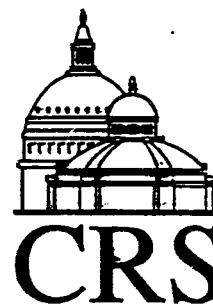


CRS Report for Congress

Worker Rights and U.S. Trade Policy: WTO Singapore Ministerial and Fast-Track Extension

February 24, 1997

Mary Jane Bolle
Specialist in Labor Economics
Economics Division



Congressional Research Service • The Library of Congress



Worker Rights and U.S. Trade Policy: WTO Singapore Ministerial and Fast-Track Extension

SUMMARY

The idea of linking worker rights and trade agreements has become a major issue in two arenas. The first arena is Congress, as it considers extending presidential authority to negotiate trade agreements that would then be implemented on a fast-track basis -- without amendment and with limited debate. Previous fast-track authorization expired in 1994. New authority could facilitate negotiation of new trade agreements and could expedite Chile's accession to the North American Free Trade Agreement (NAFTA) and possible creation of a Free Trade Area of the Americas. The question arises whether Congress should require, encourage, deny, or be silent on presidential inclusion of worker rights principles in such trade agreements.

The second arena is the World Trade Organization (WTO). In December 1996, the Singapore Ministerial, a meeting of trade ministers took place and was attended by a majority of the 124 World Trade Organization (WTO) member countries. At that meeting, delegates grappled with whether worker rights is an appropriate issue for debate in the WTO.

Congressional consideration, and promotion by some, of trade-linked worker rights around the world has been ongoing since at least 1984. The issue became especially divisive during the 104th Congress. So far in the 105th Congress, at least three bills have been introduced that would either implicitly or explicitly prohibit the promotion of worker rights as a negotiating objective. S. 253 (Lugar) would include similar language to that in H.R. 2371 reported out in the 104th Congress, which would have omitted promotion of worker rights as a principal negotiating objective. S. 84 and S. 85 (both by Gramm) would authorize fast-track implementation for Chile's accession to NAFTA and a Free Trade Agreement of the Americas, respectively, but would specifically prohibit worker rights language in bills implementing a trade agreement.

Congressional division over the worker rights issue in fast-track extension closely parallels congressional division over the promotion of worker rights in the WTO. The same *economic* arguments apply in both cases. Until recently *empirical* studies on the effect of worker rights on trade were hard to find. However, in 1996, both the Organization for Economic Cooperation and Development (OECD) and the Overseas Development Council (ODC) published major studies on the subject. Three years of experience under the North American Free Trade Agreement (NAFTA) labor side agreement also offers some empirical insights.

Findings from the OECD and ODC studies and NAFTA experience suggest that some predictions from economic theory on the effects of linking worker rights provisions to trade may be either weak or not borne out by evidence. The possible exception is one ODC finding that labor costs tend to increase as standards become more stringent. However, both the OECD and ODC studies are subject to limited data, particularly from developing countries. As a result, they are fragile platforms from which to draw any strong conclusions about the actual effects of worker rights requirements on trade based on economics.

CONTENTS

What Happened at the Singapore Ministerial	1
Implications of the Worker Rights Language	3
Congressional Consideration of the Worker Rights Issue Historically and in the 104th Congress	3
Worker Rights Provisions in Fast-Track Legislation in the 105th Congress	4
How Does Worker Rights Adherence Affect Trade?	
Theoretical Predictions and Empirical Findings	5
Comparison of OECD and ODC Empirical Studies	5
Findings Compared	8
Do Worker Rights Provisions Encumber Economic Efficiency and Economic Growth?	9
Do Worker Rights Provisions Affect Comparative Advantage? ...	9
Do Worker Rights Provisions discourage Foreign Direct Investment?	10
Do Worker Rights Provisions Affect Labor Costs and/or Wages?	10
Experience With NAFTA	10
Employment and Wage Effects of Worker Rights Adherence (and Trade)	11
Conclusions from the OECD and ODC Studies, and NAFTA Experience	12

