

Econ 340

Lecture 23

Environment, Labor Standards, and Trade

News: Dec 2-8

- Trump puts metals tariffs on Argentina and Brazil -- WSJ: [12/2](#) | [Canvas](#) | NYT: [12/2](#) | [Canvas](#) | FT: [12/2](#) | [Canvas](#) | WP: [12/2](#) | [Canvas](#)
 - Trump says he will levy tariffs on steel and aluminum from Argentina and Brazil. His reason is his claim that they are manipulating their currencies.
 - Trump's tariffs on steel and aluminum were levied on the EU and many others, but Brazil and Argentina were exempted until now due to an agreement negotiated with them in 2018 to limit their exports.
 - A contributing reason may be that the US trade war with China has led to China shifting its purchases of agricultural products away from the US and toward these two countries.
- Trump threatens tariff on France in retaliation against their digital tax -- WSJ: [12/3](#) | [Canvas](#) | FT: [12/2](#) | [Canvas](#)
 - Trump says he will put a 100% tariff on various luxury goods from France, in retaliation for their tax on digital commerce, which he says unfairly hurts American firms.
 - The Digital Services Tax takes 3% of revenues made in France by digital companies such as Google, Apple, Facebook, and Amazon. Though it applies to French and other European firms as well as US firms, the market is clearly dominated by the US firms.
 - The OECD is working on a broader effort to address the unfairness of international and digital taxation, and France's President Macron promised Trump to remove his tax once an OECD agreement has been reached.
- OPEC and its allies agree to cut oil production -- WSJ: [12/6](#) | [Canvas](#) | NYT: [12/6](#) | [Canvas](#)
 - The Organization of Petroleum Exporting Countries (OPEC), meeting with other oil exporters including especially Russia, agreed to cut oil output next year by 40% more than previously agreed. The aim is to raise the world price of oil.
 - The burden of the cuts is expected to be shared by ten oil producers that are not members of OPEC, in addition to OPEC itself. Observers are not confident that they will actually succeed in reducing output, since the strong incentive for each country to produce more.
 - Saudi Arabia is most interested in raising the price of oil, because it plans soon to sell shares in the state oil company, Aramco, and it wants to get a high price for those shares.

News: Dec 2-8

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Donald J. Trump ✓

@realDonaldTrump



Brazil and Argentina have been presiding over a massive devaluation of their currencies. which is not good for our farmers. Therefore, effective immediately, I will restore the Tariffs on all Steel & Aluminum that is shipped into the U.S. from those countries. The Federal....

♡ 76.2K 5:59 AM - Dec 2, 2019



News: Dec 2-8

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Share-price performance



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Saudi Arabia's energy minister, Prince Abdulaziz bin Salman, with Russia's energy minister, Alexander Novak, in Vienna for the OPEC meeting. **PHOTO: LEONHARD FOEGER/REUTERS**

Office Hours for the Final Exam

Prof Alan Deardorff

Monday 12/9, 10-11 AM, 3314 Weill
Thursday 12/12, 10-11 AM, 3314 Weill

GSI Huayu Xu

Monday 12/9, 11 AM - 12 PM, 102 Lorch
Tuesday 12/10, 11 AM - 1 PM, MHG437 (Mason Hall G437)

GSI Review session:

Monday 12/9, 6-7 PM, WEIS260

What's Covered on the Final Exam?

NOTE: You will get two points for correctly recording:

- your name and UMID number, both on the exam booklet and on the scantron sheet so that the computer can read it,
- **AND** your **FORM NUMBER** on the scantron so that the computer can read it.

(In other words, you will lose two points if you don't do all of this.)

The final exam is cumulative covering all of the material since the start of the course through the end. I intend to give roughly equal treatment to each lecture topic, including the outside readings and assigned news items. Thus, the exam covers:

- All assigned portions of Gerber (see [syllabus](#) on line),
- All of the readings assigned from Sep 9 through Dec 9, (including the pieces marked as "Other Views" but not those marked as "Optional"),
- You should also be familiar with the **news** that we will have discussed in class, including those items identified on the [Assigned News Items](#) page for weeks: Sep 9 through Dec 8.

