

# **Core Labor Standards and Competitiveness: Implications for Global Trade Policy**

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## **Abstract**

One of the principal arguments for inclusion of core labor standards in the WTO is that weak labor standards provide an illegitimate boost to competitiveness and may result in a “race to the bottom” in labor standards worldwide. This paper shows that, if the violation of labor standards results from discrimination against particular workers in export industries, employment, output, and competitiveness will be reduced since employment is determined by the short side of the market. If the problems arise from abuse of market power by employers, competitiveness will be similarly reduced. Only if freedom of association and collective bargaining were intended to allow workers in some sectors to restrict output and drive up wages would the absence of these standards raise competitiveness. However, if product markets are competitive, it is likely that association rights would increase output and competitiveness by raising productivity. The competitiveness argument seems either to reflect analytical confusion or to represent a cover for protectionist interests.

## **1. Introduction**

The issue of requiring minimum national standards for the protection of workers’ fundamental rights is prominent in the international policy arena. There is considerable international agreement that certain core rights should be globally recognized and protected. These core labor standards (CLS) are (i) elimination of exploitative use of child labor; (ii) prohibition of forced labor; (iii) elimination of discrimination in employment; (iv) freedom of association; and (v) provision of the right to organize and bargain collectively.

The consensus on these standards stems from the equation of these labor rights with fundamental human rights, as enshrined in international conventions maintained by the United Nations and the International Labor Organization (Maskus, 1997). Since the poor typically have nothing other than their labor to sell, it is also clear that achieving these standards and improving conditions of work are central to the successful alleviation of poverty.

However, there is little consensus about the appropriate international policies to ensure protection of these standards. A number of proposals have been put forward for linking trade policy to protection of labor rights (Rodrik, 1996, 1997; de Wet, 1995; Woolcock, 1995). Indeed, in the latter stages of the Uruguay Round and in the period leading up to the WTO Ministerial Meeting in Singapore in 1996, a number of member countries pressed strongly for the inclusion of core labor standards in the WTO. This issue was raised by a number of developed countries at the WTO’s unsuccessful Seattle Ministerial in late 1999, and strongly resisted by developing countries fearful that it would allow the imposition of barriers to their exports.

Proposals for incorporating labor standards into the world trading system appear to be motivated by three concerns. First, there are altruistic concerns for the rights of

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workers in poor countries.<sup>1</sup> While altruism is important in all societies, it is clear that the effective demand for strong labor standards rises with per-capita income (Maskus, 1997; Basu, 1999). We would expect pressure from voters in wealthy countries for their governments to take action to improve working conditions in developing countries, both as their incomes rise and as improving communications make them more aware of poor working conditions in developing countries.

A second source of concern focuses on the ability of workers and firms in the industrial countries to compete with workers in developing countries. Weak standards and inadequate enforcement of standards are viewed by some observers as means for generating artificially low wages and augmenting the natural comparative advantage that low-wage countries have in labor-intensive goods. This concern is expressed with particular force about labor practices in export processing zones. Similarly, those firms able to exploit child labor, to force laborers to work against their will, or to discriminate against particular groups of workers are seen as gaining a competitive advantage.

A third concern is that the legitimacy of the trading system itself might be eroded if it does not ensure that workers' rights in both developing and developed countries are protected. Rather than being distinct, this argument seems to be based fundamentally on the altruism and competitiveness concerns identified above.

Both popular and analytical discussion of trade and labor standards appear to assume the validity of the competitiveness argument. This is surprising, since there are complex links between core labor standards and competitiveness, and the countries with the highest labor standards (today's industrial countries) dominate world trade. Separating the competitiveness and altruism arguments is important to reduce confusion between these goals, and to ensure adoption of policies that help workers in poor countries, or at least do them no harm.

To foreshadow our results, we conclude that the competitiveness argument is invalid in almost all cases. Rather than providing competitive advantages, weak core labor standards typically reduce efficiency, raise costs, and lower output. Indeed, improving CLS is likely to increase economic efficiency in both the short run and the long run. Paradoxically, then, the adoption and enforcement by developing countries of core labor standards would increase the competitive pressures on workers in rich nations.

