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International Labor Standards and World Trade: Friends or Foes?

Richard B. Freeman

This chapter examines the demand for international labor standards in the global economy and evaluates mechanisms for meeting that demand. It makes five substantive points about standards:

- There is a legitimate concern for international labor standards that comes from consumer preferences. This concern can be partially met with product labeling of the labor conditions under which goods are produced. Since product labeling and corporate codes of conduct rely on the competitive market, they have some advantages over political mechanisms for raising standards.
- The view that standards are disguised protectionism is erroneous. The distinction between core and cash standards, made by virtually every advocate of standards, is fundamental. Adherence to core standards will not substantially affect the comparative advantage of developing countries nor have more than a minimal effect on trade.
- There is a public-goods dimension of the demand for standards that private labeling cannot meet. This leads citizens in advanced countries to pressure their governments to take action to get developing-country governments to raise standards.
- One of the problems with developing-country standards is inadequate enforcement of labor laws, which can be addressed through technical

Richard B. Freeman is Herbert Ascherman Professor of Economics, Harvard University; program director for labor studies, National Bureau of Economic Research; and executive director for the London School of Economics' Programme in Discontinuous Economics.

assistance and advanced-country pressures for enforcement, and by promoting nongovernmental organizations concerned with labor rights in developing countries.

- Trade pressures are a legitimate tool for trying to increase international standards, particularly in export processing zones, but are unlikely to be the superpolicy that advocates believe.

This analysis leads me to support a three-pronged policy for enhancing standards: substantial reliance on the private market in advanced countries to ''buy'' higher standards through consumer labeling, an international mechanism for dealing with egregious cases of low standards/mislabeling and for monitoring labor conditions in export processing zones, and a program to strengthen government regulatory agencies and nongovernmental organizations, notably unions, in developing countries so that they have greater capacity to enforce their own labor codes.

Labor standards—norms or rules that govern working conditions and labor relations—have become a key issue in public discourse about the future of international trade. In 1995-96 you had only to turn on your television to realize this. In Canada, a young boy attained national renown campaigning against child labor in less developed countries. In the United States, television host Kathie Lee Gifford used her celebrity status to ''shine the light on the cockroaches'' who operate sweatshops (*Boston Globe*, 1 June 1996), after having learned that apparel with her logo was produced in Central American and New York sweatshops.

Standards have also been on the agenda in trade negotiations. In the North American Free Trade Agreement (NAFTA), the United States insisted on side agreements requiring the trading partners to enforce their own labor laws. In 1986 and 1994 the United States sought to link workers' rights and labor standards with the conduct of trade in the Uruguay Round of trade negotiations and to the agenda of the World Trade Organization (WTO). France has also strongly supported linking workers' rights and trade. But these efforts have been stymied by opposition from the governments of some less developed countries. At the 1996 annual meeting of the International Labor Organization (ILO), both countries renewed calls for the WTO to consider how trade policy might be used to implement core labor standards, even though the ILO Working Party on the Social Dimension of the Liberalization of World Trade had earlier rejected pushing for a social clause in the WTO due to opposition from some developing countries and businesses.

Even so, most people regard labor standards as akin to motherhood and apple pie. Nearly everyone supports standards in some form, at least in principle. All countries enact standards for their workers. Most have ratified some ILO conventions (6,000 ratifications of 174 conventions, and 179 agreements; see ILO 1994, 41). Among the conventions most commonly ratified are those on forced labor, freedom of association and the right to organize, collective bargaining, and discrimination.[1] To appreciate the desire for labor standards, try arguing with your friends, spouse, taxi driver, or religious leader against them. Are you in favor of slave labor, unsafe working conditions, or 5-year-olds sweating in a horrific factory? Cockroach!

Nonetheless, many in the trade community are suspicious of international labor standards and oppose linking them to trade policies. Governments in less developed countries worry that protectionism is behind the call for such standards. Since some politicians and analysts attribute the problems of low-skilled workers in advanced countries to developing-country trade and thus seek to limit that trade (Goldsmith 1994, 1995), these concerns have merit. Fearing protectionist policies, most trade economists balk at the notion that countries should try to influence the labor standards of their trading partners through trade policies.

Is the demand for international labor standards truly a threat to efforts to lower trade barriers? What are the best ways to attain acceptable labor standards around the world? Should trade policy be used to improve standards, or is the risk of exploitation by protectionists too great?

