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Table of Contents and Chapter 1 of *Social Dimensions of U.S. Trade Policy*

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of

Social Dimensions of U.S. Trade Policies

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CHAPTER 1

Introduction and Overview

Alan V. Deardorff and Robert M. Stern

I. Introduction

This volume contains the papers and comments that were commissioned for a conference on the "Social Dimensions of U.S. Trade Policies," which was held at the U.S. Library of Congress in Washington, D.C. on April 16-17, 1998. This conference was part of a program of policy outreach activities supported by a grant from the Ford Foundation to the University of Michigan School of Public Policy to study the role of interest groups in U.S. trade policies. Previous activities included a conference on "Constituent Interests in U.S. Trade Policies," held in Ann Arbor in November 1996. The proceedings of this November 1996 conference were published by the University of Michigan Press in 1998 (see Deardorff and Stern, 1998). We also had a one-day workshop on "U.S. Trade Policies and the Public Interest," in Ann Arbor in November 1997.

Our Washington conference provided an opportunity to address the salient issues of the social dimensions of U.S. trade policies in a setting on Capitol Hill where we were able to attract a number of Congressional staff as well as representatives from the broader trade policy community comprising staff from a number of Executive Branch agencies, international organizations, think tanks, public interest organizations, and universities. All of the papers were made available in advance to conference participants in hard copy and to a wider audience via the web site of our University of Michigan Research Seminar in International Economics. This helped considerably to focus the discussion and comments in each of the sessions.

The conference papers were revised following the conference to take into account the discussants' comments as well as points raised during the floor discussion. It was decided to include the discussants' comments as they were originally prepared based on the conference versions of the papers, in order to capture the concerns and criticisms raised in the conference sessions. The panelist remarks are also based on the conference versions. We trust that readers will find the comments and panelist remarks interesting and informative in their own right and useful supplements to the individual papers.

To assist the reader in determining which chapters may be of greatest interest, we provide brief summaries in Section II that follows. Then, in Section III, we reflect on what we have learned from the papers and commentaries about the social dimensions of U.S. trade policies and offer our suggestions on a number of issues that merit further exploration.

II. Overview

In **Chapter 2**, **Foreigners and Robots: Assistants of Some, Competitors of Others**, Edward E Leamer notes that over the last three decades, unskilled workers in the United States and Europe have been experiencing stagnating or declining real wages and higher rates of unemployment. This has stimulated an intense academic debate in the United States that has focused on two potential drivers: skill-biased technological change associated with the computer revolution and the economic liberalizations in the third world that have greatly increased the effective global supply of unskilled workers with no commensurate increase in physical or human capital. His chapter reviews the theory and evidence, particularly regarding the role of trade.

It is apparent that there exist differences in wages at different points on the globe. Arbitrage might be expected to eliminate these differences, which suggests a fundamental question. If it is inward-looking isolationist government polices that have historically prevented arbitrage from eliminating geographic wage differences for equivalent workers, what will happen now that these barriers are being torn down? To answer this question we ought to use a clear conceptual framework. A one-cone fully diversified Heckscher-Ohlin (HO) model has been the implicit or explicit foundation for most of the data analysis regarding trade and wages. An HO diversified equilibrium has wages set completely by external competitiveness conditions, but the HO model also allows specialized equilibria in which the internal margin affects wage rates. Specialization is one way to limit international labor arbitrage and leave substantial wage differences among countries. Another isolating force is distance. Leamer discusses both distance effects and specialization effects.

Both the diversified and the specialized HO models suggest looking at relative prices to determine the impact of *globalization* on the world's labor market. The Stolper-Samuelson Theorem implied by the one-cone fully diversified HO model maps product prices into wage rates. This theorem has served as a theoretical foundation for several studies of the prices of tradables. At least one of these studies argues that there were significant price declines of labor-intensive tradables in the 1970s. But the relative price of labor-intensive tradables stabilized in the 1980s when most of the rise in U.S. inequality occurred. To argue that the 1980s rise in inequality is driven by trade forces us to look at mechanisms not captured by HO models. There are many other ways that trade could matter, the most promising of which may be threat effects or *contestabilty*.

In his comment on Leamer's paper, Lawrence Mishel **[to be completed]**

Also commenting on Leamer's paper, T. N. Srinivasan notes that it offers a varying set of conclusions derived from different highly stylized models. But it does not provide what Leamer once characterized as "good empirical estimates of the relative effects of technological change, globalization and education on the U.S. labor markets." Instead it offers a variety of conclusions based on a variety of models, with the connections between conclusions and models not always clearly identified. For example, some models suggest that a fall in the relative price of labor-intensive goods arising from increasing import competition from labor-abundant developing countries need not result in a fall in the relative wage of unskilled labor in skilled-labor abundant developed countries. Nor is it the case that competition in world markets for, say, apparel by developed and developing countries necessarily implies that the wages of unskilled labor have to be the same in both. Attention is drawn to some recent theoretical and empirical works that arrive at conclusions different from Leamer's on the role of innovation and the use of computer-based technology in explaining trends in the relative wages of U.S. unskilled labor.