We organize our discussion as follows. In the next section we present a series of simple models to illustrate our basic point that a failure to establish and enforce CLS, in most cases, reduces an economy's efficiency and interferes with its comparative advantage. In the third section we review briefly the limited empirical evidence on the relationship between weak CLS and export performance. That evidence cannot detect any significant relationship in the data. In the fourth section we develop implications for the structure of international trade policy, making two points. First, imposing trade sanctions on nations with weak CLS generally would worsen the negative impacts of poor labor rights, thereby damaging prospects for trade and growth. Second, international efforts to improve CLS in poor countries should focus on direct remedies rather than trade sanctions, implying that labor rights should remain outside the World Trade Organization.

## **2. Core Labor Standards and Economic Efficiency**

As noted above, much of the ire of those advocating the incorporation of labor standards into the international trading system focuses on the perceived opportunities provided for enterprises in developing countries to become more competitive by violating those standards. This competitive advantage is widely viewed to be short-run in nature,

because violations of the implicit human rights are typically seen as imposing long-run efficiency costs. Exploited workers may be expected to invest suboptimally in human capital, to be poorly motivated on the job, and to perform below their maximum potential levels of effort. The *World Development Report 1995* (World Bank, 1995) graphically illustrated the benefits obtainable from having free trade unions in the context of competitive product markets. Most of the analysis in a recent OECD study (1996) supports the conclusion that raising labor standards would increase competitiveness and efficiency in the long run.

While the five identified CLS cover a wide range of situations, they have the common feature that violations of these standards could result in workers being paid less than the value (technically, the marginal value product) of their labor. For the cases of discrimination, forced labor and exploitative child labor, this interpretation is particularly clear. Refusal to allow workers to organize and bargain collectively could lead to this outcome if employers are able to depress wages below competitive levels.

The concept of competitiveness is open to a variety of interpretations (Krugman, 1994). However, a common feature is that more competitive firms or industries increase their market shares at the expense of the less competitive. The conclusion that firms and industries can increase their competitiveness by lowering core labor standards is, in our view, based on an excessively partial view that considers only the demand side of labor markets. Once we take supply relationships into account, the conclusion on competitiveness is reversed.<sup>2</sup>

The main source of this confusion is that the economic assumptions underlying the arguments about competitiveness are rarely made explicit. For example, it is typically unclear whether the labor market is assumed to begin from an initial competitive equilibrium or from an imperfectly competitive situation. The situations we analyze include, first, those where the labor market is initially competitive and, second, those where it is characterized by monopsony or monopoly power.

Throughout, we consider the case where all goods are tradeable and there is only a single distortion in the labor market. This greatly simplifies the analysis by allowing us to focus only on the markets of direct interest. We assume further that induced income changes in labor markets affect output demands only slightly, permitting us to identify changes in output one-for-one with changes in trade volumes.

### *Case 1: Discrimination in a Competitive Labor Market*

In Figure 1, we consider the case where the market for a particular type of labor (say, female) in an industry would be in equilibrium with the wage at  $w^*$ . Assume that the government, or a group of employers, arbitrarily discriminates against female labor in a particular sector, imposing a maximum wage at  $w'$ , below the market-determined wage and below the marginal value product of female workers. An analysis that focused solely on the demand side would lead to the conclusion that employment and output (and hence competitiveness in the product and export markets) would rise. In Figure 1, this would be represented by a rise in employment to  $q_d$ . However, in such a disequilibrium situation, it is the short side of the market that rules. Employment would be determined on the supply side, with excess demand for female workers being  $(q_d - q_s)$ . In this case, it is clear that *employment, output, and competitiveness would all fall*, rather than rise, in this sector. Because firms can hire fewer female workers than in the competitive equilibrium, the marginal value product of an additional female worker, at  $w''$ , is above the equilibrium wage.