This chapter addresses these questions. It first describes the demand for standards that results from the preferences of consumers and lays out some emerging private-sector modes for meeting this demand. Next, it addresses the fears that protectionist interests may highjack these demands. Finally, it assesses national government and international agency efforts to attain acceptable labor standards.

Demand for Standards

> *Consumers today hold companies accountable for the way products are made, not just the quality of the product itself.*
>
> —Reebok statement (as cited in Compa and Hinchliffe-Darricarrere 1995, 668)

To evaluate society's demand for standards, consider two shirts, which are identical in quality. One is manufactured by Sleazo Inc. using political prisoners in a labor camp, sexually harassed women in a free trade zone, convict labor, employees whose efforts to unionize are suppressed by army brutality, and/or immigrants in a sweatshop. The other is manufactured by your run-of-the-mill decent firm, whose employees work under reasonable standards with or without an independent union and whose government protects their basic rights.

The products are the same. The price is the same. Which do you choose?

1. The United States is a signatory to conventions on hours worked and occupational health and safety, though it has not signed as many conventions as other advanced countries.

Table 1 Responses to Marymount University Excel Omnibus survey (percent by level of income)

If you were aware of a retailer that sold garments made in sweatshops in the United States, would you avoid shopping there?

	Yes, would avoid shopping there
All	77.5%
<$15,000	71.5
$15-24,999	72.4
$25-39,999	85.7
$40-49,999	81.9
$50,000+	79.4

If you were buying a garment that cost $20, would you be willing to pay up to a dollar more if it were guaranteed to be made in a legitimate shop?

	Yes, would pay more if made in a legitimate shop
All	84.2%
<$15,000	75.8
$15-24,999	80.7
$25-39,999	92.7
$40-49,999	90.6
$50,000+	84.1

Source: Marymount University, Center for Ethical Concerns, Garment Workers Study, November 1995.

Now the vendor raises the price. The shirts produced under the better standards cost 50 cents, $1, $2, or $10 more than those produced under poorer standards. Which do you buy now?

At the same price, most consumers would choose the product made under better working conditions. Most would pay some premium for that product, though as the premium rises, the number willing to pay the extra charge will fall, producing a demand curve for labor standards in the product market. How large a premium different people would pay for products made under acceptable labor conditions is unclear. A 1995 survey of Americans reported that most respondents said they would shun a retail store whose products came from US sweatshops and would pay an extra dollar on a $20 garment to guarantee that the product be made under decent conditions (table 1). How many of the respondents will behave as they say when facing the actual choice is unclear, but if only one-half actually were to pay the extra buck for the product produced under acceptable standards, the effect on the product market would be substantial.

I know of no comparable survey regarding willingness to pay extra money for products produced under acceptable conditions in other countries. My guess is that American consumers have a greater aversion to goods produced under low standards in the United States than to those made under low standards in foreign countries, and that they recognize that some standards must differ by level of national GDP per capita. But while Americans may be more upset about the sweatshop in New York than the one in Calcutta, they still want some standards in the Calcutta products they consume. Moreover, as Dani Rodrik points out, American consumers may care about standards in Calcutta not so much because of ''humanitarian concerns for foreigners than for ensuring labor standards for *domestic* workers do not erode'' (Rodrik 1996, 11).

Treating standards as a by-product for which consumers are willing to pay money parallels Alfred Marshall's treatment of working conditions as a product for which workers are willing to sacrifice pay through compensating differentials. In his classic *Principles of Economics* (1890), Marshall differentiated between the bricklayer who cares whether he works in a palace or a sewer and the maker of bricks, who couldn't care less if the bricks were used for the palace or the sewer. The bricklayer's concern creates compensating wage differentials in the job market: lower pay for palace work relative to sewer work. Consumers' concern with the conditions of production adds a product market dimension to the compensating differential story. The consumer who cares whether the worker makes products in a palace or sewer consumes not only the physical good but the associated work conditions—an ''extended product,'' as it were. This will create compensating price differentials in the product market analogous to compensating wage differentials in the labor market: higher prices for goods produced under better conditions.

There is, however, an important difference between workers' and consumers' assessments of workplace conditions. The bricklayer knows if he is in a sewer or in a palace. The consumer, by contrast, does not observe the conditions of production. For some products, she may rely on the reputation of the firm: ''Xerox is a good company and must have good labor standards, even in developing country X.'' But many companies use subcontractors, whose practices they do not monitor. Many produce generic commodities, where reputation is irrelevant. As a result, most consumers and many firms have little information about the conditions under which the products they buy are produced. How, then, might consumer preferences for standards be expressed in the market?