In Chapter 3, **Economic Research and the Debate Over Immigration Policy**, George J. Borjas notes that in the next few years, the debate over immigration policy will begin to stress the character and consequences of *legal* immigration. Although economic factors alone will not decide the outcome of this debate, economics has often set the questions that frame the immigration debate: Who benefits? Who loses?

The existing research establishes a number of stylized facts:

- The relative skills of successive immigrant waves declined over much of the postwar period. In 1970, for example, the latest immigrant arrivals had .4 fewer years of schooling and earned 17 percent less than natives. By 1990, the most recently arrived immigrants had 1.3 fewer years of schooling and earned 32 percent less than natives.
- Because the newest immigrant waves start out with such an economic disadvantage and because the rate of economic assimilation is not very rapid, the earnings of the newest arrivals will probably not reach parity with the earnings of natives.
- The large-scale immigration of less-skilled workers had an adverse impact on the economic opportunities of less-skilled natives. Immigration may account for almost one half of the recent decline in the relative wage of

high school dropouts. The new immigrants have higher rates of welfare recipiency than earlier immigrants, as well as higher rates of recipiency than natives.

- The net gains from immigration are relatively small, on the order of .1 percent of GDP per year.

Borjas investigates the implications of these facts for immigration policy. He argues that every immigration policy must resolve two distinct issues: First, how many immigrants should the country admit? Second, which types of persons should be awarded the scarce entry visas? Before these issues can be solved, however, we have to ask ourselves: What does the United States want to accomplish with its immigration policy? In other words, what is the nation's objective function?

In the conclusion, Borjas stresses that if the social welfare function places a heavier emphasis on the well being of the U.S. native-born population, the "optimal" immigration policy would probably lead to a smaller immigrant flow, as well as a mix of immigrants more heavily weighted towards skilled workers.

In his comment, Jack Otero is in agreement with the main points made by Borjas, especially with regard to the importance of economic factors that condition the national debate on immigration. Otero notes that there is an apparent lull in this debate because of favorable economic conditions, but a variety of events could occur that might rekindle the debate. He calls attention to the special role that Hispanics play in the California economy especially and to their potential vulnerability as they are singled out in anti-immigrant political campaigns. He is also critical of the use of non-immigrant H-1 Bond D-1 visa programs designed to permit employers to bring in workers with specialized skills that may serve to undercut the employment and earnings of U.S. workers.

Jagdish Bhagwati, in his comment, disputes most of Borjas's claims on the effects of immigration and nearly all of his recommendations in regard to U.S. immigration policy. Bhagwati's differences arise on several issues: (1) Borjas's reliance on partial equilibrium rather than general equilibrium tools of analysis; (2) a range of theoretical and policy issues that have been considered by others in recent decades but are absent from Borjas's analysis; (3) Borjas's failure to consider ethical and sociological factors in his analysis; (4) Borjas's cautious and skeptical view of immigration; and (5) Borjas's view that U.S. policy should favor skilled over unskilled immigrants.

In **Chapter 4**, **U.S. Trade Adjustment Assistance Policies for Workers**, Gregory Schoepfle notes that since the early 1960s, the U.S. Department of Labor has maintained a variety of programs to assist displaced workers—those with some labor market attachment who lose their jobs and are unlikely to be recalled—in finding new employment. In the case of those adversely affected by expanded international trade, special trade adjustment assistance programs have been established to meet their needs. Qualified dislocated workers are provided job search assistance, job counseling, retraining, and other supportive services to assist them in finding suitable jobs. Recipients may also receive income support while in training. The intervention of government in the process of worker adjustments, to both international trade and other changes in government policies, has been based on equity notions of compensating those injured by governmental policies undertaken in the national interest, improved labor market efficiency, and political efficacy in the pursuit of further liberalizations of international trade and investment policies.