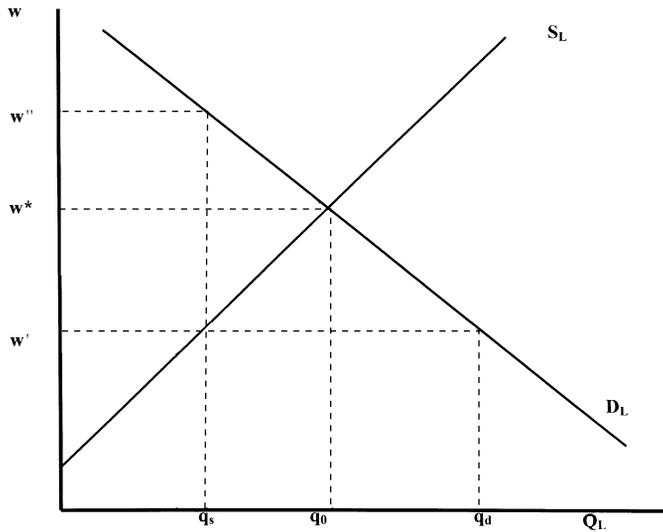


Figure 1. Implications of Discrimination against a Particular Type of Labor

If there is another, unregulated, sector in the economy, the labor rendered surplus in the market with discrimination would flow into it, driving down female wages in that sector. For the initial sector to retain any of the employees against whom discrimination is practiced, the wage in the residual sector must be driven below  $w'$ . As long as this condition is satisfied, the resulting outcome will be stable. In this case, discrimination in the primary market will increase the competitiveness of the residual market—a quite different outcome from that which appears to have motivated concerns about competitiveness and trade.

The discrimination represented in Figure 1 may be caused by employer prejudices against women, with the margin of discrimination ( $w^* - w'$ ) determined by the least-prejudiced employer (Cain, 1986). However, in the long run it is inconsistent with rational behavior by employers. It would pay an employer to offer more than the discriminatory wage rate,  $w'$ , to attract the services of an additional worker, whose marginal contribution to revenue,  $w''$ , would be above that wage. Profit-maximizing employers would do so until the marginal value product of female workers declined to  $w^*$  and the wage rate required to induce an additional unit of labor into the market rose to the same level. In a competitive market in which employers possessed accurate information about worker productivity, it is difficult to envisage how such discrimination could be maintained for long. In this context, the maintenance of discrimination evidently reflects government regulation, weak information, or persistent cultural traditions. Government efforts to reduce discrimination would raise market efficiency.

Turning to trade implications, export volume would fall as a result of discrimination if the problem is in the exportable sector but import volume would rise if it is in the import-competing sector. Suppose the industry depicted in Figure 1 is the exporter and the residual sector competes with imports. A tariff imposed by the rest of the world (ROW) in protest would shift down the demand for female labor in the exportable. This would have no effect on employment of women unless demand shifts sufficiently to make the wage constraint nonbinding and induces a fall in the wage—in which case its impact on the affected women would be negative. If discrimination exists in the

import-competing good, the ROW tariff on exports would reduce demand for women in the (residual) export sector, tending to reduce female wages in both sectors below its constrained level. In this model, then, a foreign tariff could not help women and could harm them.<sup>3</sup>

These results come from a partial-equilibrium model. An even more striking result emerges from a general-equilibrium model in which there is general wage discrimination and a positive elasticity of female labor supply. The discrimination shifts in the production frontier and reduces output in the good that makes intensive use of women. If this sector were the export good, export competitiveness would be impaired; if it were the import-competing sector, import volume would rise. In the former case, eliminating the discrimination would expand exports. This outcome is just opposite to the main conclusion in Brown et al. (1996), who model a stronger labor standard as one that reduces the effective supply of labor, rather than increasing it.<sup>4</sup> Turning to the ROW tariff, it would harm female wages where exports are intensive in female labor but would place upward pressure on those wages where exports intensively use male labor, perhaps inducing employers to relax the wage constraint.

### *Case 2: Collective Bargaining Rights in a Competitive Labor Market*

Suppose that collective bargaining rights are introduced into one sector of a perfectly competitive economy and the outcome is to set an above-market minimum wage in that sector. The simple partial-equilibrium diagram in Figure 2 depicts this case. The monopoly power of labor suppliers permits them to increase wages. In this situation, a net-return-maximizing labor union sets wages (or employment levels) so that the marginal revenue obtained from selling an additional unit of labor equals the wage obtainable in other industries. In the diagram, the wage in the monopoly union case is