TABLES

TABLE 1. Arguments For and Against Linking Labor Standards and Trade Policy	6
TABLE 2. Empirical Evidence on a Worker Rights-Trade Link: Comparison of OECD and ODC Studies	7

Worker Rights and U.S. Trade Policy: WTO Singapore Ministerial and Fast-Track Extension

The idea of linking worker rights and trade agreements has become a major issue in two arenas. The first arena is Congress, as it considers efforts to extend presidential authority to negotiate trade agreements that would be implemented on a fast-track basis -- without amendment and with limited debate. Previous fast-track authorization expired in 1994. New authority could facilitate negotiation of new trade agreements and could expedite Chile's accession to the North American Free Trade Agreement (NAFTA) and creation of a Free Trade Area of the Americas. Apart from the advisability of any such trade agreements, the question arises whether Congress should encourage, deny, or be silent on presidential requirement or promotion of worker rights principles in such trade agreements.¹

The second arena is the new World Trade Organization (WTO). In December 1996, the WTO Ministerial Conference took place in Singapore. It was a meeting of trade ministers and was attended by a majority of the 124 World Trade Organization member countries.² At that meeting, delegates grappled with whether worker rights is an appropriate issue for debate in the WTO.

What Happened at the Singapore Ministerial

The question of whether to include references to worker rights was the most controversial issue in the Singapore Declaration. The Singapore Declaration summarized what the trade ministers agreed upon and set forth a future study agenda to be carried out by WTO "working groups." *Developing countries* were vehemently against mentioning worker rights. They feared that

¹ For the most current information about pending legislation on fast-track renewal, see U.S. Library of Congress. Congressional Research Service. *Trade Agreements: Renewing the Negotiating and Fast-Track Implementing Authority*, by Vladimir N. Pregelj. CRS Issue Brief 97016. (Updated regularly.) For the most current information about pending legislation, congressional offices should consult the Bill Summary and Status File of the Legislative Information System (LIS) at <http://www.congress.gov>.

² The new World Trade Organization (WTO) went into effect January 1, 1995, as a successor organization to the General Agreement on Tariffs and Trade (GATT) which went into effect in 1948.

any reference to worker rights might lead to formation of a working group to study the issue, and ultimately to sanctions against countries that did not afford their workers certain widely recognized worker rights. They argued that some developing countries have trading advantages mainly in labor costs, a competitive advantage that could be lost if externally imposed labor regulations became effective.³

On the other hand, some *developed countries*, including the United States, were very much in favor of mentioning worker rights and appointing a group to study the issue. They were concerned that not addressing the worker rights issue could deprive workers in developing countries of humanitarian labor protections, and could put domestic workers in developed countries at a competitive disadvantage.

As the Singapore Ministerial officially began, Congress was clearly attentive. Fifty House Members, including the minority whip and ranking minority members of five committees sent a letter to President Clinton urging him to negotiate an agreement to *create* a WTO working party on labor rights.⁴ Meanwhile, four other Members of Congress (including the chairman and ranking majority member of the House Ways and Means Committee) sent Acting U.S. Trade Representative (USTR) Charlene Barshefsky a letter. They argued *against* creating a WTO working party on worker rights, and *for* helping U.S. workers *indirectly* by achieving "greater market access for U.S. goods and services." They supported keeping the worker rights agenda in the International Labour Organization (ILO), founded in 1919 to promote worker rights around the world on a *voluntary* (i.e. no coercive sanctions authority) basis.⁵

Ultimately the Singapore Declaration did not call for the creation of a labor standards working party. But in it the signatories pledged a "commitment" to observe "internationally recognized core labor standards" and rejected labor standards for "protectionist purposes." They affirmed that comparative advantage, particularly of low-wage developing countries "must in no way be put into question." They supported the ILO as the primary international body to set

³ There is no official definition of *internationally recognized worker rights* (or labor standards). The International Labor Organization (ILO) identifies five *core worker rights* (the right of association, the right to organize and bargain collectively, prohibition of forced labor, freedom from employment discrimination, and equal pay for men and women). The United States, in the 1988 amendments to the Trade Act of 1974 (P.L. 93-618 as amended by Section 503 of P.L. 98-573), defines *internationally recognized worker rights* to include the right of association, the right to organize and bargain collectively, prohibition on the use of any form of forced or compulsory labor, minimum age for the employment of children, and acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health. See U.S. Library of Congress. Congressional Research Service. *Worker Rights Provisions and Trade Policy: Should they be Linked?* CRS Report 96-661E, by Mary Jane Bolle.

