Standards in U.S. Trade Policies**, Gary S. Fields makes the following principal points:

- Absent an agreement on international labor standards, a stalemate is quite possible. On the one hand, it might not be possible to push trade liberalization forward, as most in the trade community want. On the other hand, the current world trading environment will not be rolled back, as some in the labor movement want.
- The international labor community has now coalesced around a set of "core labor standards" that deal with freedom of association and the right to organize and bargain collectively, forced or compulsory labor, equal remuneration for men and women, and non-discrimination in employment, and child labor. Minimum wages, maximum hours of work, and fixing other conditions of employment are *not* being called for at the present time. It would be well for those in the trade community to know what is and is not on labor's agenda. If these core labor standards or ones like them were to be linked to international trade, opposition to trade agreements might be overcome, helping international trade.
- The alternative to "core labor standards" would be a set of "international labor rights," defined by the criterion that it would be better to have no production at all than to have production using such "illegitimate means." Although such discussions are not prominent in international debate at the present time, they deserve discussion in the future.
- Wages, employment conditions, and other social benefits have improved dramatically for workers living in countries that have achieved rapid export-led economic growth. Of course, problems remain, which is precisely why those who have an interest in workers overseas seek to harness the strengths of both trade and labor standards to improve conditions for these groups.
- Although freer trade might be good on the whole for the United States, it is not good for all workers in the United States. The small number of people who are hurt a lot by freer trade have every reason to be much more vociferous in expressing their opposition to freer trade than are the large numbers who benefit relatively a little. Policies can be enacted that will mollify the opposition, and they deserve serious consideration. Absent

such measures, the agenda of the trade community is seriously jeopardized.

In his comment on Fields's paper, Pharis Harvey is critical of relying on market mechanisms alone to deal with poverty, child labor, and other problems of poor countries. He also notes that the emphasis on trade expansion via Fast Track in the United States needs to take labor's interests explicitly into account. Harvey maintains that there exists a much broader consensus on what constitutes core labor standards than Fields implies. He is critical of Fields's suggestion that certain labor rights be dropped from consideration on the grounds that the enforcement would be impractical. He suggests instead trying to determine whether enforcements and punishments can be devised that would help to improve compliance with labor rights. Finally, he is critical of Fields's reliance on economic growth as the primary vehicle for improving labor rights in the absence of explicit policies that are designed to improve labor rights. In this connection, Harvey's interpretation of the Korean growth experience is quite different from what Fields maintains has led to increased real wages and per capita incomes.

Dani Rodrik in his comment notes and provides empirical evidence suggesting that, while workers' earnings are determined by productivity, labor standards and civil liberties matter as well. He notes further the need to be clear whether the policy objective is to help workers abroad or instead to help domestic workers whose earnings might be impacted by low foreign labor standards. Under some conditions, he argues that gross violation of core worker rights abroad might be grounds for protecting the interests of domestic workers. Finally, he suggests that more attention be given to designing the best set of policy instruments for helping foreign or domestic workers.

In **Chapter 7, The Simple Economics of Labor Standards and the GATT**, Kyle Bagwell and Robert W. Staiger ask: how should the issue of domestic labor standards be handled in the GATT/WTO? This question is part of a broader debate over the appropriate scope of international economic institutions such as the GATT (and now its successor, the WTO). Member countries are considering proposals for a new round of negotiations that would move beyond GATT's existing focus on trade barriers and cover "domestic" issues such as labor and environmental standards and regulatory reform which have traditionally been treated with "benign neglect" within GATT. Such proposals encroach on traditional limits of national sovereignty, and they raise fundamental challenges to the existing structure of international economic relations among sovereign states.

Bagwell and Staiger consider in their chapter several approaches to the treatment of domestic labor standards within a trade agreement. They use simple economic arguments to show that, while the benign neglect of labor standards within a trade agreement will result in inefficient choices for both trade barriers and labor standards, direct negotiations over labor standards are *not* required to reach efficient outcomes. Specifically, they describe two tariff negotiating structures that deliver efficient outcomes while preserving varying

degrees of national sovereignty over policy choices. A first approach combines tariff negotiations with subsequent *Kemp-Wan adjustments*, under which each government is free to alter unilaterally its policy mix so long as trade volumes are not affected. A second approach adds to the first approach GATT's rule of *reciprocity*, under which subsequent to tariff negotiations each government is free to alter its tariff unilaterally, but its trading partner is then free to reciprocate with a tariff response that stabilizes export prices. They show that both approaches will deliver governments to the efficiency frontier, but that the second approach provides governments with greater sovereignty over their policy choices and bears a strong resemblance to the negotiating procedures spelled out in GATT.

In his comment on the Bagwell-Staiger paper, John H. Jackson expresses reservations concerning the conceptualization of economic efficiency as applied to child labor in view of the considerable cultural differences that exist across countries. He also questions the feasibility of lump-sum payments as a practical matter and the problems involved in implementing reciprocity in the Bagwell-Staiger analysis. Jackson's view on labor standards is that they must become internalized within the GATT/WTO process. The question becomes one of how this can be most effectively accomplished. He discusses several possible approaches, but acknowledges in the final analysis just how difficult it will be to deal with issues of labor standards in the GATT/WTO. This is especially true because of the fears of many developing countries that the United States and other major industrialized countries will use issues of labor standards to respond to domestic protectionist pressures.

Also commenting on the Bagwell-Staiger paper, T. N. Srinivasan notes that they have applied the same methodology to analyzing labor standards as employed in a series of papers analyzing the roles of GATT's principle of non-discrimination, and the ill-defined notion of reciprocity in multilateral trade negotiations on tariff reductions in reaching an efficient (Pareto Optimal) and stable outcome. However, with two policy instruments (viz. tariffs and labor standards) at the disposal of the governments, if they are free to set one of them unilaterally in a non-cooperative fashion, it is intuitive that negotiations to set the other instrument will result in neither instrument being set at levels consistent with efficiency. The choice of the two instruments, one of which is a purely domestic policy instrument, has to be linked to get around this problem. The authors propose three such linkages, two of which allow some freedom for countries to choose labor standards unilaterally. However, the authors' modeling of labor standards does not take into account some essential features. An alternative model that incorporates these features is set out in an appendix. Srinivasan agrees with the authors that using trade sanctions to enforce labor standards is harmful and unnecessary. Doing so is to take the first step on a slippery slope of avoidable and welfare-worsening use of trade sanctions to enforce other purely domestic policies.

In **Chapter 8, A Transactions Cost Politics Analysis of International Child Labor Standards**, Drusilla K. Brown addresses some of the issues that