

## Free trade's foes get a foot in the door

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The agreement on trade between the Bush administration and the Democrats in Congress, announced on May 10, takes the demand for the integration of labour standards in trade treaties up a further notch. The display of bipartisanship, with Nancy Pelosi, Democratic Speaker, appearing with Hank Paulson, Treasury secretary, and Susan Schwab, US trade representative, has been the cause of widespread celebration. Yet the compromise consensus to insert stronger protection of labour rights into US trade deals has dangerous implications for the world trading system.

Bipartisanship is no guarantor of virtue. The proponents of the compromise also make a serious mistake when they assume that domestic consensus on trade policy is a sufficient condition for further trade liberalisation. Trade needs at least two parties. Unless your trading partners agree with what you propose, your own consensus is well nigh useless. The problem is that, except for bilateral agreements with small countries (or groups of countries, such as Central America) with little political power or with overriding security interests, the developing-country trading partners of the US are generally opposed to the inclusion of labour (and other non-trade-related) requirements in trade treaties, agreements and institutions.

India and Brazil have rejected such tie-ins. India recently reiterated its opposition to the insertion of non-trade requirements in the proposed free trade agreement with the European Union, forcing the EU back to the drawing board. Brazil, even though it is led by President Luiz Inácio Lula da Silva, who is arguably the most remarkable trade union leader of his time, has equally opposed the inclusion of labour standards and other non-trade issues in the Free Trade Agreement of the Americas. The US reaction has been to condemn this approach as FTAA-lite (forgetting that, in the days of cholesterol consciousness, "lite" is an adjective of approbation, not of disdain), while bamboozling the Andean nations into backing the FTAA version that accepts several such non-trade provisions.

Many Democrats believe that the developing countries and the Republicans are morally wrong to voice objections to the labour requirements. Thus, I recently heard my congressman, Charles Rangel, Democratic chairman of the House Ways and Means Committee, argue that US trade policy had been run by the Republicans for corporate interests and that under the Democrats it would be run for the people.

The fact is that huge numbers of economists who belong to the Democratic party also oppose the inclusion of labour standards in trade treaties. So do distinguished Democratic politicians. At Davos, I heard Senator John Kerry, just before his unsuccessful presidential bid, argue for a "two-track" approach: labour standards would be pursued at the International Labour Organisation, trade at the World Trade Organisation.

While this position follows from the principles of efficient policy design, it is also reinforced by the fact that the pursuit of labour standards in the American political landscape today reflects not altruism and empathy, but fear and self-interest. The Democrats who swept into Congress on anti-trade platforms typically fought their campaigns by arguing that competition with countries with lower standards was harmful to the working and middle classes in the US.

But this fear is not justified by facts. Most empirical studies of the effect on US wages of trade with poor countries have found little impact. My distinguished student, Paul Krugman, recently admitted in his New York Times column that he was among those who did this research. He then, unconvincingly, retreated into the assertion that "that may have changed" because the US is importing more from the poor countries now. However, increased imports need not have any effect on wages.

Those who are complacent and think that this agreement is a minor concession in order to get on with trade forget that the strategy followed by labour lobbies has been to get a toe in the door, then another and another. Enforcement of one's own labour laws was in the annexe in Nafta; then it got into the text in FTAs with Jordan and Morocco; then there were demands to raise standards. Now, in the proposed compromise, the ILO standards are to be demanded. The ploy is clever: it is an indirect way for some unions to try to get the US itself to be pressured to make concessions to labour at home, on the backs of foreign nations.

Was this compromise necessary for the renewal of the president's fast-track trade authority? I doubt it. Think hard: if fast-track were not renewed by Congress, the US would find it impossible to pursue even bilateral agreements, not just the multilateral Doha round. But every other nation would be free to pursue these bilateral deals. So, the US would be increasingly handicapped in world trade. But if the administration stood firm, rejecting the compromise over labour standards, it is surely possible that a few responsible Democrats could be found who would vote for new fast-track authority, purely in America's interest. Surely, it is not beyond the capacity of Mr Paulson to play this card with success?

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