⁴ 50 House Members Call for Tough Stand on Labor Issue in Singapore. *Inside U.S. Trade*. December 6, 1996. p. 22.

⁵ Text: House Letter on Singapore. *Inside U.S. Trade Special Report*. December 12, 1996. p. 53.

and deal with labor standards, and noted that the WTO and ILO Secretariats will continue their existing collaboration.⁶

Implications of the Worker Rights Language

What did it mean for trade ministers to have signed onto this worker rights language? There was disagreement. On one side, the Singapore host and Minister of Trade and Industry, Yeo Chow Tong, argued that the language carried little weight: It did not put "the relationship between trade and core labor standards on the WTO agenda" or authorize "any new work on this issue."⁷ WTO head, Director General Renato Ruggiero echoed this position, arguing that the language in the Singapore Declaration commits the WTO and the ILO only to continue to *exchange* information -- nothing more.⁸

On the other side, however, then Acting USTR Charlene Barshefsky argued the importance of the language. She called it a "legal binding consensus" on the critical importance of worker welfare. She also noted the practical importance of WTO involvement with concerns of workers: If workers perceive freer trade as leading to job losses and displacement, they could withdraw support for politicians to negotiate new trade agreements.⁹

Congressional Consideration of the Worker Rights Issue Historically and in the 104th Congress

Congressional concern with, and promotion by some of trade-linked worker rights around the world has been ongoing since at least 1984. The issue became especially divisive during the 104th Congress.

Before the 104th, Congress had inserted worker rights provisions into at least eight trade laws that had broad applicability. Among other things, these

⁶ More specifically, the labor rights language in the Singapore Declaration read: "We renew our commitment to the observance of internationally recognized core labor standards. The International Labor Organization (ILO) is the competent body to set and deal with these standards and we affirm our support for its work in promoting them. We believe that economic growth and development fostered by increased trade and further trade liberalization contribute to the promotion of these standards. We reject the use of labor standards for protectionist purposes, and agree that the comparative advantage of countries, particularly low-wage developing countries, must in no way be put into question. In this regard, we note that the WTO and ILO Secretariats will continue their existing collaboration." Text Final Singapore Declaration. *Inside U.S. Trade Special Report*. December 16, 1996. p. S-2.

⁷ WTO Ministerial Chairman Emphasizes Weakness of Labor Agreement. *Inside U.S. Trade Special Report*. December 16, 1996. p. S-1.

⁸ Ruggiero Says Declaration Allows Only Information Swaps with ILO. Dec. 16, 1996. *Inside U.S. Trade Special Report*. December 16, 1996. p. S-10.

⁹ *Ibid.*

provisions (1) authorized *suspension of benefits* to trading partners where persistent patterns of conduct deny internationally recognized worker rights (as defined in the Trade Act of 1974); (2) *prohibited preferential tariffs* to trading partners not taking steps to afford workers internationally recognized worker rights; (3) required the President to seek a working party in the WTO to examine the relationship between internationally recognized worker rights and trade; and (4) specified as "principal negotiating objectives" of the United States in trade agreements: *to promote worker rights*.¹⁰

Debate over the worker rights issue reignited when the 104th Congress turned to the task of renewing presidential fast-track negotiating authority. The House Ways and Means Committee reported out H.R. 2371, which omitted promotion of worker rights as a "principal negotiating objective" in trade agreements. Instead, it specified five principal negotiating objectives, including "reducing or eliminating specific tariff and nontariff trade barriers ... that distort or impede United States imports or exports" [Section 2(b)]. Report language clarifies that the committee viewed "certain policies and practices such as those governing labor" as decreasing market opportunities for U.S. exports, in certain circumstances, or distorting or impeding U.S. exports or imports. In addition, the report emphasized that fast-track implementing procedures are reserved for measures "directly related to trade ... and are not intended to be used to implement other, more general policy goals."¹¹ Though H.R. 2371 was reported out of committee, it never reached the floor.