One way is through product labeling of work conditions: a label that says, for instance, ''These shirts are produced in country X under acceptable labor conditions.'' Consumers can then penalize or reward enterprises according to their underlying preference for labor standards. When consumers shun goods produced using poor standards, the market share of firms making these goods will fall, raising the average level of standards. Some firms that initially produced under poor standards will find it profitable to improve standards to avoid having to reduce their prices to maintain customers, further raising average standards.

Product labeling has two virtues as a means of dealing with the demand for standards. First, labeling relies on the competitive market, not on politics, to determine the appropriate level of standards. The preferences of consumers—how much they are willing to pay for higher standards—and the cost of raising those standards decide which standards prevail in the marketplace. Nationally, this avoids the danger that import-competing groups might combine the rhetoric of standards with political muscle to attain protectionist legislation that they otherwise could not win. Internationally, it avoids the danger that some developing-country governments, fearful of incipient Western protectionism and/or beholden to exporters who profit from low standards, will block efforts to reach international accords.

Second, labeling has generally desirable distributional effects. Labeling requires those who want higher standards—consumers in high-income countries (or developing countries)—to pay for what they want. The transfer is from consumers to firms that meet the standards and to the inputs used by those firms.[2] The result is a net benefit to the world economy: production of new desired goods—sneakers, shirts, or children's toys—produced under higher labor standards that meet the market test.

Problems with Labeling

If only it were that simple.

Like other goods based on information, labeling has problems. The market for labels is not simple because labels are cheap to attach to items and hard to verify, as anyone who recently bought a Gucci watch for $25 in the local street market knows. Low-standards producers have an incentive to lie to consumers about the labor conditions in their workplaces. The consumer must rely on someone other than the firm to verify the information in labels: producers' associations, retailers, consumer-based agencies (Consumer Reports; Good Housekeeping), trade unions (in the United States, the union label was once the premiere label, worth money in the marketplace), national governments, or international organizations.

Institutions that give labels in turn face the difficult problem of determining conditions at thousands of workplaces. The information problem is immense. Consider Sears Roebuck and Company. Sears gets its goods from 10,000 companies worldwide, many of which hire subcontractors, and all of which buy goods from yet other firms. How is Sears to guarantee that the products it sells are made under acceptable labor standards?

2. Within the developing countries, the distributional consequences are a bit complex. If there are compensating wage differentials for poor work conditions (which is questionable), the inframarginal workers who accept those conditions plus high pay are among the losers, while the winners are inframarginal workers who prefer working under better conditions at low pay.

Sears requires contractors to sign an agreement that the goods are made in compliance with national labor laws, but it cannot monitor all the firms with which it deals any more than labor ministries can monitor all the firms under their jurisdiction. The firm probably most committed to high standards, Levi Strauss, has on occasion been embarrassed to find substandard conditions at some subcontractors.

The incentive and information problem in labeling suggests that there is no single institutional solution to attaching an accurate ''Fair Labor Conditions'' label to goods. Markets might develop alternative ways to provide the relevant information, depending on conditions. For some goods, there may be competing labels operated by activist consumer groups. For other goods, major producers or producer associations may develop a label for which they vouch. For yet others, retailers, who may face consumer pressures for selling goods produced under poor conditions, might take responsibility. Given the information problem, retailers cannot guarantee that all goods are made under appropriate conditions but can promise to spot-check subcontractors and respond rapidly to complaints. In other situations, government agencies might be the appropriate vehicle for alerting consumers about work conditions in overseas producers. In yet others, an international organization such as the ILO or some trade organization might play a role, encouraging some form of labeling and providing some verification of the bona fides of labeling groups.

The ''labeling solution'' becomes even more complicated if, as is likely, consumers care not only about the conditions involved in producing the goods they consume but also about labor conditions in general. It is not only the purchasers of Sleazo shirts that may want to stamp out the appalling work conditions in the Sleazo factory, where management locks the doors to keep workers from taking breaks or fleeing abusive supervisors. Labeling Sleazo products as ''produced under dangerous conditions'' might end the practice, but maybe not. If enough consumers, perhaps a small minority, don't care about the work conditions and buy Sleazo shirts anyway, the firm will remain in business, producing at low standards, to the detriment of those who want higher labor standards. In this case, citizen preferences are such that labor conditions are a public good: your well-being suffers from Sleazo's operation even if you do not buy its products.

