
Trade and Labor

Organized labor is hardly a new player in the trade policy process. Ever since workers began to organize unions they have expressed strong views about products from beyond their nation's borders. In the United States craftsmen in the old American Federation of Labor (AFL) generally were protectionist. Industrial workers in the younger Congress of Industrial Organizations (CIO) were less monolithic, and in fact many supported trade expansion during the New Deal era and beyond.¹

Evolution of Labor's Position

The two federations merged in the 1950s to form the AFL-CIO, and the new organization endorsed the Trade Expansion Act of 1962 that authorized the negotiations now known as the Kennedy Round. By that decade's end, however, the AFL-CIO had moved into the trade-restrictive camp, reflecting the increased exposure of labor-intensive US industries to international competition.² In the years thereafter it lobbied persistently, though for the most part unsuccessfully, against measures to negotiate further reductions in trade barriers.

1. During the interwar period in the United States and Europe, worker-supported governments of the left generally supported free trade, whereas business-backed governments of the right were protectionist. See Beth A. Simmons, *Who Adjusts?* (Princeton, NJ: Princeton University Press, 1994).

2. See I. M. Destler, "Trade Politics and Labor Issues: 1953-95," in *Imports, Exports, and the American Worker*, ed. Susan Collins (Washington: Brookings Institution, 1998), 389-408.

Labor's stance in recent decades usually has been both clear and resistant to compromise—unions have not offered to revise their positions in exchange for alterations to the substance of trade legislation.³ This pattern can be explained both by the decentralized structure of the AFL-CIO and by the typically militant attitude of industrial unions and their locals. In combination, these characteristics of labor institutions led to inflexibility in policy positions once adopted.

In Congress labor's influence is strongest among Democratic members of the House, particularly those from the Northeast and the Midwest. In 1983, for example, only two representatives from those regions voted against the highly protectionist "domestic content" bill for automobiles championed by United Auto Workers (UAW). As early as 1973, northern Democrats voted two-to-one against what became the Trade Act of 1974 authorizing the Tokyo Round. In battles over NAFTA in 1993 and fast track in 1997 and 1998, labor was the principal and most effective opposition force, employing as leverage the dependence of many Democrats on labor money and campaign troops.

Unionized workers are employed in a wide range of economic activities, however, so in practice their individual (as opposed to institutional) trade interests vary considerably. Some workers (in the apparel industry, for example) are typically trade losers. Those who make up some of the largest unions (government employees) have virtually no stake in trade at all. Other unionized workers (longshoremens, teamsters, machinists at Boeing, and others) clearly gain from expansion of international commerce in general, though they may be adversely affected by provisions of particular trade agreements (such as, in the case of teamsters, NAFTA's easing of restrictions on Mexican truckers operating in the United States). Consequently, labor's natural interests do not all favor trade restrictions. Two objectives in particular tilt the balance in trade's direction. The first is that workers (unlike environmentalists) are overwhelmingly progrowth. They want overall production and income to expand, believing that as the pie grows they are likely to receive larger slices. The second is that workers, as consumers, gain from the broad availability of lower-priced products.⁴ Trade contributes to both these outcomes.

Nonetheless, it is the ways that trade appears to *hurt* worker interests that have commanded labor's attention in recent years. These include stagnant real wages for the working class throughout much of the past 30 years, widening inequalities in income distribution between skilled

3. A partial exception was in 1988, when organized labor secured recognition of promoting "worker rights" in foreign countries as a goal of trade negotiations.

4. William R. Cline has demonstrated that in the apparel market, the gains of lower-income consumers from the availability of imports dwarf the gains of (also lower-income) apparel workers from trade protection. See *The Future of World Trade in Textiles and Apparel*, rev. ed. (Washington: Institute for International Economics, 1990).

and unskilled workers, broad reductions in the blue-collar manufacturing base, and growing workplace anxieties over job security.