Worker Rights Provisions in Fast-Track Legislation in the 105th Congress

So far in the 105th Congress, at least three bills have been introduced that would either implicitly or explicitly prohibit the promotion of worker rights as a negotiating objective. S. 253 (Lugar) would include language similar to that in H.R. 2371 reported out in the 104th Congress, omitting worker rights as an objective and discussed above.

S. 84 and S. 85 (both by Senator Gramm) would authorize fast-track consideration for Chile's accession to NAFTA and a Free Trade Agreement of the Americas, respectively. S. 84 and S. 85 would each specifically prohibit worker rights language in bills implementing a trade agreement: Both bills contain the same wording providing that fast-track reauthorization "may not contain any provision that establishes ... a labor ... standard or amends ... any labor ... protection standards set forth in law or regulation."

¹⁰ References to authorizing legislation are, respectively: (1) Section 301 of the Trade Act of 1974, P.L. 93-618 as amended by Section 503 of P.L. 98-573; (2) Section 502(b)(7), General System of Preferences, Title V of the Trade Act of 1974, as amended; (3) Uruguay Round Agreements Act, P.L. 103-465, Section 131; and (4) Omnibus Trade Act of 1988, P.L. 100-418, Section 1101.

¹¹ U.S. Congress. House of Representatives. *Trade Agreements Authority Act of 1995*. Report to accompany H.R. 2371. H.Rept. 104-285, part I, October 20, 1995, p. 12.

How Does Worker Rights Adherence Affect Trade? Theoretical Predictions and Empirical Findings

Congressional division over the worker rights issue in fast-track extension closely parallels congressional division over the promotion of worker rights in the WTO. The same *economic* and *theoretical* arguments for and against linking worker rights provisions to trade policy apply in both debates. These standard arguments are summarized in table 1.

Until recently *empirical* studies to test the trade effects of adherence to worker rights principles around the world have been difficult to find. However, in 1996 two major studies were completed on the subject. Both the Organization for Economic Cooperation and Development (OECD) and the Overseas Development Council (ODC) published empirical studies that test a number of theoretical arguments on the worker rights-trade link. These studies are compared in table 2. Three years of experience under the NAFTA labor side agreement (which went into effect January 1, 1994) also offers some insights into the effects of worker rights provisions included in trade agreements.

Comparison of OECD and ODC Empirical Studies

There are a number of differences between the OECD and ODC studies. First, they represent different perspectives. The OECD membership includes mostly developed countries. The ODC, on the other hand, focuses on developing countries.

Second, they are different types of studies and use different data bases. The OECD study is descriptive.¹² It divides 75 countries into four groups according to the strength of their adherence to two core labor rights: *freedom of association* and the *right to collective bargaining*. These are the only two worker rights for which OECD could find sufficient data for a study of adherence by different countries. For each of the four country groups and often for countries within each group, using the CHELEM¹³ trade data base, the OECD examined the growth of such things as employment, real wages, productivity, and exports (for both the country as a whole and for industries of specialization).

¹² Organization for Economic Co-Operation and Development (OECD). *Trade, Employment and Labour Standards. A Study of Core Workers' rights and International Trade*. 1996. 248 p.

¹³ CHELEM is a French acronym whose title means Harmonized Accounts on Trade and the World Economy. The CHELEM data base includes trade statistics for both the world as a whole and most individual countries. The OECD report stresses that the CHELEM data base is the only one that contains harmonized bilateral trade flows between all countries including non-OECD members.