The Trade Adjustment Assistance (TAA) program for workers displaced by U.S. imports was first introduced as part of the Trade Expansion Act of 1962, but the requirement to establish a direct link between specific trade liberalizations and a worker's dislocation resulted in few worker groups applying for assistance and even fewer being certified as eligible for benefits under the program. In 1974 legislation authorizing U.S. participation in the Tokyo Round of multilateral trade negotiations, TAA eligibility criteria and benefits were substantially streamlined and liberalized. Worker groups could now qualify for assistance if an increase in imports "contributed importantly" to their dislocation, i.e., increased imports—not necessarily linked to a specific trade liberalization—were an important cause but not necessarily more important than any other cause. With less stringent program requirements and procedures, TAA worker certifications began to increase rapidly. During the 1975-79 period, the permanently displaced were a fairly small portion of TAA recipients and the program provided mainly income support to workers on short-term layoff who eventually returned to work with their previous employer. As a result, few certified workers took advantage of the program's retraining opportunities. Major changes were introduced to the TAA program in 1981 and the number of TAA petitions submitted and approved declined when income support benefits were reduced to the level of weekly unemployment insurance payments and were only available after exhaustion of regular unemployment benefits, making TAA a program of extended unemployment insurance with training. As conditions changed in the 1980s and trade-induced layoffs became more long-term and permanent, the assistance that was provided shifted more to a mix of income support and the provision of training and other reemployment services. Since in many cases reemployment meant finding a job in another industry or profession, training was emphasized and eventually required in 1988 for certified workers to receive extended income support.

To address workers' concerns about further North American economic integration under the North American Free Trade Agreement (NAFTA), a special trade adjustment assistance program was introduced as part of the NAFTA implementing legislation in 1993. This NAFTA-Transitional Adjustment Assistance (NAFTA-TAA) program provides early and rapid response by state units as well as the opportunity to engage in long-term training while receiving income support. Assistance is available not only to those directly affected by import increases from Mexico or Canada, but also to those affected by a shift in production to Mexico or Canada. In addition, assistance is available for secondarily affected workers in plants that provide materials to or process further the products produced by a directly affected firm.

While the benefits available to certified workers under the TAA and NAFTA-TAA programs are similar, program certification criteria and procedures differ slightly. Both programs are due to expire on September 30, 1998. The Clinton Administration has proposed extending both programs for 5 years and is considering measures to expedite the application and certification process and to improve the timing and delivery of assistance and services. Proposals have also been made to extend TAA eligibility to those affected by a shift in production to another country and to secondarily affected workers.

While trade-related worker dislocations may account for a small portion of all long-tenured dislocated workers in the U.S. economy, they may represent a significant portion in some manufacturing industries, and reemployment for some of these workers in the industry of their last employment may be more difficult than for other displaced workers seeking reemployment. For these workers, the income support payments and other adjustment assistance services (such as training, job search, and relocation allowances) may be vital in securing their reemployment.

Over the last quarter century, questions have been raised about the appropriateness, adequacy, and utilization of the TAA programs. Evaluations of the TAA program have provided mixed results on the usefulness of training, with some observing that provision of job search services may be more effective than training. Others have proposed additional modifications such as some form of wage insurance program to allay fears of displacement due to further globalization. What emerges from the popular debate and workers' concerns about globalization is a clear message to policymakers that they must take account of transitional adjustment costs and distributional issues (a more equitable distribution of the gains from trade and investment) in designing policies aimed at easing adjustments to changing economic circumstances brought on by globalization if they expect to garner popular support for further trade liberalization.

In his comment on Schoepfle's paper, Steve Beckman notes that UAW members have been important "consumers" of the Trade Adjustment Assistance program. That experience has led to the UAW suing the Labor Department numerous times over various aspects of the TAA process, including certification and regulatory interpretations. This indicates the contentiousness of the program, and its inadequacy in the eyes of those it is intended to benefit. Too few workers are certified for benefits due to the excessively narrow certification criteria. “Secondary workers,” those making parts for products that are displaced by imports, remain outside coverage of the program despite the obvious connection between increased imports and their job losses. The reality of training opportunities often fails to live up to its promise. There are not enough effective training options available in the areas where workers have been laid off. The tight rules for the training requirement of the NAFTA-TAA program are a serious impediment to qualifying for benefits under that program.

While laudatory of Schoepfle’s survey of the motives and programs for U.S. worker adjustment assistance and the special adjustment program under the NAFTA in his comment, J. David Richardson identifies a variety of recent studies that are especially deserving of attention and that are not covered by Schoepfle. These include analysis of job-mobility and earnings-insurance policies, studies of the effectiveness of different policies, equity issues, and how trade adjustment assistance programs actually impact workers. These new avenues of research, Richardson notes, suggest ways in which labor adjustment programs can be redesigned and improved in effectiveness.

In **Chapter 5**, John Kirton addresses the question, **Has Trade Strengthened or Weakened U.S. and Foreign Environmental Quality? The NAFTA Experience**. He notes that the experience of the United States under NAFTA shows that trade liberalization has a weak but positive effect on environmental quality, both in the United States and its partner countries of Mexico and Canada. An analysis of NAFTA trade liberalization that emphasizes the role of foreign direct investment, of the intervening processes of production, infrastructure, social organization and government policy in specific sectors, and of NAFTA’s intergovernmental institutions demonstrates isolated instances of increased ecological pressure, but several channels and areas of environmental advance.