The argument that “trade costs jobs” resonates powerfully with rank-and-file union members. They have seen industries exposed to foreign competition experience plant closings and downsizing in the face of increased imports: first in textiles and apparel, then steel, then consumer electronics, then automobiles. Even though such job losses have not led to greater aggregate unemployment in the US economy—jobs have been created more rapidly than they have been lost—critics maintain that trade has caused well-paying jobs in manufacturing to be replaced by low-paying jobs in the service sector.⁵ More recently the AFL-CIO has argued that “long-term trends in trade and investment have inflicted deep wounds in the U.S. manufacturing sector.”⁶ Labor has stressed, in particular, the shift in the US merchandise trade balance from surpluses through the 1960s to chronic—and recently huge—deficits thereafter, which has shifted jobs away from US industries that produce traded goods. The labor federation thus concludes that “the trade imbalance is accelerating deindustrialization in a broad array of industries.”⁷

A closely related argument is that “trade suppresses wages” within particular industries. This impact finds concrete form in management threats during contract negotiations to close plants and relocate to countries with lower wages and lower labor standards. Unlike the assertion concerning trade-related aggregate job losses, the wage-suppression argument is supported by economic models and empirical evidence. These suggest that trade does in fact contribute to increasing the wage differential between skilled and unskilled American workers.⁸

A third argument is that “trade undercuts labor standards.” Producers outside the reach of US law (either other nations’ domestic firms or subsidiaries of multinational corporations that establish production facilities abroad) may exploit workers with impunity in ways that US laws would not permit. The argument maintains that exploitation of labor—through low wages, long hours, or unsafe working conditions—gives goods pro-

5. See the joint publication of the Economic Policy Institute, the Institute for Policy Studies, the International Labor Rights Fund, Public Citizen’s Global Trade Watch, the Sierra Club, and the US Business and Industrial Council Educational Foundation, *The Failed Experiment: NAFTA at Three Years* (June 1997) (<http://www.citizen.org/pctrade/nafta/reports/epijoint.htm>).

6. AFL-CIO Executive Council, “Trade and Deindustrialization,” policy statement, 18 February 1999 (<http://www.aflcio.org/publ/estatemts/feb99/cstrade.htm>).

7. *Ibid.*

8. See William R. Cline, *Trade and Income Distribution* (Washington: Institute for International Economics, 1997), and Collins, *Imports, Exports, and the American Worker*. This is consistent with the Heckscher-Ohlin thesis that trade rewards factors of production that are abundant within a country and penalizes scarce factors.

duced in these conditions unfair competitive advantage in world markets as costs of production are reduced. This is the labor side of the race-to-the-bottom argument also often advanced by environmentalists, namely, that in the global marketplace nations will have perverse incentives to lower standards in an effort to attract investment and strengthen competitive standing.

The combined effects on labor may be greater than the sum of the parts. As increasing international flows of goods and services contribute to job shifts, income inequality, and lower labor standards, unions are weakened, their membership reduced, and their bargaining power undermined. Furthermore, it can be argued that globalization tips the scales in favor of capital over labor and management over workers, as the latter frequently find their interests decoupled from those of the firms that employ them.

In the early postwar years the trade stances of unions tended to reflect their industries' competitive positions. Textile workers were protectionist, and steelworkers rapidly became so, but the UAW supported freer trade until 1979, when industry retrenchment in response to the energy crisis and competition from Japanese automobile manufacturers triggered devastating job losses. Now, as business internationalizes, the mobility of capital increasingly puts US workers in more direct labor-market competition with their foreign counterparts.

Because of all these factors, real and perceived, labor has developed a visceral sense of trade as a threat, particularly at the grassroots level, even in industries that are on balance "trade winners." Reinforcing this anxiety are the apparent (though sometimes overstated) general effects of trade in holding low-end wages down and widening the income gap between skilled and unskilled workers. In combination, the forces associated with internationalization seem to threaten the social compact for which unions struggled, and even shed blood, in the decades before World War II to ensure both that workers are insulated from the worst ravages of the free market and that they receive a fair return on their contribution to the creation of national wealth.

As indicated earlier, not all of trade's effects have an adverse impact on workers. In particular, the openness of the US economy has contributed to a living standard far higher than that of any other large nation, with the middle class inhabited by labor the prime beneficiary. Hence the evidence concerning the effects of trade on the US workforce is mixed, but labor's arguments certainly cannot be rejected out of hand. Clearly, there are social and economic gains and losses that do not accrue evenly to all constituencies. Labor's gains from trade derive mainly from its contribution to overall economic efficiency and lower consumer prices. Labor's losses arise from trade's uneven distributive consequences. In the near term, as Dani Rodrik has noted, redistribution predominates: in

standard economic models, the “lowering of a trade barrier will result in \$5 or more of income being shuffled among different groups for every \$1 of net gain.”⁹

The Trade Threat Crystallizes: NAFTA

To a considerable degree, labor has pursued its interests through simple opposition, standing against the tide of national and global trade liberalization. Hence in recent years it has backed overtly protectionist initiatives—for example, domestic content restrictions for automobiles, quotas for textiles and steel, and the Gephardt amendment of 1986-87 targeting nations running large bilateral trade surpluses with the United States. Consistent with this position, it has opposed most bills proposing to grant new fast-track authority, to approve the results of bilateral and multilateral trade negotiations, or to provide trade preferences in the form of special tariff reductions to developing countries.