Note: Does not cover slides on NAFTA History that we jumped over in Lecture 18

Economics 340

International Economics Fall 2019

Course Syllabus

Contacts: Office Hours, etc.

Curves from prior terms

Enrollment Information | (Overrides)

Exam Information

Glossary of International Economics

Handouts

Honors Assignment

Lectures: Slides

News: Assigned | Subscription Prices | All

Podcast: Trade Talks

Q&A: Questions Asked and Answered

Questionnaire Results: Winter 2018 Winter 2013

Questions on Readings

Study Questions

Useful Links

Handouts

Terms & Acronyms Listed
Terms & Acronyms Defined

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

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?

Outline: Environment, Labor Standards, and Trade

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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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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

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Dennis MacDonald

129740434

Chemical industry plants spew air pollution from Sarnia ontario canada on the united states border at port huron michigan along the st clair river



This image of the Mexico-USA border tells its own story. Tijuana is on the right, San Diego on the left.

Environment: Examples

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

– Tuna-dolphin case

– Shrimp-turtle case

US laws banned imports

Fishing for these...

... hurts these
Econ 340, Deardorff, Lecture 23:
Environment, Labor

Struck Down
by GATT/WTO!

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Environment: Policies

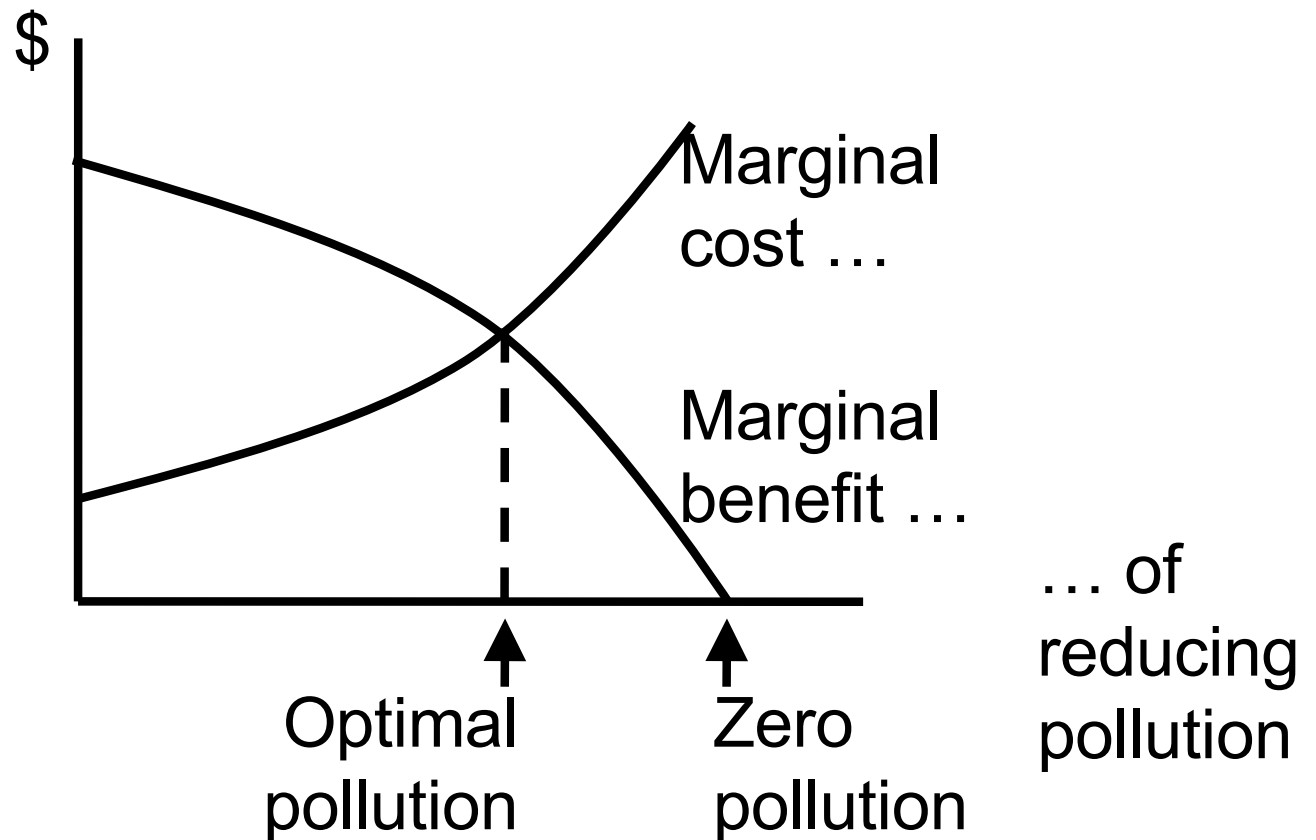
- How to deal with a negative externality
 - Regulate: Prohibit or limit activity
 - Tax: Make activity more costly
 - By setting tax equal to cost to others, government can “internalize” the externality.
 - Hybrid: Tradable licenses
 - Number of licenses set by regulation
 - Market determines who uses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