Consistent with recent findings about the environmental impact of trade liberalization in general, NAFTA-associated trade and foreign direct investment, through an intensification of comparative advantage and technology transfer, are fostering general region- and economy-wide positive environmental effects. Post-NAFTA trade is not concentrating in environmentally-intensive sectors, but in environmentally-friendly intermediate goods and service sectors, while NAFTA is not adding to the environmental burdens of the maquiladoras. NAFTA-induced FDI shows no migration to pollution havens or general tendency to concentrate in geographically stressed areas, but has encouraged environmentally-enhancing technology transfer, investment, subsidies and voluntary standardization among regionally integrated firms and industries.

Studies of how NAFTA-associated trade and investment flows interact with processes of production, management and technology, physical infrastructure, social organization and government policy in key sectors suggest generally favorable environmental impacts in the automotive and cattle-feedlotting industries, with outcomes in the electricity sector critically dependent upon national policy choices yet to be made.

Among the 50 trilateral intergovernmental institutions created or catalyzed by the core NAFTA (trade) agreement, those with the most direct environmental responsibility have had a mixed record in fostering a regular, balanced, trilateral communication, capacity building, high level regulatory convergence, and regional co-operation in multilateral forums and dispute management. The successful performance of bodies dealing with chemicals, in contrast to the poor performance of those in the automotive field and the mixed performance of those in agriculture, can be explained by the presence of visible ecological intervulnerability, a multilateral nest, government insulation from societal pressures, a functional need to harmonize in order to reap trade gains, low cost to powerful industries, MNC support, and the regional export interests of U.S. industry.

On balance, the record suggests that NAFTA's dedicated environmental organization, the Commission for Environmental Co-operation (CEC), has autonomously engendered balanced environmental co-operation and improvement amidst the trade liberalization brought by NAFTA. However, it has done little to foster trade-environment equality and integration, and is currently in danger of being rendered less effective.

In his comment on Kirton's paper, David van Hoogstraten agrees with most of Kirton's conclusions, although it is still relatively early to draw conclusions concerning the effects of NAFTA. Also, he notes that more documentation is needed in a number of places in the paper, particularly on the key issue of enforcement of environmental regulations and the lack of adequate resources in Mexico to achieve effective enforcement. In general, van Hoostraten views the NAFTA as an environmentally activist document, which is an objective sought by the U.S. negotiators. While it may be said that the NAFTA has had a week positive impact on the environment, there is concern about population pressures on the Mexican side of the border and resulting stress on the delicate and diverse ecosystem. Finally, van Hoostraten approves of the role of the NAFTA Committee on Environmental Cooperation (CEC) in publicizing information on environmental issues and urges that more attention be paid to these issues in the broader hemispheric context.

Also commenting on Kirton's paper, Alan Deardorff notes the importance of Kirton's conclusion that the NAFTA has not brought any significant environmental degradation and that the institutions created by the NAFTA have on the whole worked well to date. Aside from some questions about Kirton’s terminology and the interpretation of his sectoral analysis of trade, Deardorff notes that it would have been useful to have conducted some ex post analysis to learn the mechanisms by which the NAFTA has affected the environment. That is, did the cleaner industries in Mexico tend to expand? Can it be established that techniques of production used in Mexico have become more friendly to the environment? How important was the peso crisis and subsequent decline in Mexican income and employment for the environment? Has the NAFTA in fact fostered a “race to the top” as Kirton suggests, and if so how? Deardorff offers some suggestions to explain why a race to the top may be occurring, but concludes that more information is needed to establish the facts and interpretations.

In **Chapter 6**, **The Role of Labor Standards in U.S. Trade Policies**, Gary S. Fields makes the following principal points:

- Absent an agreement on international labor standards, a stalemate is quite possible. On the one hand, it might not be possible to push trade liberalization forward, as most in the trade community want. On the other hand, the current world trading environment will not be rolled back, as some in the labor movement want.
- The international labor community has now coalesced around a set of "core labor standards" that deal with freedom of association and the right to organize and bargain collectively, forced or compulsory labor, equal remuneration for men and women, and non-discrimination in employment, and child labor. Minimum wages, maximum hours of work, and fixing other conditions of employment are *not* being called for at the present time. It would be well for those in the trade community to know what is and is not on labor's agenda. If these core labor standards or ones like them were to be linked to international trade, opposition to trade agreements might be overcome, helping international trade.
- The alternative to "core labor standards" would be a set of "international labor rights," defined by the criterion that it would be better to have no production at all than to have production using such "illegitimate means." Although such discussions are not prominent in international debate at the present time, they deserve discussion in the future.
- Wages, employment conditions, and other social benefits have improved dramatically for workers living in countries that have achieved rapid export-led economic growth. Of course, problems remain, which is precisely why those who have an interest in workers overseas seek to harness the strengths of both trade and labor standards to improve conditions for these groups.