The issue that galvanized labor opposition, however, was NAFTA. Opposition to its negotiation in 1991 and to its ratification in 1993 achieved a national resonance that had eluded unions in previous campaigns against trade liberalization. And the issue has had staying power: there is a widespread perception among US workers that NAFTA in practice (involving deep integration with a low-wage country) has undercut their bargaining power vis-à-vis employers, reinforced by the reportedly frequent use of the “move to Mexico” threat in labor negotiations. Careful studies have suggested that the actual impact of NAFTA has been small. But symbolically it has been huge.

One area of rhetorical emphasis has been “jobs lost.” Serious economic analysis, before and after the agreement went into effect, has consistently shown that NAFTA’s impact on aggregate US employment would be and is both very modest in relation to the total and offset in any case by the Federal Reserve Board’s stabilization of the macroeconomy. Nonetheless, in the ratification debate supporters and opponents offered contradictory estimates of likely effects, and the debate has continued since then. For example, estimates of the agreement’s impact on employment in the United States over its first three years range from 160,000 jobs gained to 420,000 jobs lost.¹⁰ (Total US civilian employment in 1997 was about 130

9. Dani Rodrik, *Has Globalization Gone Too Far?* (Washington: Institute for International Economics, 1997), 30n.

10. Estimates are summarized in US General Accounting Office (GAO), “North American Free Trade Agreement: Impacts and Implementation,” statement before the Subcommittee on Trade of the House Committee on Ways and Means, 11 September 1997 (hereafter “GAO testimony”), 2. The positive number comes from the president’s report to the Congress, *Study on the Operation and Effects of the North American Free Trade Agreement* (Washington: Executive Office of the President, July 1997). The negative estimate is that presented in *The Failed Experiment: NAFTA at Three Years*.

million.) The US International Trade Commission (USITC) assessed NAFTA's effects on employment through 1996¹¹ and concluded that the agreement's impact on labor was generally difficult to discern, and only modest where discernible. In a quantitative analysis of 120 industrial sectors, researchers found employment changes attributable to NAFTA in 29 sectors. These changes typically included increased hours worked and decreased hourly wages. In a qualitative analysis, the USITC reported NAFTA-related employment declines in 2 of 68 sectors studied—apparel and women's nonathletic footwear. Recognizing that these aggregate effects are modest, trade skeptics, including economists sympathetic to labor, have emphasized what they see as a globalization-generated shift in the US labor market. The consolidated critique cited earlier, *The Failed Experiment: NAFTA at Three Years*, captured this argument, concluding that "NAFTA and globalization generally have changed the composition of employment in America," shifting it toward "lower-paying services industries."¹²

Labor's negative view of NAFTA was reinforced by the weak results of the labor side agreement, particularly over the first several years. Labor denounced it from the start as inadequate, and indeed, it is hard for anyone to argue that the Commission for Labor Cooperation (CLC) established by the side agreement addressed workers' concerns promptly and effectively. First, the CLC was inadequately funded. While the Commission on Environmental Cooperation (itself criticized as lacking appropriate resources) has an annual budget of \$9 million, the CLC had to make do with \$1.8 million.¹³ Consequently the commission has had difficulty hiring and retaining adequate personnel.¹⁴ Second, the NAFTA Trade Adjustment Assistance program (along with related initiatives designed to aid American workers dislocated by trade) has been characterized by "confusion about eligibility, inadequate tailoring of services, and delays in delivery."¹⁵ Third, by 1997 the US Community Adjustment and Investment Program—established as part of the North American Development Bank (NADBank)

11. US International Trade Commission, *The Impact of the North American Free Trade Agreement on the U.S. Economy and Industries: A Three-Year Review*, USITC Publication 3045 (Washington, June 1997); also see GAO testimony, 6.

12. *The Failed Experiment: NAFTA at Three Years*.