TABLE 1. Arguments For and Against Linking Labor Standards to Trade Policy

AGAINST	FOR
<p>1. The main purpose of trade agreements is to promote trade and general economic growth. Trade agreements are probably not the best mechanism for resolving non-trade issues (such as labor rights). Non-trade issues tend to detract from the main purpose of the trade agreements while not resolving the non-trade issues.</p> <p>2. The best way to improve labor standards is to permit private capital to flow unimpeded and to allow economies to export freely. As developing countries grow, they will tend to adopt higher labor standards. Workers do not earn high wages just because a minimum wage is ordered. Real growth in income is the result of growth in productivity.</p> <p>3. From the perspective of the international investor, strong worker protections create disincentives to invest in developing nations because they reduce <i>comparative advantage</i> and inhibit the most efficient use of labor, thereby restraining economic growth.</p> <p>4. From the perspective of international trade theory and some experience, in the long run, economies unencumbered by trade restrictions are able to achieve and maintain a higher level of efficiency and a higher level of growth and per-capita income.</p> <p>5. From the perspective of the developing country, labor standards could tend to reduce employment opportunities and delay the emergence of these countries as developed countries.</p> <p>6. Requiring international labor standards is inconsistent with the goal of reducing tariff and nontariff barriers. Requiring international labor standards can be disguised protectionism.</p> <p>7. The issue of international labor standards raises issues of sovereignty: Does one country have the right to force its domestic policy goals on another country?</p>	<p>1. There is a line between competing on the basis of <i>comparative advantage</i> and "social dumping" (competing by denying workers basic rights). Labor standards help to define the boundary.</p> <p>2. Labor standards for all trading partners help fend off a "race to the bottom" that comes when businesses are forced to roll back minimum wages and standards so that they can remain internationally competitive against businesses in countries where a lack of standards makes the cost of doing business considerably lower.</p> <p>3. Many workers and unions see multinational corporations as predators. If labor standards are uniformly enforced, companies would be prevented from engaging in exploitative labor practices.</p> <p>4. Global growth is a balancing act, supported by a broad base of consumer demand in developing countries. For workers to be consumers, they must receive a rising share of the gains from increasing productivity and economic expansion. Labor standards help promote these gains.</p> <p>5. Labor standards could discourage "runaway plants" because they lessen the labor cost differences between countries.</p> <p>6. Labor standards would not interfere with natural comparative advantage in various countries because minimum wages and labor standards are only one basis for comparative advantage. Others include: (a) infrastructure; (b) available workforce size; (c) workforce education; (d) level of technological development; and (e) natural resource base.</p> <p>7. Trade sanctions in some environmental treaties are already used. Why should the rights of workers be given a lower level of protection?</p> <p>8. Developed nations have, through democratic evolution, made a social contract, assuring citizens a healthful environment, safe working conditions, decent retirement and health insurance, and a safety net for the disabled. One way or another the nation's products must bear the cost of this contract; they cannot compete in price with those of countries using comparable technology but having no such contract for its citizens.</p>

