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Free Trade and Labour

By

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As we approach the WTO Ministerial meeting in Qatar during November 9 to 13 later in the year, there still remain major differences among the Contracting Parties on the agenda of a possible new Round to be launched at Qatar. But, while differences over questions such as the inclusion on the agenda of competition (along with anti-dumping reform) and investment policies, and certain environmental questions, are certainly negotiable, and may be expected to be resolved, this is not the case for labour standards.

Major developing countries will not compromise on this issue. In fact, after President Clinton's fatal gaffe during the Seattle talks over endorsing trade sanctions to enforce such standards, the position of the developing countries has hardened considerably: any involvement of the WTO, in any shape or form, on labour questions is ruled out. At the same time, several Democrats in the US Congress, reflecting the politics of union support, have hardened in the opposite direction. Senator Gephardt, the Minority leader in the House, asserted in August that the renewal of fast-track, rechristened as Trade Promotion Authority, is contingent on making labour rights "central to U.S. trade agreements".

The politics of this issue in Washington is clear enough: Democratic leadership considers the rejection of linkage to be a morally defective affliction of Republicans and "free trade ideologues". This sounds so plausible to the untutored that few in the rich countries understand the opposition of the poor countries to linkage, often dismissing it self-servingly as reflective of governments indifferent to the interests of their workers. But one must ask: why does even a totally democratic country like India, and all its labour unions, regardless of their political orientation and with a membership at over 7 million, oppose such "linkage" of trade and labour? Are they wrong?

No. In fact, if the case for their opposition was presented fairly and without political obfuscation by lobbies in the policy arena, it would be found compelling. It is best seen by distinguishing sharply among, and refuting, two main arguments for linkage that are invariably confused in the charged political debate.

One reflects "egoistical" or self-interest-driven motives reflecting fears that, in the absence of linkage, the real wages and the labour standards of the workers in rich countries will collapse. The other arises from "altruistic" concerns about the real wages and labour standards elsewhere: linkage is seen as necessary to spread better standards abroad. But neither contention is valid: the fears that one's wages and standards are at risk with freer trade are not compelling whereas linkage is an inefficient, even counterproductive, way to advance labour standards worldwide.

Consider the "egoistical" reasons. Unions fear freer trade with the poor countries for two main reasons. They dread that it will reduce the real wages of workers; they are also certain that, as capital moves to poor countries with lower standards, they will lose their hard-won labour standards.

The fear over real wages has had political salience since the 1980s when real wages stagnated, possibly even declined, interrupting the postwar trend increase in wages. It seems "obvious" then that competition through freer trade with the poor countries must be creating poor in the rich countries by reducing the real wages of unskilled workers. But probe deeper and the fear vanishes.

If it were justified, the mechanism would have to be the falling (relative) prices of labour-intensive goods (such as textiles and shoes) in world trade. But through the 1980s, these prices appear to have risen instead! The main reason, of course, is that the general presumption that over time more poor countries will become suppliers of such goods in world trade and hence lower their prices is false. Poor countries also move on, getting richer, and they withdraw from labour-intensive into skills and capital-intensive exports, thus "absorbing" the new suppliers' exports. As the Australian economist Ross Garnaut, a former Ambassador to China, has shown, China's dramatic rise in labour-intensive exports in the 1980s was almost totally offset by the withdrawal of East Asian economies; the latter, in turn, had entered these markets in the 1970s with a partial offset from Japan's shift away from them. Most trade economists have now concluded that trade with poor countries is not the main driver of the pressure on rich-country wages; in fact, it may well have moderated the fall that would ensue from technical change that continually reduces the need for unskilled workers.

As for the "race to the bottom", it has become a matter of faith that corporations will force lower standards at home by threatening exit to poor countries with lower labour standards otherwise. But, when one looks for evidence, there is little beyond occasional anecdotes. David Drezner, a political scientist at Chicago University and the Council on Foreign relations who has carefully examined the question, has concluded that the "race to the bottom" rhetoric is little more than that. Indeed, even in the highly competitive apparel industry, where many firms have gone abroad to the poor countries, sweatshops have not broken out in the rich countries in response. The American sweatshops reflect rather domestic factors such as reliance on illegal immigrants and the abysmal level of internal enforcement.

The demand for linkage that reflects these unsupported concerns can then be interpreted legitimately as “protectionist”. If competition gets rough, you can either restrict imports through conventional import protection; or you can, anyway you can try to raise the cost of production of your rivals and thereby reduce their competitiveness through what might be called “export” protectionism. Linkage in order to raise standards abroad, including growing demands for a “living wage”, is clearly that beast.

But the problem with the altruistic demand for linkage is not that it reflects protectionism but that linkage in the form of a Social Clause at the WTO will not do the job. By making market access conditional on satisfaction of labour standards, it creates two problems: it makes the use of trade sanctions the way to advance standards; and it makes the WTO the international institution charged with the job.

Complex problems such as child labour cannot be solved through trade sanctions. They need heavy lifting: working with local NGOs, with supportive governments, with parents, with schools. Trade sanctions can flag the issue; they cannot flog it. The ILO’s Program for the Eradication of Child Labour does just what is necessary.

Also, when my friend Robert Reich claims, as do unions, that the WTO has teeth (i.e. it imposes trade sanctions) but the ILO has none, I say: God gave us not just teeth but also a tongue. And today, a good tongue-lashing based on credible documentation by impartial and competent bodies such as a restructured ILO can unleash shame, embarrassment, guilt to push societies towards greater progress on social and moral agendas.

The WTO, in any event, is a cash-starved organization, with under $100 million as its annual budget. Do the Quad powers that continue to deny it any added funds, and concentrate cynically on Bretton Woods institutions (where they have weighted votes) for their financial largesse, seriously expect that these complex social issues can be handled by a secretariat that can barely and bravely manage conventional trade analysis? Do they really mean to advance labour standards or are they simply surrendering to the demands of their union constituencies, throwing a bone at them that is actually a bone down the gullets of the poor countries?

The bottom line then is that, with freer trade and labour issues linked by neither legitimate fears nor legitimate aspirations, it is simply wrong to insist that the WTO must address labour issues in any form. Not for the first time, the leading rich countries have it wrong.