What can you do to improve its standards? You can talk to other consumers and try to convince them not to patronize Sleazo products. If you are particularly offended and aggressive, you might even rip the Sleazo shirt off your neighbor's back. But as the millions who suffer from secondary smoke know, such tactics are costly to use and have only limited success.

The most common way to deal with public-goods problems within a country is through legal enactment. You use some of your political capital to get a law passed on national labor standards and insist that the labor ministry enforce the law. To be sure, laws are blunt and imperfect instruments. Legal enactment of a single labor standard seeks to force some consumers—those lowlifes who buy Sleazo products—to purchase more standards than they want. It requires enforcement against the interests of Sleazo and its clientele, which may prove costly. But to the extent that consumers care about substandard labor conditions per se, legal enactment/enforcement has the virtue of dealing head-on with the problem.

The situation with respect to general labor conditions in foreign countries raises further issues. US consumers cannot directly affect laws in some foreign country whose labor standards appall them. What, then, can they do? One market solution is for consumers to penalize a country with a reputation for ''bad standards'' by restricting purchases of its exports, even though exporters themselves might adhere to standards (Srinivasan 1994). This requires that consumers know something about general labor conditions overseas, perhaps through extensive advertising by consumer groups, and that they be willing to engage in secondary boycotts. But again, since this is a public-good problem, the natural mode of response is political: to press one's own government to use its power—for instance, through trade agreements—to force the other country's government to enact or enforce labor standards acceptable to the consumer.

Pursuing this logic, Dani Rodrik (1996, 26) has argued, ''Once the demand for labor standards is viewed as having a public element . . . the attractiveness of labeling is greatly weakened.'' Strike the adjective greatly, and I agree (Freeman 1994). Labeling and other forms of consumer information are not panaceas. They have advantages and disadvantages, just as legal enactment and the use of trade or other policies do. But use of labeling and consumer information is, I believe, necessary to any effort to raise labor standards and should be promoted both by advocates of standards and by those leery of including social clauses embodying standards in trade agreements.

Product labeling and other forms of consumer information—such as corporate codes of conduct—are, moreover, not simply a free marketeers' blackboard model of how the unfettered economy should work. Labeling is increasingly used by private-sector actors concerned with labor conditions around the world. I anticipate that labeling strategies will become even more important in the new world of global information via the Internet's World Wide Web.

Private-Sector Labeling and Codes of Conduct

Table 2 provides a short, nonexhaustive list of some recent efforts to use consumer labeling and codes of corporate conduct to guarantee that firms produce goods under acceptable standards.

Table 2 Labeling and information initiatives to enforce labor standards

Consumer/producer groups

- Rugmark Campaign. Under the auspices of the Child Labor Coalition/National Consumers League, a nonprofit foundation, the campaign labels hand-knotted rugs as being made by adults only and includes inspectors. Largely conducted in Germany, the campaign was extended to the United States in 1996.
- Fairtrade Foundation. Labels teas produced under good conditions with social benefits for workers on tea estates and operates through major retailers, such as Sainsbury.
- No Sweat Trendsetter List. US retailers and manufacturers pledge to eradicate sweatshops in the United States under the aegis of the US Department of Labor.
- Clothing industry summit. Held under the auspices of television personality Kathie Lee Gifford and the US Department of Labor, it publicizes connections between sweatshops and clothing makers.
- Clean Clothes Campaign. A European effort to work on standards in apparel that is based in the Netherlands.
- International Toy Campaign. A European effort to work on standards in toys that is based in London.

Individual firms

- Levi Strauss & Company. Adopted code of conduct, following discovery of problems. Withdrew $40 million from China to protest human rights violations. In 1992 the company paid school tuition for a Bangladeshi contractor's underage employees to go to school and return to work after age 14.
- Reebok. Has in place a voluntary code of conduct for subcontractors, with Human Rights Program.
- The Gap. Facing pressure, signed an accord with the National Labor Committee for independent human rights monitoring of its production facilities in El Salvador.
- Liz Claiborne Clothes. Also under pressure, has begun to work with independent groups to monitor facilities.
- Starbucks Company. Facing pressure from an activist group, it developed a code of conduct that involves standards for coffee producer subcontractors in Guatemala.