13. According to the side agreements, each of the three signatory nations must contribute equally to supporting NAFTA's environmental and labor institutions. In the case of the CLC, budgetary support is limited by Mexico's refusal to contribute more than \$600,000 annually. In contrast, the US and Canadian legislatures have appropriated \$2 million and \$1 million, respectively (GAO testimony, 27-28).

14. GAO testimony, 27.

15. *Ibid.*, 8n.

to encourage industrial redevelopment of communities suffering NAFTA-related job losses—had yet to approve a single loan.¹⁶

Proponents of NAFTA point to increased enforcement activity in the period since the critical 1997 GAO report cited above, and the numbers bear them out: more labor cases have been initiated by the three nations between 1 January 1998 and 1 May 1999 than in the CLC's first four years of existence.¹⁷ But while labor has found the commission useful on occasion, it has not softened unions' negative views of NAFTA generally.

The Campaign for Worker Rights

In two areas, however, labor has lobbied for positive trade-related measures. The first is its support of laws designed to assist workers dislocated by trade. For example, the Trade Adjustment Assistance (TAA) program, inaugurated in 1962, devotes modest budgetary resources to stipends for those affected and for worker retraining. The second instance is labor's continuing efforts to encourage the use of US trade-negotiating leverage to promote improved labor standards among US trading partners, particularly those in the developing world.

Labor internationalism dates at least from the mid-19th century, when Karl Marx and Friedrich Engels proclaimed: "Workers of the world, unite!" Through the International Labor Organization (ILO), established in 1919, and the International Confederation of Free Trade Unions (ICFTU), launched by labor during the Cold War, unions have pursued the goals of global solidarity and enhanced worker welfare worldwide.¹⁸

American labor's concern for foreign labor conditions has less altruistic roots as well, however, particularly as expressed in the equally venerable tradition of wage-based protectionism. This strain of the argument holds that lower foreign wages are a direct threat to American workers producing like products, and that trade restrictions are the appropriate response. Not surprisingly, therefore, labor-backed proposals concerning foreign working conditions have often crossed the protectionist line, as with the proposal by House Democratic leader Richard Gephardt that Mexico commit itself to linking wages to labor productivity.

16. *Ibid.*, 10.

17. We are grateful to Gary Clyde Hufbauer and Jeffrey J. Schott for sharing data from their ongoing Institute for International Economics project evaluating the impact of NAFTA.

18. The "ILO History" page from the organization's Web site states that the "third motivation" for establishing the organization "was economic. Because of its inevitable effect on the cost of production, any industry or country adopting social reform would find itself at a disadvantage vis-à-vis its competitors. The Preamble states that 'the failure of any nation to adopt humane conditions of labour is an obstacle in the way of other nations which desire to improve the conditions in their own countries'" (<http://www.ilo.org/public/english/overview/history.htm>) (31 May 1999).

Proposals for “core labor standards,” however, have drawn broader support. Concerns over imports produced by child or prison labor, for example, are shared across a wide spectrum of American society.¹⁹ Also, public responses to descriptions of foreign production facilities—sweatshoplike working conditions, below-subsistence wages, exploitation of young women—have adversely affected the sales and reputations of various apparel and footwear manufacturers and heightened general wariness of globalization. In June 1998 labor joined US business and government representatives to the ILO in backing adoption of the ILO Declaration on Fundamental Principles and Rights at Work, which summarizes the principles to which ILO members are committed as follows:

- (a) freedom of association and the effective recognition of the right to collective bargaining;
- (b) the elimination of all forms of forced or compulsory labour;
- (c) the effective abolition of child labour; and
- (d) the elimination of discrimination in respect of employment and occupation.

For decades organized labor has sought to make adherence to such “internationally recognized worker rights” an explicit goal of US trade policy. It can claim several successes. In 1984, for example, Congress included in the extension of trade preferences for developing countries a provision to deny them to any country that “has not taken or is not taking steps to afford internationally recognized worker rights to workers in the country.”²⁰ Labor also won inclusion of “worker rights” as the 14th of 16 “principal trade negotiating objectives” in the Omnibus Trade and Competitiveness Act of 1988 authorizing US participation in the Uruguay Round trade talks. In the 1994 law implementing the results of the Uruguay Round, Congress called upon the president to “seek the establishment in . . . the WTO of a working party to examine the relationship of internationally recognized worker rights” to the existing international trade regime.²¹ Most prominently, as discussed in the previous chapter, Bill Clinton insisted, both as candidate and president, on negotiating a

19. An analysis by economist Alan Krueger of the House cosponsors of the proposed Child Labor Deterrence Act found that they came disproportionately from higher-income districts, presumably reflecting humanitarianism rather than self-interest; cited in Rodrik, *Has Globalization Gone Too Far?* 33.