- Although freer trade might be good on the whole for the United States, it is not good for all workers in the United States. The small number of people who are hurt a lot by freer trade have every reason to be much more vociferous in expressing their opposition to freer trade than are the large numbers who benefit relatively a little. Policies can be enacted that will mollify the opposition, and they deserve serious consideration. Absent such measures, the agenda of the trade community is seriously jeopardized.

In his comment on Fields's paper, Pharis Harvey is critical of relying on market mechanisms alone to deal with poverty, child labor, and other problems of poor countries. He also notes that the emphasis on trade expansion via Fast Track in the United States needs to take labor's interests explicitly into account. Harvey maintains that there exists a much broader consensus on what constitutes core labor standards than Fields implies. He is critical of Fields's suggestion that certain labor rights be declared inviolable on the grounds that the enforcement would be impractical. He suggests instead trying to determine whether enforcements and punishments can be devised that would help to improve compliance with labor rights. Finally, he is critical of Fields's reliance on economic growth as the primary vehicle for improving labor rights in the absence of explicit policies that are designed to improve labor rights. In this connection, Harvey's interpretation of the Korean growth experience is quite different from what Fields maintains has led to increased real wages and per capita incomes.

Dani Rodrik in his comment notes and provides empirical evidence suggesting that, while workers' earnings are determined by productivity, labor standards and civil liberties matter as well. He notes further the need to be clear whether the policy objective is to help workers abroad or instead to help domestic workers whose earnings might be impacted by low foreign labor standards. Under some conditions, he argues that gross violation of core worker rights abroad might be grounds for protecting the interests of domestic workers. Finally, he suggests that more attention be given to designing the best set of policy instruments for helping foreign or domestic workers.

In **Chapter 7**, **The Simple Economics of Labor Standards and the GATT**, Kyle Bagwell and Robert W. Staiger ask: how should the issue of domestic labor standards be handled in the GATT/WTO? This question is part of a broader debate over the appropriate scope of international economic institutions such as the GATT (and now its successor, the WTO), where member countries are considering proposals for a new round of negotiations that would move beyond GATT's existing focus on trade barriers and cover "domestic" issues such as labor and environmental standards and regulatory reform which have traditionally been treated with “benign neglect” within GATT. Such proposals encroach on traditional limits of national sovereignty, and they raise fundamental challenges to the existing structure of international economic relations among sovereign states.

Bagwell and Staiger consider in their chapter several approaches to the treatment of domestic labor standards within a trade agreement. They use simple economic arguments to show that, while the benign neglect of labor standards within a trade agreement will result in inefficient choices for both trade barriers and labor standards, direct negotiations over labor standards are *not* required to reach efficient outcomes. Specifically, they describe two tariff negotiating structures that deliver efficient outcomes while preserving varying degrees of national sovereignty over policy choices. A first approach combines tariff negotiations with subsequent *Kemp-Wan adjustments*, under which each government is free to alter unilaterally its policy mix so long as trade volumes are not affected. A second approach adds to the first approach GATT's rule of *reciprocity*, under which subsequent to tariff negotiations each government is free to alter its tariff unilaterally, but its trading partner is then free to reciprocate with a tariff response that stabilizes export prices. They show that both approaches will deliver governments to the efficiency frontier, but that the second approach provides governments with greater sovereignty over their policy choices and bears a strong resemblance to the negotiating procedures spelled out in GATT.

In his comment on the Bagwell-Staiger paper, John H. Jackson expresses reservations concerning the conceptualization of economic efficiency as applied to child labor in view of the considerable cultural differences that exist across countries. He also questions the feasibility of lump-sum payments as a practical matter and the problems involved in implementing reciprocity in the Bagwell-Staiger analysis. Jackson's view on labor standards is that they must become internalized within the GATT/WTO process. The question becomes one of how this can be most effectively accomplished. He discusses several possible approaches, but acknowledges in the final analysis just how difficult it will be to deal with issues of labor standards in the GATT/WTO. This is especially true because of the fears of many developing countries that the United States and other major industrialized countries will use issues of labor standards to respond to domestic protectionist pressures.

Also commenting on the Bagwell-Staiger paper, T. N. Srinivasan notes that they have applied the same methodology to analyzing labor standards as employed in a series of papers analyzing the roles of GATT's principle of non-discrimination, and the ill-defined notion of reciprocity in multilateral trade negotiations on tariff reductions in reaching an efficient (Pareto Optimal) and stable outcome. However, with two policy instruments (viz. tariffs and labor standards) at the disposal of the governments, if they are free to set one of them unilaterally in a noncooperative fashion, it is intuitive that negotiations to set the other instrument will result in neither instrument being set at levels consistent with efficiency. The choice of the two instruments, one of which is a purely domestic policy instrument, has to be linked to get around this problem. The authors propose three such linkages, two of which allow some freedom for countries to choose labor standards unilaterally. However, the authors' modeling of labor standards does not take into account some essential features. An alternative model that incorporates these features is set out in an appendix. Srinivasan agrees with the authors that using trade sanctions to enforce labor standards is harmful and unnecessary. Doing so is to take the first step on a slippery slope of avoidable and welfare-worsening use of trade sanctions to enforce other purely domestic policies.