Activist groups

- Amnesty International. Concerned with human rights violations, including labor.
- Human Rights Watch. Concerned with human rights violations, including labor.
- National Labor Committee. Education fund in support of worker and human rights in Central America, formed by US unions concerned with labor conditions in region.
- International Labor Rights Fund. Largely union-sponsored group headed by former US Secretary of Labor Ray Marshall, to promote labor standards in the United States and the world.
- US/Guatemala Labor Education Project. Coalition of community, religious, and union groups pressured Starbucks Coffee to develop code of conduct for workers in Guatemalan coffee plantations.
- Child Labor Coalition. Consists of trade unions, religious groups, and political groups and is concerned with child labor exploitation.
- Press for Change. Concerned with Nike subcontractors.
- Alliance for Responsible Trade. Coalition of about 120 groups in the United States and Mexico, plus 40 or so in Canada and Chile, concerned with NAFTA.

Source: Based on discussions with activists, corporate code of conduct statements, and newspaper reports (see also Compa and Hinchliffe-Darricarrere 1995).

In the corporate world, Levi Strauss is widely lauded for its effort to ensure high labor practices in developing-country subcontractors. According to Chief Executive Officer Robert Hass, "In today's world, a TV exposé on working conditions can undo years of effort to build brand loyalty. Why squander your investment when with commitment reputational problems can be avoided?" (*Business Week*, 1 August 1994, 52). The firm pulled out of China and Myanmar (Burma) because of human rights violations in those countries.

Other firms have also made efforts to ensure that overseas contractors follow reasonable standards, often responding to information/pressures from activist groups (table 2). One of these, Reebok Corporation, in 1990 required its Chinese contractors to certify that they did not use prison labor. In 1992 it initiated a formal worldwide code for contractors that barred child or compulsory labor, discrimination, overtime without compensation, and that called for fair wages, freedom of association, and a healthy and safe workplace. In 1993 Reebok began auditing factories to ensure compliance (Reebok 1994). Other firms that have corporate codes of conduct covering overseas subcontractors include Sears, JC Penney, Wal-Mart, Timberland, Home Depot, and Philips-Van Heusen (Compa and Hinchliffe-Darricarrere 1995).

Perhaps the best-known effort by private firms to raise labor standards in a foreign country occurred in South Africa under the apartheid regime. The Sullivan Principles, adopted in 1977 by many US firms investing in South Africa under pressure from Reverend Leon Sullivan, a member of the General Motors board of directors, committed the firms to nondiscrimination in their employment practices and to make some efforts to improve the economic position of their nonwhite workers.

Finally, table 2 lists some US activist groups that have been pressing for higher labor standards in the nation's trading partners. Many of the activist groups have tiny staffs or operating budgets. Many are quite specialized: one group worries about Guatemalan coffee pickers (which led to the Starbucks policy), another about Indonesian workers for Nike. The main function of these groups is to provide information and to threaten to embarrass major firms with that information. They do not organize boycotts or carry out large-scale protests against products. Many of the groups have a strong union influence, which may arouse suspicions that they are fronts for special-interest protectionism.

Whatever their motivation, the activist groups are an intrinsic part of any private-sector effort to raise standards through labeling and consumer information. The targeted firms may not appreciate it, but the activists are the entrepreneurs in the market for standards, providing information and pricking the consciences of consumers and management.

For the private sector to succeed in promoting standards through labeling and corporate codes, four elements are necessary: consumers who care, firms that want to meet the consumer demand for standards and their own principles, modes of publicizing the facts about labor conditions, and activists.

In sum, there is a growing private-sector effort to ensure that goods are produced in developing countries' and elsewhere under specified labor conditions. The greater the consumer expressions of concern about conditions and the more activist heat that is generated, the greater the amount of attention firms will give to this issue. Product labeling and consumer information are key weapons for raising standards throughout the world, wielded by individuals in the competitive marketplace.

The Fear of Disguised Protectionism

> *The real danger of using trade sanctions as an instrument for promoting basic rights is that the trade-standards link could become highjacked by protectionist interests attempting to preserve activities rendered uncompetitive by cheaper imports.*
>
> —World Bank, *World Development Report 1995*, 79

> *Western governments openly propose to eliminate the competitive edge of East Asia. . . . [T]he professed concern about workers' welfare is motivated by selfish interest . . . to put as many obstacles as possible in the way of anyone attempting to catch up and compete with the West.*
>
> —Mahathir bin Mohamad (*International Herald Tribune*, 17 May 1994, 6)

The fear that demands for higher labor standards is motivated by a desire to raise costs in developing countries to benefit workers in the West underlies much opposition to international labor standards and to the use of trade as an instrument to impel developing-country producers to raise standards. The campaigns of Sir James Goldsmith and Ross Perot against developing-country trade, as well as activist suggestions that seemingly seek to remove these countries' low-wage advantage, play into these fears.[3]

