

Econ 340

Lecture 23

Environment, Labor Standards, and Trade

Outline: Environment, Labor Standards, and Trade

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

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The Issues

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

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Environment

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

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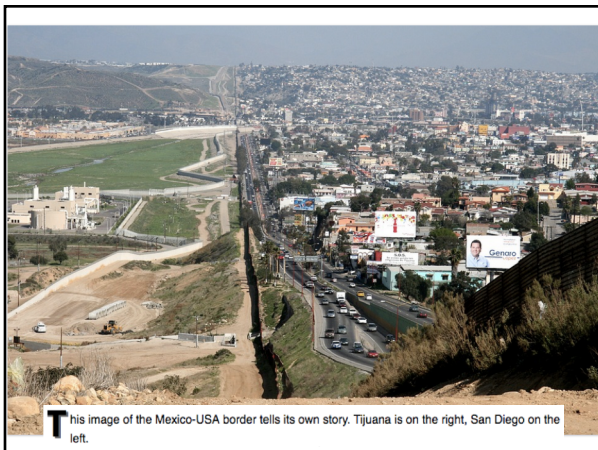
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Environment: Examples

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





Environment: Examples

- Pollution along the Mexican border
 - Caused by production, for export to U.S.
 - Stimulated by
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 - NAFTA

- U.S. laws struck down by GATT / WTO



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Environment: Policies

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

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Environment: Policies

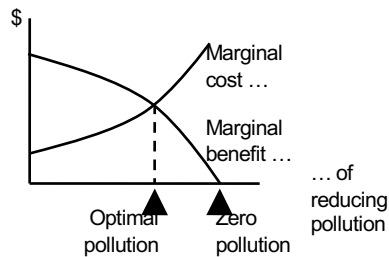
- What is the “Optimal” level of a negative externality?
 - It is **not** zero!
 - It is found by equating
 - marginal benefit (of reducing externality) to
 - marginal cost (of reducing externality)

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Environment: Policies

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



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Environment: More Examples

- Air pollution
- Water pollution
- Acid rain
- CO₂ emission (global warming)
- Destruction of rain forest
- Destruction of species
 - Endangered (sea turtles)
 - Favored (dolphin)
- Overuse of natural resources (over-fishing)

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Clicker Question

What is an “externality”?

- a) A cost of production that occurs outside of a country, due to offshoring.
- b) The amount a firm must pay in interest if it borrows to finance investment.
- c) The harm done to consumers of exported products such as cigarettes.
- d) The negative effect of imports on domestic employment.
- ✓ e) A cost or benefit of an activity that is not borne by the actor.

Clicker Question

What is the optimal level of a air pollution?

- a) The level that would occur if markets were free.
- b) The level beyond which the harm from pollution would increase.
- c) The level beyond which the harm from pollution would decrease.
- d) The level at which there is no pollution.
- ✓ e) The level at which the marginal benefit from reducing pollution equals the marginal cost.

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Environment: International Problems

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

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Environment: International Problems

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

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Environment: International Problems

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

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Environment: International Problems

- Example: Internal memo by Larry Summers when at World Bank:

" 'Dirty' Industries: Just between you and me, shouldn't the World Bank be encouraging MORE migration of the dirty industries to LDCs?"

[He goes on to give several reasons.]

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Clicker Question

What agreement dealt with CFCs (chlorofluorocarbons), and why?

- ✓ a) The Montreal Protocol, because CFCs were destroying ozone.
- b) NAFTA, because CFCs cause lung cancer.
- c) The Plaza Accord, because CFCs were causing Legionnaires' disease.
- d) The Doha Disagreement, because CFCs are a substitute for petroleum.
- e) The Paris Agreement, because CFCs contribute to climate change.

Clicker Question

Why might a country be reluctant to levy a pollution tax on its producers in order to clean its own air if other countries do not do the same?

- a) It raises the cost of production for export.
- b) It reduces the competitiveness of local producers who compete with imports.
- c) It's not fair.
- d) It encourages producers to relocate abroad.
- ✓ e) All of the above.