Environment: Policies

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

Environment: Policies

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



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)

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)

Environment: International Problems

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

Environment: International Problems

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

Environment: International Problems

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

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

[He goes on to give several reasons.]

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.

Policy Options

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

Policy Options

- Carbon Tariff
 - If some but not all countries
 - use carbon tax or cap-and-trade to raise price of carbon
 - to fight global climate change
 - Then many would advocate a carbon tariff on 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

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

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

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*)

Labor Standards:

Fundamental ILO Conventions

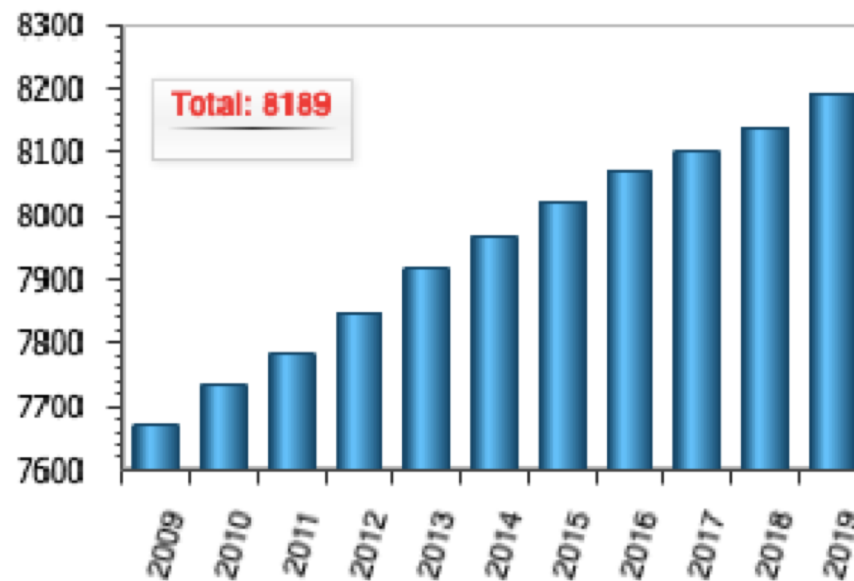
3. Equality

- a. Discrimination (175)
- b. Equal Remuneration (173)

4. Elimination of Child Labor

- a. Minimum Age (172)
- b. Worst Forms of Child Labor (186*)

Total number of ratifications registered since 1919



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Labor Standards: Fundamental ILO Conventions

*Fundamental Conventions ratified by U.S.:

ONLY:

- Abolition of Forced Labor
- Worst Forms of Child Labor

Labor Standards: Fundamental ILO Conventions

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

Labor Standards: Found in U.S. Trade Law

- Freedom of Association
- Right to Organize and Bargain Collectively
- Forced Labor
- Minimum Age for Employment
- Acceptable Conditions of Work

(not “Fundamental” in ILO)

- Minimum wage
- Hours of work
- Safety and Health
- Enforcement

U.S. Labor Standards

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

U.S. Labor Standards

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

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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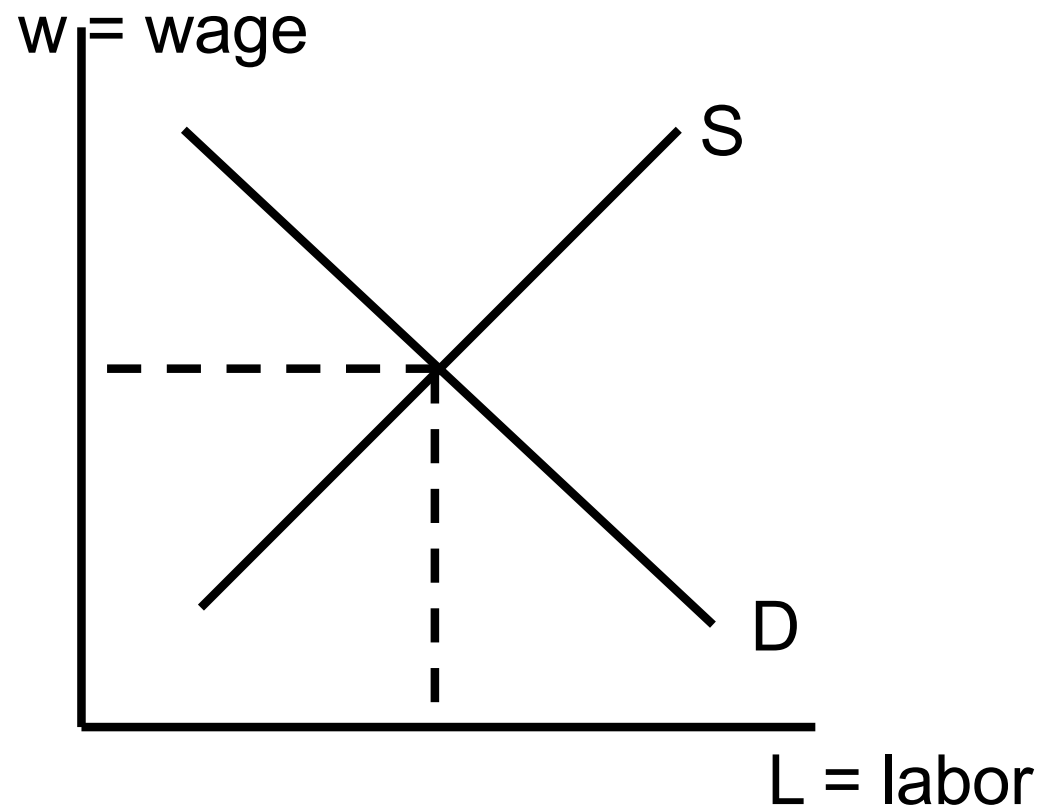
Labor Standards: Issues

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?