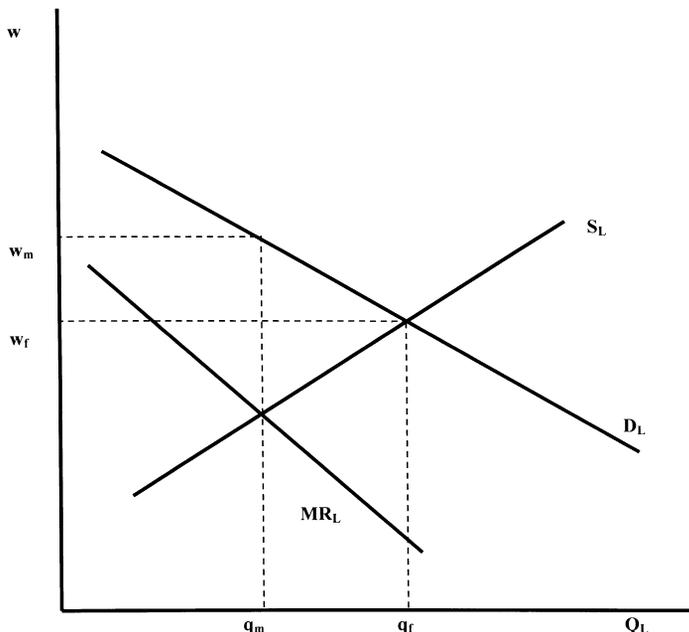


Figure 2. Monopoly in the Market for a Particular Type of Labor

$w_m$ , as against the competitive wage of  $w_f$ . Employment in this sector falls from  $q_f$  to  $q_m$ , implying a fall in competitiveness and market share in this industry.

A similar possibility stems from the Harris–Todaro (1970) model, which has been extensively analyzed in the trade literature. Suppose a higher-than-market wage is set in the import-competing sector, corresponding to the ideas that developing countries import capital-intensive manufactures and that these industries are more amenable to unionization. This higher wage is sustained by limited entry into the labor union from workers in the export sector, which has an equilibrium wage equal to the expected wage in manufacturing. Unemployment exists in equilibrium, reducing the economy's production set. Output effects are ambiguous in principle. Both outputs could fall or one could rise and the other could fall, though it is likely that output would fall in the unionized import-competing sector (Corden and Findlay, 1975). This ambiguity means that trade effects also would be ambiguous, although the implicit inefficiency suggests lower trade offers would result overall. If the export sector were not unionized, a ROW tariff would reduce demand for labor in that sector.

These simple cases suggest that introducing bargaining rights into competitive labor markets could reduce efficiency, counter to our basic proposition about CLS. In such cases, a law removing free association and collective bargaining rights could result in lower manufacturing wages and higher levels of employment and output. In these situations, there would be a positive association between competitiveness and weak labor standards.

This case is probably what many advocates of labor standards have in mind when they call for extension of bargaining rights to workers in export processing zones. If workers in these zones were able to raise wages and reduce output in line with firms in the same industries in other parts of the economy, their competitiveness would fall. However, this would have highly questionable equity implications. The workers forced out of employment in export processing industries would be forced into employment in the residual, competitive sectors of the economy, where wages were depressed by the restrictions on job creation in the export sector.

While theoretically possible, this outcome is probably more the exception than the rule, especially in competitive export markets such as those for the labor-intensive manufactures that dominate the export structures of labor-abundant developing countries. As has been widely argued (World Bank, 1995), unions operating under appropriate legal frameworks are more likely to contribute to productivity and hence to output than to reduce employment and output. In this situation, suppression of workers' rights to organize and bargain collectively would generate inefficiencies.

### *Case 3: Monopsony in the Labor Market*

A common concern expressed about weak union rights is that labor markets are not competitive and that the free operation of labor unions can offset the implicit inefficiency. The most obvious case emerges where employers have monopsony power in hiring workers.

Thus, consider the situation in which a single firm, or a small set of collusive firms, has market power in the labor market. Monopsony could be natural in a small market in which there is a limited number of firms or it could be supported by government barriers to entry of other employers. Thus, it seems likely to be more common in small nations, in regional labor markets within countries, or in countries with extensive protection against competition.