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Environment: Role of the WTO

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

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Policy Options

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

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Policy Options

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

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Policy Options

- Carbon Tariff: Arguments for and against
 - Krugman is for
 - Failure to use them will cause consumer substitution toward cheaper products made in countries that do not tax or restrict carbon emissions
 - [Economist 2018: "carbon leakage" – the possibility that places with laxer climate policies will produce commodities more cheaply]
 - Should be legal under WTO, like "border tax adjustments" used when countries taxation systems differ
 - China (per Reuters) is against
 - Calls carbon tariffs "protectionist"
 - Predicts use of carbon tariffs would cause trade war
 - Says not legal under WTO

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Clicker Question

Why might Larry Summers have argued that dirty industries should be located in poor countries?

- a) It would be less costly for them to clean their air than for rich countries.
- b) He believes that international policies should be most beneficial for those who can pay for them.
- c) Larry Summers is a jerk.
- ✓ d) Poor countries value the income from those industries more, relative to clean air.
- e) Wind speeds tend to be higher in poor countries and will blow away the pollution.

Clicker Question

Why have environmentalists been critical of the WTO?

- a) The WTO requires that countries permit imports that will foul the environment.
- b) International trade contributes to global warming.
- ✓ c) Policies intended to help the environment have been struck down by the WTO.
- d) WTO disputes are handled in Switzerland, whose environmental policies are weak.
- e) The WTO opposes the Convention on International Trade in Endangered Species.

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Labor Standards

- What are they?
 - Formal list of “conventions” (190) and “recommendations” (206) regarding treatment and conditions of labor, established by The ILO = International Labour Organization
 - These include 8 “Fundamental ILO Conventions”
 - Numbers in parentheses below: numbers of countries that have ratified the conventions (as of 11/27/2019) out of 187 members

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Labor Standards: Fundamental ILO Conventions

1. Freedom of Association
 - a. Right to Organize (155)
 - b. Right to Collective Bargaining (167)
2. Abolition of Forced Labor
 - a. Forced Labor (178)
 - b. Abolition of Forced Labor (175*)

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Labor Standards: Fundamental ILO Conventions

3. Equality
 - a. Discrimination (175)
 - b. Equal Remuneration (173)
4. Elimination of Child Labor
 - a. Minimum Age (172)
 - b. Worst Forms of Child Labor (186*)

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Labor Standards: Fundamental ILO Conventions

*Fundamental Conventions ratified by U.S.:

ONLY:

- Abolition of Forced Labor
- Worst Forms of Child Labor

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Labor Standards: Fundamental ILO Conventions

- United States
 - Has not ratified many of the conventions
 - But... in spite of that, US enforces many labor standards through its trade laws

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Labor Standards: Found in U.S. Trade Law

- Freedom of Association
- Right to Organize and Bargain Collectively
- Forced Labor
- Minimum Age for Employment
- Acceptable Conditions of Work
 - (not "Fundamental" in ILO)
 - Minimum wage
 - Hours of work
 - Safety and Health
 - Enforcement

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U.S. Labor Standards

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

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U.S. Labor Standards

- Porter:
 - US labor standards are
 - Among the lowest in OECD countries
 - Weaker than in EU
 - Also weak in US:
 - Unions
 - Safety net
 - Could a trade agreement help?
 - Porter says yes: the TTIP with EU could harmonize labor standards in US up to EU levels
 - (But TTIP is now unlikely, post-Trump.)

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Clicker Question

Which of the following is **not** one of the eight core labor standards of the ILO?

- a) Abolition of forced labor
- ✓ b) Minimum wage
- c) Right to collective bargaining
- d) Nondiscrimination
- e) Right to organize

Clicker Question

Why is the article by Porter critical of US labor standards?

- a) They are weaker than those of the EU.
- b) Unions in the US have less power than abroad.
- c) Compared to other rich countries, the safety net for US workers is weak.
- ✓ d) All of the above.
- e) None of the above.

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Labor Standards: Issues

Should labor standards be promoted?