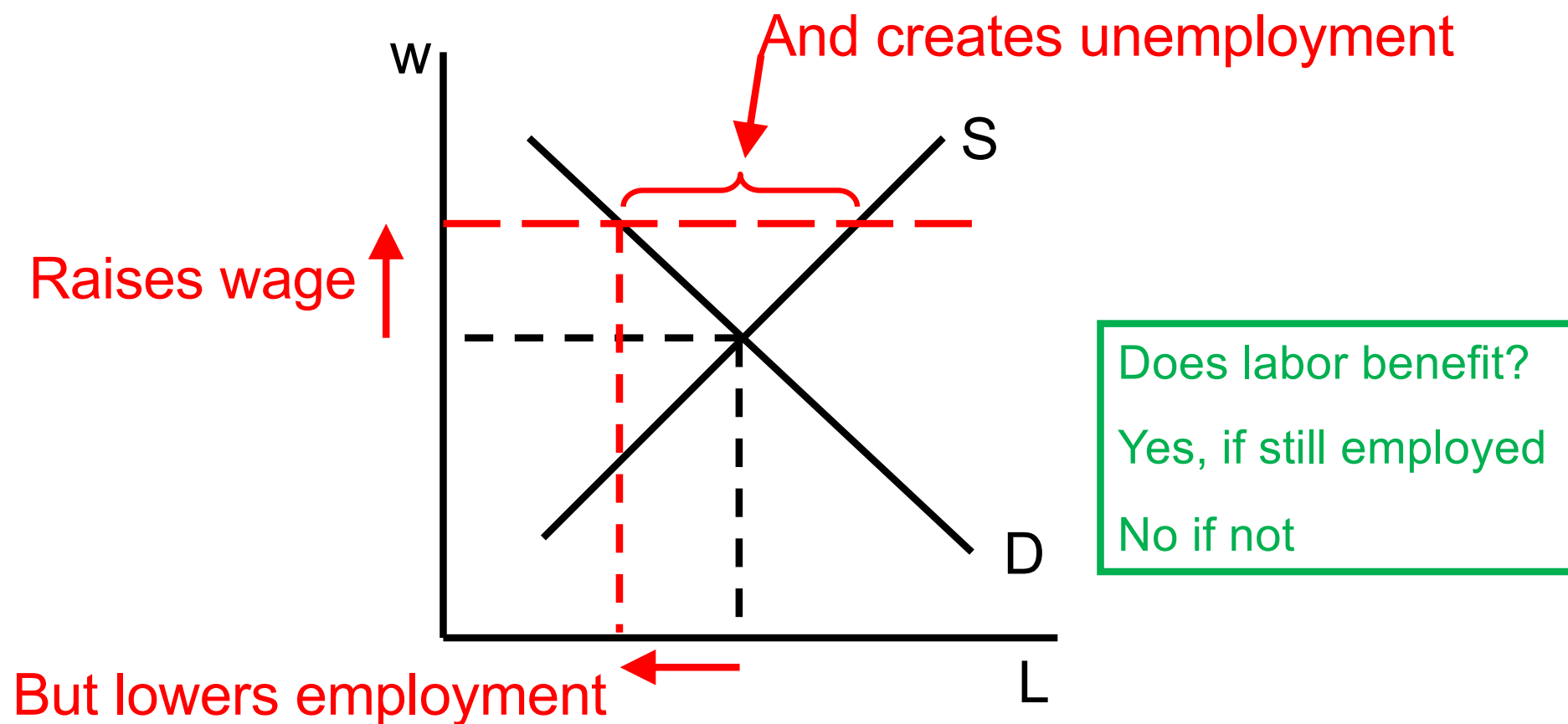
Labor Standards: Issues

Effect of labor standards:



Labor Standards: Issues

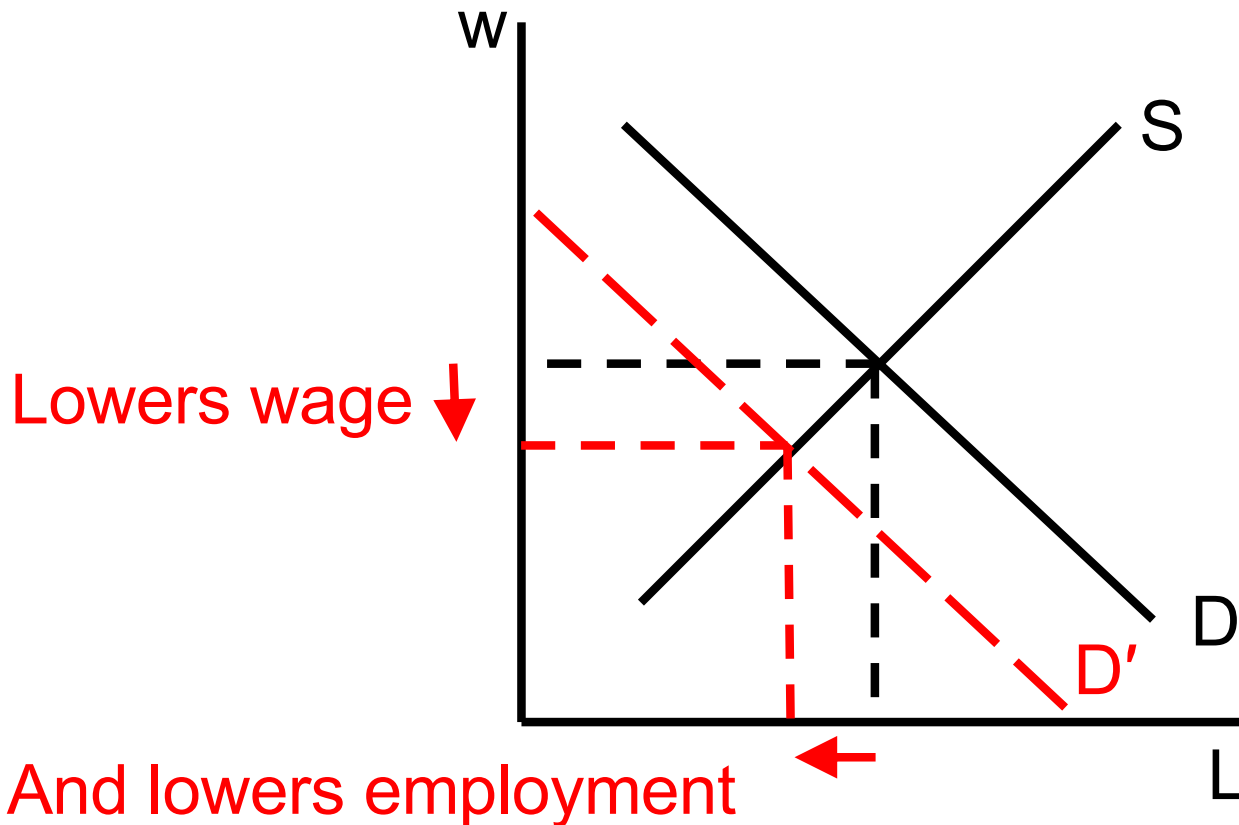
Effect of labor standards: **Minimum wage**



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

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

Labor Standards: Issues

Should trade policies be used for labor standards?

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

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

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

Labor Standards: Issues

Are trade policies used to enforce labor standards?

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

Labor Standards: Issues

What to do when labor standards are violated

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

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.

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

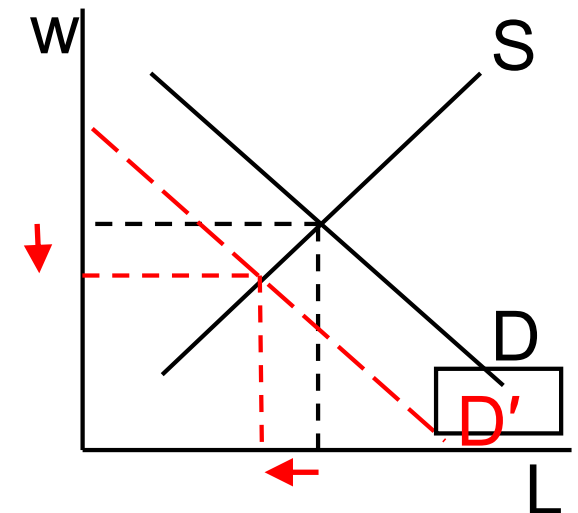
Why **should** the WTO permit countries to use tariffs against imports from countries that have low labor standards?

- ✓ 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



Next Time, and After That

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