20. Section 502 of the Trade Act of 1974, as amended. The president could waive this provision “in the international economic interest of the United States.”

21. Section 131 of the Uruguay Round Agreements Act, reprinted in House Committee on Ways and Means, *Overview and Compilation of U.S. Trade Statutes: 1997 Edition* (25 June 1997), 855.

side agreement on labor rights before he would send NAFTA-enabling legislation to Congress for approval.

But conservative and business resistance grew thereafter. The draft “labor standards” language put forward by US Trade Representative Mickey Kantor in his fast-track renewal proposal in 1994 was slightly softer than that which Congress had actually enacted in 1988 for the Uruguay Round, but the side-agreement negotiations of 1993 had raised business anxieties: a Democratic administration might actually take such language seriously! And it would certainly exploit the issues for partisan purposes, to win points with a key Democratic constituency. Why should Republicans help them do this? The Republican recapture of Congress in November 1994 only increased conservatives’ conviction that they could win on trade without labor provisions. Moreover, their stand was reinforced by international resistance: the great majority of US trading partners opposed bringing labor standards into trade negotiations, particularly third-world nations that saw the attempt as disguised protectionism. At the first WTO ministerial conference, held in Singapore in 1996, a resolution was adopted declaring labor standards to be important and appropriate for action—but by the ILO, not the WTO.

What was an anathema abroad, however, won increased backing at home. Labor and its allies gained broad support, particularly among on-the-fence Democrats, with the argument that if trade negotiations could address intellectual property rights, they could certainly address core worker rights.²² Moreover, if trade sanctions, a key labor demand, were a legitimate instrument to enforce agreements on the former, they were surely appropriate for the latter.²³ Skeptics wondered why labor was giving so much emphasis to measures that, even if adopted, would bring only minuscule medium-term benefit to American workers, and relatively little emphasis to direct measures to help trade-displaced workers at home. But it was harder to question the logic of the argument that if intellectual property rights deserve attention in trade negotiations, so do core worker rights.

Labor’s broader criticism of trade, moreover, was proving a potent vehicle in membership campaigns on which the new AFL-CIO leadership was placing increased emphasis. Grassroots worker anxiety over trade both made labor’s stance an asset and made it hard to change, even if workers’ overall interests came to require it. (When insurgent candidate

22. Even trade specialists had to concede that intellectual property rules were, in essence, “production processes and methods”—PPMs.

23. A primary source of labor dissatisfaction with the NAFTA side agreement is that its enforcement through trade sanctions was explicitly limited to “a persistent pattern of failure” to enforce domestic laws on child labor, minimum wages, and occupational health and safety. Complaints involving the right of workers to associate and form unions can lead to ministerial consultations, but no more.

John J. Sweeney won the federation presidency in 1996, Clinton officials detected signs that he might favor trade compromise as an alternative to a bruising, intraparty, and quite possibly losing fight over fast track. They spent time encouraging him to think in this direction. But once he met with the industrial union leaders on his governing council, any inclination to compromise receded. He just was not going to spend an enormous amount of time and political capital fighting with them on this issue.)

There was one important continuing problem for labor, however. Globalization *was* spreading. It could not be stopped by stopping fast track, and unions recognized that all too well. As a recent International Labor Rights Fund paper put it, “increased global trade and economic integration are occurring at a rapid pace even if there are no new trade agreements. Doing nothing, or serving only a blocking role, will not halt global integration.”²⁴ Nor would stopping fast track do anything for worker rights abroad. If labor wanted to employ US trade-negotiating leverage for its own ends, there had to be trade negotiations. Labor’s trade victories of 1997 and 1998 were surely more satisfying than its defeats in the quarter century before. But labor’s trade problems remained.

24. Pharis J. Harvey et al., “Developing Effective Mechanisms for Implementing Labor Rights in the Global Economy,” Discussion Draft, 28 August 1998, section II, E, 1 (<http://www.laborrights.org/ilrf.html>).