**TABLE 2. Empirical Evidence on a Worker-Rights Trade Link:
Comparison of OECD and ODC Studies**

	OECD Study ¹	ODC Study ²
Nature of Study	Study is descriptive, and is based on the CHELEM trade data base. ³	Study is a macroeconomic model, and uses data from various sources. ⁴
Methodology	Study divides countries into four groups according to extent of enforcement of worker rights. For groups and for some countries within each group, it compares the extent to which enforcement intensity <i>correlates with</i> changes in various trade measures.	Shows extent to which different measures of labor standards <i>account for differences</i> in trade measures.
Worker rights studied	Study includes only two worker rights for which data were most available: <ul style="list-style-type: none"> • <i>freedom of association</i> and • <i>right to collective bargaining</i>. 	Variables represent many measures of worker rights, including: <ul style="list-style-type: none"> • number of ILO conventions ratified, • extent to which child labor is condoned, • statutory hours of work • required, days of annual leave with pay granted, and • percentage of the labor force that is unionized.
Number of Countries studied	75 countries are divided into four categories according to the extent of their adherence to the two labor principles.	Study includes 133 countries. Data are not available on all variables for each country.
FINDINGS:		
Does Worker Rights Adherence Affect Economic Growth?	No. There is <i>little relationship</i> between worker rights adherence and growth in export market share, as a proxy for trade growth, a component of economic growth.	Yes. Per-capita income is positively correlated with (in descending order) days of annual leave granted, extent of unionization, and the number of total ILO conventions adopted. Per-capita income is negatively correlated with permissiveness regarding child labor.
Does Worker Rights Adherence Affect Comparative Advantage?⁵	No. Patterns of industry specialization are mainly governed by the relative abundance of factors of production and technology differences.	Only in one area: Longer statutory working hours are associated with stronger comparative advantage in labor costs.
Does Worker Rights Adherence Affect Foreign Direct Investment (FDI)?	No. While core labor standards may not be systematically absent from location decisions, they are not important determinants of location for FDI in most cases.	Only <i>negatively</i> for child labor. Countries which condone child labor receive less FDI than would have been predicted.
Does Worker Rights Adherence Affect Wages?	No correlation at the aggregate level between real wage growth and the degree of observance of freedom of association rights. In several countries with little or no freedom of association, real wages grew faster than productivity. Conversely, where core standards have improved, there is no evidence that real wages grew faster.	Yes. Labor costs tend to increase as standards become more stringent, especially with the passage of legislation prohibiting child labor. (This study has a much broader definition of worker rights than does the OECD study.)

See next page for footnotes to table 2.

Footnotes for Table 2.:

¹ Organization for Economic Co-Operation and Development (OECD). *Trade, Employment and Labour Standards. A Study of Core Workers' rights and International Trade*. 1996. 248 p.

² Overseas Development Council (ODC). *Emerging Agenda for Global Trade. High Stakes for Developing countries*, by Robert Z. Lawrence, Dani Rodrick, and John Whalley. Policy Essay No. 20. 1996. 102 p.

³ CHELEM is a French acronym whose title means Harmonized Accounts on Trade and the World Economy. The CHELEM data base includes trade statistics for both the world as a whole and most individual countries. The OECD report stresses that the CHELEM data base is the only one that contains harmonized bilateral trade flows between all countries including non-OECD members.

⁴ These include UNCTAD, the International Labour Office, the World Bank, and the United States Department of Labor. Not all data are available for all countries.

⁵ A country has a *comparative advantage* relative to a trading partner in a good which it produces relatively more efficiently than that partner.

The ODC study, on the other hand, includes a macroeconomic model by Dani Rodrick.¹⁴ The model incorporates a broad range of measures of worker rights adherence. These broad measures include as variables, measures of the number of ILO conventions ratified, the extent to which child labor is condoned, statutory hours of work, days of annual leave with pay in manufacturing, and percentage of the labor force that is unionized. The model examines the extent to which the various worker rights measures explain differences among countries in such things as labor costs, comparative advantage, foreign direct investment, and per-capita income. The ODC study gets its data for 133 countries from a variety of different data bases,¹⁵ but not all data are available on all variables for each country.

Findings Compared

The findings from the OECD and ODC studies are inconclusive. When they are compared with predictions from traditional economic theory, the results suggest that in some cases theory may not be borne out by evidence; in others the evidence is weak. Here are four sets of findings that stem from the OECD and ODC studies. Note that both studies include the most advanced economies as well as the least developed:

¹⁴ Overseas Development Council (ODC). *Emerging Agenda for Global Trade. High Stakes for Developing countries*, by Robert Z. Lawrence, Dani Rodrick, and John Whalley. Policy Essay No. 20. 1996. 102 p.

¹⁵ These include UNCTAD, the International Labour Office, the World Bank, and the United States Department of Labor. Not all data are available for all countries.

Do Worker Rights Provisions Encumber Economic Efficiency and Economic Growth?

Traditional economic theory suggests that worker rights provisions would limit the gains from trade. Neither the OECD nor the ODC study found strong evidence to support this.