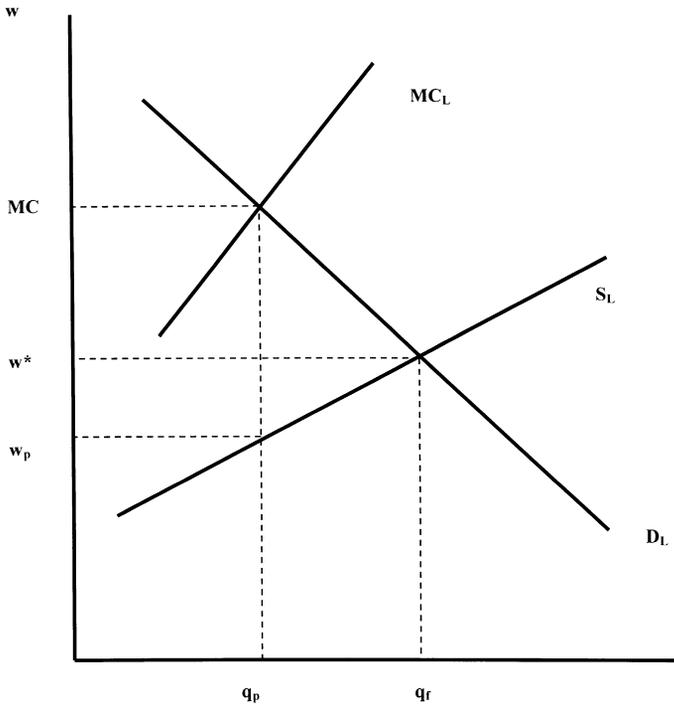


Figure 3. Monopsony in the Labor Market

Suppose the monopsony exists in the export sector, which is labor-intensive. This is the case typically mentioned in the policy debate, but there are many possibilities. For the moment, suppose the economy is small and the monopsony firm producing output accepts a price fixed by external competition. In Figure 3, if there were no monopsony the market wage would be  $w^*$ . However the employer bases the hiring decision on the marginal cost of employing labor,  $MC_L$ , and depresses wages by limiting employment in a local labor market. The rent-maximizing employer thus chooses employment level  $q_p$  and pays the wage  $w_p$  as a result of this market imperfection. Thus, the monopsony hiring practices suppress wages, as is generally alleged in the policy debate. However, they also reduce employment, output, and competitiveness in the sector relative to what they would be in a competitive labor market. Considering the economy as a whole, those workers displaced from the monopsonized industry move into other sectors, driving down wages there and increasing output. Thus, it is in these residual sectors that competitiveness rises, albeit because of the market inefficiency.

Suppose that ROW were to impose a tariff on exports of the good produced in Figure 3 to protest the absence of union bargaining rights. The effect would be to reduce the export price and shift the labor-demand curve down, inducing the monopsonist to choose yet a lower employment level and offer an even lower wage. Thus, the tariff would reduce wages and introduce additional inefficiency into the economy.<sup>5</sup>

In theory, the optimal policy response would be for the government to remove the monopsony through additional product-market entry or removal of restrictions on labor mobility. However, an alternative approach would be to allow workers to organize a union and bargain with the employer. The outcome of such bargaining would depend on the union's objective with respect to the given labor-demand curve. In

principle, the union could bargain for the competitive solution, which would restore efficiency and expand employment, output, and competitiveness. Thus, union rights certainly could support the efficient functioning of labor markets, which would, paradoxically, frustrate the hopes of those who believe that stronger rights would limit exports. It is also possible that the union would set employment levels in an effort to raise the wage. If the union were successful in maximizing the net returns of its members by acting as a monopoly supplier of labor, the employment level, relative to the previous monopoly situation, would depend upon the elasticity of demand for labor relative to the elasticity of supply. If the product market were competitive, and the union were not granted an excessively strong position by the prevailing labor market rules, it is likely that the resulting outcome would involve a higher level of employment and output than the monopsony. However, a range of outcomes is possible, with employment either rising or falling depending on union preferences and relative bargaining power of the union and the employer (Maskus, 1997).

It is worth making observations about the situation in which the exporting economy is large in the world market for its labor-intensive goods. It is often claimed that the absence of union rights in the exporting country (or set of countries) depresses wages abroad by pushing down the world prices of its exports. As the analysis here shows, however, if the monopsony lies in the export commodity its effect would be to limit export competitiveness even as it depresses home wages. This would tend to raise the global prices of labor-intensive goods, thereby supporting higher wages abroad. Introducing union rights into this situation could actually cause foreign wages to decline to the extent they expand competitiveness of the labor-intensive exports sectors.

### **3. Evidence on Core Labor Standards and Export Competitiveness**

There is some empirical evidence about the effects of differential levels of CLS on exports and export prices.<sup>6</sup> The OECD (1996) related measures of export performance, both in the aggregate and, more appropriately, for labor-intensive goods, to indications of limited labor standards. No relationship appeared to exist in their data. Neither could they detect any correlations between measures of revealed comparative advantage and attempts to suppress union rights. The OECD also could not detect any effects of CLS on US import prices of textiles and apparel across trading partners. Nor was there any indication that export prices for hand-made carpets were lower in countries with extensive use of child labor. They concluded that differences in CLS had little evident effect on patterns of specialization, competitiveness, or exports.