In **Chapter 8**, **A Transactions Cost Politics Analysis of International Child Labor Standards**, Drusilla K. Brown addresses some of the issues that pertain to the treatment of child labor in the international arena. A review of the standard prescriptions for reducing child labor provides little hope that the welfare of children can be improved in the absence of world-wide economic growth, development and increased adult wages.

Familiar prescriptions such as import tariffs levied against goods produced with child labor are likely to leave children with lower wages and/or in more damaging occupations. Similarly, product labeling, intended to identify goods produced without child labor, can have adverse consequences for working children. If the premium paid for labeled products is not sufficient to compensate firms for the cost of using adult labor only, then no firms will label. If the premium paid for labeled products is just barely sufficient to cover the cost of using adult labor only, then all of the label premium will be dissipated by the use of an inefficient technology. Some firms will use only adult labor and label their products to that effect, but the wages and employment of adult and child workers will be unaffected. If the labeling premium is more than enough to compensate firms to shift to adult labor-only production, then adult wages will rise and child wages will fall. Children will be made better off only if the increase in adult wages is sufficient to place family income above the threshold level where child labor begins to decline. As a consequence, if the labeling premium is effective in improving the welfare of children the reason is that the label premium raises family income, not because it provides a disincentive for firms to hire children.

The allocation of the task of monitoring child labor to the ILO rather than the WTO is also analyzed using the transactions cost politics approach. One interpretation of the separation of the dual tasks of monitoring trade and labor standards between the two agencies stems from the fact that fair trade standards can be established without regard to level of income of participating countries. This is not the case for many labor market outcomes which depend critically on the level of economic development. As a consequence, compliance with fair trade standards is more easily observable than compliance with labor standards. In an agency with the responsibility of monitoring both trade and labor standards, compliance with trade standards would receive closer scrutiny, while labor markets would be inadequately monitored. However, as a historical matter, the separation of monitoring tasks between the two agencies has been sought by those principals who want little or no monitoring of labor standards, not by those principals who seek greater monitoring of labor practices.

An alternative explanation is that the separation of monitoring tasks across agencies stems from the fact that international agencies are controlled by multiple principals. The United States has sought both to include labor standards in the WTO and to use a logical connection between labor market practices and WTO rules to enforce those standards. The U.S. position has been ardently and successfully opposed by developing countries who fear that the United States is motivated by an attempt to protect domestic labor from low-wage competition. The discrepancy between the abilities of the principals to agree on trade rules compared to labor standards argues in favor of high trade standards with strict punishments for violations and labor standards with weak punishments. However, the United States was unable to pre-commit successfully not to exploit the incompleteness of the WTO charter and apply strict punishments to labor standards violations.

Partitioning the labor and trade monitoring tasks between two agencies allows each standard and the associated punishment for deviations to be set at the highest level to which the principals are able to agree. The comparatively strict rules of the WTO reflect the high degree of consensus for an open trading regime. The consequent ease of monitoring improves compliance. By comparison, the low level of agreement on labor standards is reflected both in the weak language of the ILO and the absence of any meaningful enforcement mechanism.

The final issue discussed is that of agency shopping. The United States, having failed to achieve its objectives with regard to labor standards in the WTO, has most recently turned to the IMF as a vehicle.

In his comment, Mark Silbergeld expresses a number of points of agreement with Brown's paper, including the view that child labor is perhaps the most painful aspect of poverty, but that there are very difficult cultural aspects to consider in dealing with the problems of child labor and a danger of introducing measures that may turn out to worsen the situations of some child laborers. He also agrees that the WTO may not be an effective forum for addressing the issues. In addition, however, he expresses disagreement and notes some considerations that Brown omitted. These include the need to take a broader social view of the problems of child labor, the need to improve general working conditions for all workers in developing countries and to provide better information on labor market conditions, the need for better provision of information to consumers about the use of child labor, and the political necessity of using trade actions to deal with abuses of child labor as a means of gaining public acceptance of trade agreements.

Also commenting on Brown's paper, Avinash Dixit establishes conditions under which industrial country protection may be counterproductive and aggravate problems of child labor in developing countries. He acknowledges Brown's use of transaction cost ideas and her argument that it would be preferable to use separate agencies (i.e.., the ILO and WTO) to deal with labor standards and trade rather than assign both of these to a single agency such as the WTO. But he notes that Brown's analysis needs to be broadened especially to take into account what he calls the repeated game of common agency that will engender cooperation among the principles in providing credible penalties for countries that do not adhere to the disciplines involved. He argues finally that the best way to eliminate child labor is for the United States and other advanced countries to foster trade expansion and foreign direct investment so as to increase the demand for labor and raise adult incomes in the developing countries.