The OECD study examined the *growth in export market share* between 1980 and 1990 as a proxy for *trade performance*, which is *one component of economic growth*. It found little relationship between worker rights adherence and growth in export market share -- no evidence that low-standards countries enjoy a better global export performance than high-standards countries.¹⁶

The ODC found some positive correlation between worker rights adherence and economic growth. It found that the *level* of per-capita income was positively correlated with (i.e., they occurred together) both days of paid annual leave granted in manufacturing and the total number of ILO conventions ratified by a country.¹⁷

Do Worker Rights Provisions Affect Comparative Advantage?

Economic theory also suggests that strong worker protections create disincentives to invest because they reduce *comparative advantage*.¹⁸ While the OECD study disputes this finding, the ODC study found only suggestive evidence to support this theory.

The OECD study looked in great detail at main factors creating the industries of comparative advantage in each country. It found that patterns of industrial specialization are primarily governed by the relative abundance of factors of production (natural resources, labor, etc.).¹⁹

The ODC study, in its model, found a negative correlation between worker rights measures and comparative advantage in one area: longer statutory hours of work were associated with a stronger comparative advantage.²⁰ However, in contrast to the OECD study, the ODC study did not examine a variety of industries in each country; it looked only at textiles and clothing as a proxy for all industries of comparative advantage in developing countries. The ODC study concludes that while the pattern of signs in its model is supportive of the

¹⁶ OECD, op. cit., pp. 12, 90.

¹⁷ ODC, op. cit., p. 50.

¹⁸ A country has a *comparative advantage* relative to a trading partner, in those goods which it produces relatively more efficiently than its partner does. Thus, these are the goods it is likely to export.

¹⁹ OECD, op. cit., p. 135,

²⁰ ODC., op. cit., p. 54.

hypothesis that low labor standards can help create comparative advantage in labor-intensive goods, the statistical results are not very strong.

Do Worker Rights Provisions discourage Foreign Direct Investment?

Economic theory argues that strong worker protections create disincentives for foreign corporations to invest in developing countries. Findings of both studies suggest little evidence for this. The OECD study found that core labor standards, while not entirely absent from location decisions, are not important determinants of location for FDI in most cases. The ODC study found a statistically significant relationship (and a negative one, at that) for only one measure of worker rights: policy toward child labor. To the surprise of the author of the ODC study, results showed that countries with a higher permissiveness toward child labor received *less* foreign investment between 1982 and 1989 than comparable nations with strict limits on child labor would have been expected to receive.

Do Worker Rights Provisions Affect Labor Costs and/or Wages?

Economic theory argues that worker rights adherence could increase labor costs in affected industries. However, it also argues that wage pressures can encourage productivity gains, which can lower *unit* labor costs to produce an item. Here, the OECD and ODC studies found conflicting evidence on the relationship between worker rights and wages; however, they were also looking at different levels of standards enforcement.

The OECD study found no correlation at the aggregate level between real-wage growth and the degree of observance of *freedom-of-association* rights: In several countries with little or no freedom of association, real (inflation-adjusted) wages grew faster than productivity. Conversely, in countries where core labor standards have improved, there was no evidence that real wages grew faster.²¹ The ODC study, on the other hand, did find (based on about 35 countries for which labor cost data were available) fairly strong results that labor costs (and, incidentally, per-capita income as well) tend to increase as standards (broadly defined through a handful of inclusive measures) become more stringent.²²

Experience With NAFTA

The third set of evidence on the effect of worker rights provisions on trade comes from three years of experience under NAFTA's labor side agreement, called the North American Agreement on Labor Cooperation (NAALC). Under

²¹ OECD., op. cit., p. 12.

²² ODC, op. cit., p. 52.

NAALC (rhymes with "talc"), the United States, Mexico and Canada all agree to enforce their own labor laws and standards, and to commit to 11 labor principles. Only three of these 11 are enforceable by sanctions. These three are laws and standards pertaining to child labor, minimum wages, and occupational safety and health.