Rodrik (1996) econometrically related basic measures of labor standards across countries, such as ratification of ILO conventions covering core labor standards and an indicator of enforcement problems in child labor protection, to international trade flows. He was unable to determine any relationship in the data. Nor could Rodrik find any suggestion of a positive statistical relationship between low labor standards and inward flows of foreign direct investment (FDI) from the United States across countries. Indeed, there was some evidence that FDI is lower than expected in countries with limited CLS. Aggarwal (1995) noted that it is common in developing countries for labor standards to be lower in less export-oriented sectors and in nontraded goods than in export-oriented industries, including even textiles and carpets. Within all manufacturing, workers in firms with high export-to-output ratios tended to receive greater wages and benefits than those in less export-oriented firms. She also found that US FDI is not concentrated in nations or sectors with weak labor standards. Moreover, countries with weaker labor rights did not have higher import-penetration rates in the

United States than did countries with stronger labor rights. In summary, she found no indication that export success in developing countries is due to cost advantages based on inadequate CLS. Indeed, it appears that higher standards are associated with greater export orientation, although the direction of causation was not explored.

#### 4. Implications for Trade Policy

The bulk of the economic logic and the evidence we have reviewed points to a straightforward conclusion. Under most circumstances the absence or inadequate enforcement of core labor standards, rather than providing an export advantage, is inefficient and costly in both the short run and the long run. That some countries continue to fail to provide adequate CLS in labor policies and their implementation reflects structural problems that prevent effective recognition of the potential gains from stronger labor rights. Such problems could be widespread, including, *inter alia*, the existence of monopoly enterprises in product and service markets, inadequate or unbalanced political competition favoring entrenched producer interests, inefficient flows of information regarding true productivity characteristics of workers, and rigidities in internal labor mobility.

The use of international trade sanctions would inject yet another inefficiency into this mix and would be unlikely to improve workers' rights where they are weak. Tariffs imposed by foreign countries concerned about insufficient CLS are indirect policies that are not aimed directly at the underlying distortions. By reducing external demand for the services of disadvantaged workers, such sanctions are likely to worsen their economic prospects. For example, Maskus (1997) developed theoretical models of ten different cases, covering child labor exploitation, discrimination, and weak union rights, in which a foreign tariff might be deployed against the problem. In eight cases the tariff would reduce the wage of the labor group harmed by the weak labor standard. Moreover, it is likely that the severity of the sanctions imposed would depend on the preferences of the sanctioning country, rather than on the extent of the inherent distortion in the targeted country.

Foreign tariffs levied against exports from countries with problems in achieving core labor standards can surely reduce their competitiveness. However, such reductions in competitiveness would not be an effective way to protect wages or employment in high-wage nations (Tyers et al., 1999; Freeman, 1995). To the extent that these trade restrictions reduce exports and growth in the target nations, they would delay the endogenous implementation of stronger labor standards.

Thus, developing countries understandably are concerned about proposals to validate the concept of "social dumping" within the WTO. This concept would view limited application or suspension of labor laws on behalf of export firms or enterprises in export processing zones as actionable subsidies in the same sense as industry-specific tax advantages or capital subsidies. Such a provision would lead to numerous difficulties of interpretation and operation. Experience with antidumping and countervailing duty procedures in the United States and the European Union suggests strongly that such rules would be captured by domestic producers (Anderson, 1996). Calculation of a meaningful "social dumping margin" would be virtually impossible (Maskus, 1997). In most cases, even the sign on any dumping margin based on estimates of wage suppression would be wrong. Depressed wages in the cases of discrimination and labor market monopsony result in reduced output and competitiveness. If action were to be taken unilaterally by the importer to try to offset these distortions to output, trade, and wages in the exporting country, it should take the form of an import subsidy rather than a tax.

A prominent social clause proposal (Rodrik, 1996, 1997) was based on the psychic disutility experienced by citizens in rich countries when they become aware of poor working conditions abroad. Rodrik advocated the imposition of “social safeguards” tariffs against countries that follow labor practices that could be shown, through a series of filters, to be morally reprehensible to a majority of citizens in the importing country. He argued that high-standard countries have expressed in their legislation social preferences against certain domestic production technologies, such as child labor use and discrimination, and that imports from low-standard countries are in a sense equivalent to importing foreign workers and permitting them to work under these unacceptable conditions.