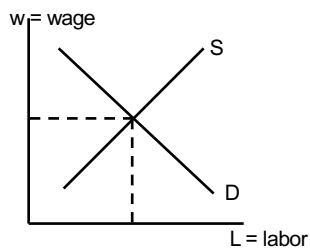
- Of course?
- Yes, but only if it will help the people involved, the workers themselves
- What if the true purpose is to help workers in **rich** countries?

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Labor Standards: Issues

Effect of labor standards:

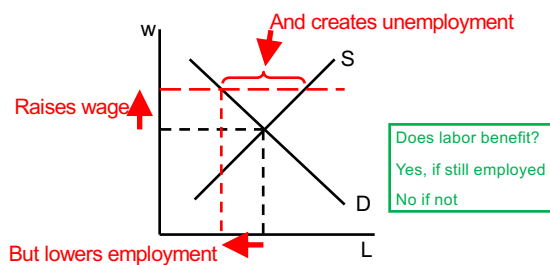


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Labor Standards: Issues

Effect of labor standards: **Minimum wage**



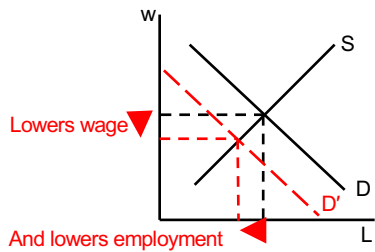
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Labor Standards: Issues

Effect of labor standards:

Legislating Better conditions



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

Does labor benefit?
Yes, if still employed and conditions worth the fall in wage
No if not

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Labor Standards: Issues

Should trade policies be used for labor standards?

- NO, say
 - Trade economists
 - Trade lawyers
 - Developing countries (even some of their labor unions)
 - MNEs (who would pay the cost)
 - Most Republicans
- But this is (weakly) a part of USMCA

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Labor Standards: Issues

Should trade policies be used for labor standards?

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

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Labor Standards: Issues

Should trade policies be used for labor standards?

- PRO (assuming standards themselves are good):
 - Trade is the only tool we have (ILO is “toothless”)
 - WTO already does this in TRIPs (why help corporations and not labor?)
 - It is **wrong** to benefit from abuse of labor

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Labor Standards: Issues

Should trade policies be used for labor standards?

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

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Labor Standards: Issues

Are trade policies used to enforce labor standards?

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

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Labor Standards: Issues

What to do when labor standards are violated

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

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Labor Standards: Issues

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

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Clicker Question

Who benefits from a law requiring improved standards for workers in factories?

- a) The firms that own the factories.
- b) Those workers who are laid off from factories where they were mistreated.
- ✓ c) Those workers who value the improved conditions more than any loss of wages.
- d) Those who buy the products of the factories, the prices of which will fall
- e) Nobody. Legislated labor standards only cause inefficiency.

Clicker Question

Why should the WTO **not** permit countries to use tariffs against imports from countries that have low labor standards?

- a) Tariffs would cause deadweight loss to the importing countries.
- ✓ b) This would encourage industries to claim low standards just to get protection.
- c) Such tariffs would likely lead to a trade war.
- d) Low labor standards are beneficial to the countries that have them.
- e) Strong labor standards are adequately enforced already by the International Labor Organization.

Clicker Question

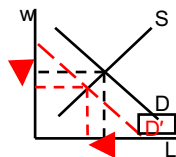
Why **should** the WTO permit countries to use tariffs against imports from countries that have low labor standards?

- ✓ a) The ILO is toothless.
- b) The WTO already protects owners of capital and should do the same for labor.
- c) Low labor standards give producers a cost advantage, similar to dumping.
- d) By championing workers, the WTO would make globalization more popular.
- e) Only then could the United States be induced to improve its own labor standards.

Clicker Question

Which of the following might the graph below represent?

- a) A minimum wage
- b) An incentive for more workers to seek jobs
- ✓ c) A rise in employers' the cost of making the workplace safe
- d) Union negotiation of a wage agreement
- e) Migration of workers out of the country



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Next Time, and After That

- Last Class, Wed Dec 11
 - Review
- Final Exam: Fri, Dec 13, 1:30-3:30 PM

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