Chapter 9 contains remarks of a group of panelists providing their perspectives on **The Role of Interest Groups in the Design and Implementation of U.S. Trade Policies.**

Claude Barfield notes that U.S. trade policy provides a rich and fascinating chronicle of the intermix of policy objectives played out and reshaped by strategically placed political actors and interest groups. Compared to other countries, the U.S. system is more open and interest-group friendly, and the role of interest groups in the trade area has increased dramatically in scope and depth. Because the trade policy bureaucracy, centered especially in the Office of the U.S. Trade Representative (USTR), is relatively small, the U.S. government is dependent on interested parties for analysis and for support of actions to further trade liberalization or deal with infractions of trade rules by trading partners. It is also the case that ever closer relations between U.S. trade officials and the private sector have been mandated in the successive trade acts since the 1970s. There have been positive consequences of increased private sector involvement particularly in liberalizing trade and enhancing access to foreign markets. But there have been negative consequences as well. One example is the 1987 Semiconductor Agreement with Japan, when powerful companies promoted welfare-reducing trade interventions. Other examples include very strict insistence on reciprocity as in the WTO financial services and telecommunications agreements and the decision to pursue the Multilateral Agreement on Investment (MAI) in the OECD. But, granting various negative consequences, Barfield concludes that the present system of random intervention by interest groups is preferable to an expanded and more powerful government trade bureaucracy.

In her remarks, Phyllis Shearer Jones draws on her four years of experience with IBM as a program director for international trade and two and a half years as Assistant USTR for Intergovernmental Affairs and Public Liaison. She notes that the North American Free Trade Agreement (NAFTA) debate provided a wake-up call for the supporters of freer trade and discusses how IBM mobilized its employees and suppliers to back NAFTA and to counteract the activities of the anti-NAFTA interest groups. There is a need for continuous involvement of interest groups favoring freer trade to avoid starting from scratch every time a new liberalization effort is to be undertaken. Her experience with USTR leads her to ask what makes some interest groups more effective than others in achieving their trade policy objectives. In her judgment, interest groups are most effective when: their message has emotional and intellectual appeal; active support can be enlisted from members of Congress, the Executive Branch, and the media; a large and influential constituency can be mobilized to demonstrate their support; the message for or against a particular policy measure is short and succinct; and the groups are continuously actively seeking their objectives.

Robert Naiman addresses the question of the role of "public" interest groups in U.S. trade policy. He notes that organizations such as Public Citizen take every opportunity available to call attention to what he refers to as the "…failed economic model, the failed trade model, the deformed model of democracy which is being pushed by the Clinton Administration, the multinational corporations, the leadership of both political parties, the professors of economics." For this purpose, he uses the example of how the negotiations for the Multilateral Agreement on Investment (MAI) were conducted in secret and how the exposure of the MAI to public scrutiny resulted in the disruption of the negotiations. He is critical of the role that the International Monetary Fund may now play in pursuing the MAI agenda under the guise of capital account liberalization. Citing the public opposition to President Clinton's request for fast-track negotiating authority in the fall of 1997, he chides the advocates of freer trade for their dogmatic insistence on the need for better and more effective public education and their arguments about the gains from trade and compensation of the losers from freer trade.

In his panel remarks, Mike Jendrzejczyk notes that human rights groups believe that U.S. trade policy is relevant to their objectives. These groups try to influence U.S. policy via publicity, providing documentation to policymakers (at USTR, on the Hill, and to other relevant agencies) and meeting with government officials. Minimally, the groups press for consistent, effective implementation of U.S. trade laws such as GSP, OPIC, and MFN that take into account human rights and/or worker rights. But in addition, the groups have tried with mixed success to influence multilateral trade organizations, for example, the Asia Pacific Economic Cooperation (APEC) forum and the issue of China's entry into the World Trade Organization.

Nancy Dunne, in her panel remarks, writes from the perspective of a *Financial Times* journalist. She praises interest groups for making her job easier because they provide so much useful information via press conferences and press kits. She notes further that interest group coalitions are usually very effective in getting their case before the Congress and members of the Executive Branch and for their contacts with journalists. Of course, there are many different interest groups with different agendas, which makes it necessary for the journalist to try to balance conflicting views. Interest groups also tend to stick with issues for long periods of time and make efforts to communicate their views to the public and the press. Dunne concludes by noting that non-economic interest groups have become increasingly important and active on issues of trade policies. Thus, whereas trade policy was once a backroom issue inside the beltway, this is no longer the case. Trade issues have now gone to the court of public opinion.