While seemingly democratic and equitable, such a procedure is a poor basis for sound policy. It fails a basic criterion for policymaking in that it does not appear to examine whether it is likely to achieve an improvement in the initial situation of the workers whose welfare is meant to be of concern.

Acceptance of this proposal would pose considerable difficulties for the trading system (Srinivasan, 1997; Maskus, 1997). Its logic would open the WTO to trade sanctions imposed against any foreign production process that failed to satisfy majority preferences in the sanctioning nation. Countries constrain or prohibit numerous processes for environmental, health, aesthetic, and other reasons. Under Rodrik’s approach, any such regulatory variations could be potentially the subject of trade barriers. Moreover, it is inevitable that sanctions would be applied on a discriminatory basis, with the level of tariffs depending on the severity of standards violations as perceived by the sanctioning countries. This difficulty would erode the fundamental principle of nondiscrimination that lies at the core of the WTO.

## **5. Conclusions and Suggestions for Research**

The basic conclusion is that trade remedies should be resisted on the ground that they would be costly in welfare terms, would be indirect instruments that worsen the problems at which they are aimed, and could burden the trading system. Nonetheless, weak core labor standards remain a problem that could be addressed more effectively through instruments that are targeted directly at improving them or moderating their negative outcomes. For example, there are many cases in which limited labor standards serve to reduce a country’s economic efficiency and act as a drag on its growth. Policy analysts could advise labor officials in developing countries about such problems and the gains from removing them.

Similarly, efforts could be made to improve the quality of, and access to, primary education for poor children in order to reduce child labor exploitation. Programs to subsidize the purchase of school supplies, provide transportation, and reduce the costs of schooling seem to increase enrollments elastically in poor countries (San Martin, 1996). Further, household decisions to retain young children in the workplace often stem from a self-insurance motive when financial markets are unable to provide short-term finance to impoverished families in the event of falling incomes. This market failure suggests that programs to improve access to short-term finance could reduce child labor.

Regarding discrimination and weak union rights, a stronger multilateral monitoring system operating through the International Labor Organization could publicize egregious cases in which basic worker protection is denied. Exposing such problems to global public scrutiny can induce governments and enterprises to adopt stronger standards, as recent experience in the carpet and clothing industries attests. Further,

there is scope for expanding private and public mechanisms to reveal the extent of abuse in working conditions through greater information and use of labeling programs.

A final observation is that additional research in this area is sorely needed to shed light on the conditions of work, their implications for prices and trade, and the effectiveness of various policy instruments in securing efficiency-enhancing changes in standards. The empirical evidence on the relationships between labor standards and trade patterns and volumes is particularly scarce and could be improved by comprehensive research that uses more sophisticated econometric techniques to identify the conditional relationships that are of central interest.

More fundamentally, in light of our basic finding that weak CLS may be expected to reduce economic efficiency under most circumstances, more research should be devoted to understanding why governments and enterprises choose not to adopt stronger systems of worker protection. If research could reveal the sources of this policy failure, recommended policy approaches would aim at removing those sources. For example, it could be that entry restrictions in product markets maintain monopsony purchasing power in labor markets, indicating that deregulation and competition maintenance would be the appropriate solution.

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## Notes

1. For example, Krueger (1996) found that sponsorship in the US Congress of the Child Labor Deterrence Act of 1995 came more from representatives of districts with low concentrations of low-skilled workers. He interpreted this to mean that interest in the bill was primarily associated with altruism. See Srinivasan (1997) for a criticism.
2. The models presented in this section are based on the analysis in Maskus (1997).
3. An alternative form of wage discrimination would involve a fixed wedge between the true marginal revenue product (labor demand) and the allowable wage, in which case women would be harmed by the tariff.
4. We do not claim that their analysis is incorrect. Those authors assumed full employment of a fixed supply of workers and considered a labor standard to be labor-using. Our approach begins with a distortion that reduces the quantity of labor supplied.
5. An import-equivalent quota imposed by ROW would have the same initial effect. Over time, however, the quota is liable to grant the monopsonist additional wage-depressing power.
6. Stern (1997) and Brown et al. (1998) provide more thorough reviews.