Early conclusions after NAFTA's first three years are that NAALC has probably not had much effect on trade. Mexico is the country primarily accused of not enforcing its labor laws and standards. All six "submissions" (cases) against Mexico allege that Mexico has failed to enforce its own laws relating to a particular labor principle. This principle is *the right to organize and bargain collectively*, which is not enforceable by sanctions under NAALC. The fact that the right-to-organize issue keeps arising suggests that changes in Mexican enforcement patterns, and therefore any effect on wages and trade from stricter enforcement of Mexican labor standards, may be slow to occur.²³

Some observers argue that Mexico's stated commitment to the 11 labor principles and the visibility ("sunshine") of labor standards enforcement afforded by NAALC may encourage Mexico to more strictly enforce its worker rights laws over the long run. Because Mexico's enforcement patterns for the freedom-of-association principle appear to be both weak and relatively unchanging in the *short run*, however, it could be argued that in its first three years, NAALC's effect on *trade* has been minimal.

Employment and Wage Effects of Worker Rights Adherence (and Trade)²⁴

As mentioned previously, the congressional debate on trade and core labor standards is motivated by a couple of concerns. One is a concern about the effect of worker rights provisions on U.S. and world *trade*. The other is a concern for the effect of worker rights provisions on U.S. *employment* and *wages*.

How much effect would *worker rights provisions* in trade agreements, or their absence, have on U.S. *employment and wages*? They would probably not have much effect if worker rights provisions have only a very small potential effect on trade itself. As for *trade's* impact on U.S. *employment and wages* however (an underlying congressional concern), the OECD study summarizes specific studies so far:

There are two ways of looking at employment: total employment, and employment in specific sectors. Studies generally conclude that any shift in *total employment* associated with changes in trade patterns is trivial or non-existent.

²³ North American Agreement on Labor Cooperation Supplemental Agreement to the NAFTA released September 14, 1993. Bureau of National Affairs *Daily Labor Report*, September 15, 1993., pp. D-1 -- D-12.

²⁴ OECD, op. cit., pp. 124-130.

As far as *employment in specific sectors* is concerned (i.e., manufacturing, and within manufacturing in such industries as apparel and electronics), there is no agreement among researchers on the magnitude of trade's impact (as compared with the impact of technology, for example).

The focus of trade's impact on *wages* has been on its possible contribution to the growing wage inequality between skilled and unskilled workers in the United States.²⁵ There have been a number of studies on this subject. As the OECD reports, most studies find that trade with low-wage countries has had only a small impact on wage inequality over the past 15 years. One reason for this conclusion might be that trade with low wage countries still accounts for a very small part of all U.S. economic activity. However, some studies find larger impacts. The OECD study concedes that further theoretical and empirical work is needed to resolve these issues.

Conclusions from the OECD and ODC Studies, and NAFTA Experience

The OECD study on the effect of worker rights on trade concludes that "concerns expressed by certain developing countries that core labor standards would negatively affect their economic performance or their international competitive position are unfounded." "Indeed," the OECD study argues, it is theoretically possible that the observance of core standards would strengthen the long-term economic performance of all countries."²⁶

In his ODC study on the worker rights-trade link, Rodrick found only suggestive evidence that labor standards have an effect on trade. He reported that he was "surprised to have found any statistical [evidence] at all ... in view of the weakness of data on labor standards and the difficulties involved in quantifying differences across countries on such a complex set of issues."²⁷

Three years of NAFTA experience under NAALC also suggest that the structure, content, and procedures established under the first labor side agreement ever to be attached to a trade agreement may have little effect on trade, particularly in the short run.

What do all these conclusions mean? The worker rights and trade issue is controversial. Until recently, little empirical evidence was available to back up the arguments, which are passionate on both sides. In 1996 the OECD and ODC both published studies attempting to quantify the worker-rights trade link. However, both studies are subject to limited data, particularly from developing countries. This limitation makes these studies weak platforms from which to draw any strong conclusions about the actual effects of worker rights

²⁵ U.S. Library of Congress. Congressional Research Service. *Earnings Inequality in the 1980s and 1990s*. CRS Report 97-142E by Gail McCallion.

²⁶ OECD, op. cit. p. 13.

²⁷ ODC, op. cit., p. 59.

requirements on trade. If full data were available for all countries, the findings might be more robust to either support or deny a worker rights-trade link. At this juncture, however, there is not enough information to argue persuasively on statistical grounds.