III. What Have We Learned?

As we expected and hoped, the conference brought together people with a wide range of interests and opinions, and the discussion was lively and informative. There was a great deal to learn from the papers, the discussant comments, and the group discussion. The interested reader will therefore have to read the papers carefully to get maximum benefit from these exchanges of views. However, we will try to report here a few of the lessons that we think we learned ourselves from the experience. Others, no doubt, will have learned different things, and will disagree with some of what we say below.

Indeed, it is precisely that disagreement that may be the most important message that we got from this conference. Almost everyone agrees that social issues, including especially labor standards, are now permanently a part of any discussions of trade policy, whether they are pleased with that development or not. But they disagree strongly from that point on, regarding whether and how social issues should be linked with trade issues, and even regarding what society's objectives concerning many social issues should be.

As trade economists, we are accustomed to discussions in which the intellectual case is clear and both the objective and the means of achieving it are largely agreed upon. That is, national (consumer) welfare is the objective, and free trade is the means. For half a century, GATT negotiations worked to move the world in this direction, and the only dispute was how quickly one should move vis-a-vis one's trading partners. There were frictions, of course, and many pressures from within countries to slow down the process. But these were understood to be only that, not genuine competing national interests.

That was fine, apparently, as long as trade was a side show in the international economic panorama. But as trade barriers have come down, as developing countries have become a larger and more open presence in the global economy, and as technological innovations have linked national markets more closely than ever before, trade has moved to center stage. Trade now matters for many domestic issues, including this social dimension, and the domestic issues interact inextricably with trade. Trade policy can no longer be made in isolation, for its domestic and social implications are manifest. In the conference, we learned about many of these implications.

To grapple directly with these issues along with trade however, is far more difficult than are the problems of trade policy alone. We must worry not only about a broader range of problems and also policies. But also, the objectives in these social dimensions are often much less clear than we are used to for trade alone, because they require tradeoffs. We deplore children in developing countries having to work, for example, but we also are critical of depriving them of the income that may be keeping them alive. We all want a clean environment, but not perhaps at the cost of pushing the poorest of countries further into poverty. Human rights are sacrosanct, but so too is national sovereignty. Of course we want the poorest among us to have higher incomes, but should this be accomplished with higher wages, and at what cost in terms of economic efficiency and longer-run growth for all? In all these cases, we must perform a balancing act among competing objectives, and disagreements about the right balance are inevitable. Add to that our limited understanding of how various issues do in fact interact, and it is not surprising that the usual policy consensus among trade economists was noticeably absent at the conference.

In spite of ten years of research by trade and labor economists, for example, we still do not really know how globalization has affected wages. Nor, therefore, do we know what to do about it, if anything. The effects of immigration on wages are, it seems, even more controversial, involving as they do a more direct confrontation between groups of affected workers. Most do seem to agree that workers who are displaced by trade and related aspects of globalization should be helped in some way, but there is disagreement about the effectiveness and adequacy of our existing TAA regimes. It is difficult to infer from any of this what exactly should be done. But it does seem clear that future changes in trade policy will have to acknowledge and deal with their implications for wages, more than they have in the past.

Labor standards abroad seem to be here to stay as part of negotiations on trade, whether or not they become incorporated as a formal part of the WTO institutional mechanism. Several of the papers in the conference examined how the interaction between trade and labor standards could be structured, but again there was far from a consensus.

It seems unlikely, therefore, that academic discussion will ever achieve the same kind of agreement on the interaction between social issues and trade that it has had on trade alone. That being the case, policy decisions will be guided even less by economic science and even more by the interactions among the groups involved and between them and policy makers/negotiators. At the conference we got a glimpse of how this interaction works, primarily in the panel discussion at the end.

It is clear that the advocates for particular interests play an important role in Washington and presumably elsewhere as well. This has been true for trade policy for a long time, as we learned from Phyllis Shearer Jones. Until now, when trade could be considered on its own merits alone, the intellectual case for liberal trade also played an important role, much to the frustration, evidently, of Robert Naiman. But as social issues have come more into contact with trade, we may expect the views expressed by Naiman and others with a similar agenda to become increasingly influential. On the other hand, at present it appears that those advocating different social objectives also disagree on whether trade is an obstacle to, or a facilitator of, their objectives, as witness Mr. Jendrzejczyk versus Mr. Naiman. As long as that remains the case, the outcome of these policy debates will be far from clear.

One would like to think that academic-style researchers, such as ourselves, could be counted upon to remain objective, even when we cannot agree. Although it is not evident in the papers reproduced here, we can report from the conference discussion, however, that this is not always the case. Advocates for particular policy positions can and do get carried away and exaggerate their case, even when not driven to do so by narrow self interest. It was refreshing, therefore, to hear from Ms. Dunne about the journalist's effort to balance conflicting views. Perhaps it is to journalists we should be talking and expressing our opinions, if we can ever figure out what our opinions on these difficult issues are.

References

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