The fact that some favor labor standards to reduce trade with developing countries does not mean that standards are a protectionist wolf in lambs' clothing. It does not mean that standards are designed to benefit domestic producers of import-competing products. Nor does it mean that, whatever the goal, enforcement of basic labor standards will reduce world trade. To the contrary, the view of standards as protectionism is the red herring in the standards-trade debate, and it may have blinded some free

3. Consider the following suggestion: the United States should require that "a developing country's minimum wage . . . have the same relationship to the North American minimum . . . as its labor productivity in traded goods bears to North American labor productivity in similar goods" (Rothstein 1993, 18). As the US minimum is about the lowest in the world relative to national productivity, this suggestion might in fact not lead to higher minima overseas, but higher minima in the United States, were it to be made reciprocal.

traders from recognizing the reality of the demand for standards and led them into logical inconsistencies, such as favoring harmonization of technical product standards while finding merit in diversity in labor standards (Elliott 1996a).

Motivation

There is one aspect of world trade in which advocates of standards explicitly seek to end a highly lucrative developing-country activity. They make no bones about their desire to end this traded service, which I will label X:

> Legislative and other measures should be taken to prevent and combat X, both in the countries from which the customers come and those to which they go. . . . The World Trade Organization should be encouraged to convene an experts meeting designed to offer practical measures to combat X.'' (Muntarbhorn 1996, 16-17)

Aha, you say. The cat is out of the bag. *They* want the WTO to end trade in X on the grounds of labor standards. A protectionist plot to shift demand to domestic producers, if you ever saw one.

What is X?

X is sex tourism based on child prostitution. The motivation for eliminating child sex tourism in developing countries is not to shift demand to Western children, though this may be an unintended side effect. The motivation is utterly different: to stamp out this practice in poor as in wealthy countries (US Department of Labor 1995).

I have picked an extreme example, but my point is general. Most advocates of standards are not protectionists. Most advocates of standards want what they say they want: to guarantee as far as is possible certain basic human rights to workers around the world.[4] Any reductions in developing countries' comparative advantage or in trade is purely incidental.

One way to see that individual moral preferences underlie the demand for standards is to examine the particular standards that advocates endorse. If most advocates favored standards that would greatly reduce the labor cost advantage of low-wage countries, such as a world minimum wage, free traders would have good reason to question their motivation.

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4. As Timothy Wirth, counselor at the US Department of State put it, ''We do not seek to use worker rights as a new form of trade protectionism . . . we eschew such vague terms as social dumping. We don't seek to nullify the natural comparative advantage of developing countries based on labor costs as long as those labor costs are not artificially depressed by the denial of basic internationally recognized worker rights'' (US Department of Labor 1994a, 18).

Table 3 Core versus cash labor standards

Core labor standards

Prohibition of Forced Labor (ILO Conventions 29 and 105)
Prohibition of Discrimination (ILO Conventions 100 and 111)
Freedom of Association (ILO Convention 87)
Right to Collective Bargaining (ILO Conventions 98 and 154)

Arguable core standards

Minimum Age for Child Labor (ILO Convention 138)
Prohibition of Exploitative Child Labor
Minimum Occupational Health and Safety

Cash labor standards

Minimum Wage Fixing (ILO Convention 131)
Minimum Day of Rest (ILO Convention 14)
Right to Occupational Health and Safety Standards (ILO conventions covering specific issues)
Social Security (ILO Convention 102)

Source: Based on ILO conventions and various discussions of core standards in OECD (1996), US Department of Labor (1994a), and Swinnerton (1996).

But, as table 3 shows, advocates of standards continually distinguish "core standards" regarding human rights from "cost standards" that should, and must, vary with levels of GDP per capita. Core standards rule out a small number of undesirable market outcomes such as violating human rights and require some democratic processes for workers to organize independently and bargain collectively, which may only indirectly affect costs. Prohibitions of slave labor or convict labor and of discrimination, and guarantees of the right of free association and collective bargaining will not destroy China's cost advantage in producing handmade rugs or inexpensive toys.

There is wide agreement in the world community about the core standards that the world should establish (ILO 1994; OECD 1996; World Bank, *World Development Report 1995*, chapter 11). Nearly every democratic country has its own labor code that adheres to those standards or goes beyond them, though dictatorships often outlaw freedom of association and sometimes use forced labor. The member states of the Association of Southeast Asian Nations, which has come out against linking trade and standards, do not oppose a social clause in the WTO because they favor forced labor, discrimination, and exploitation of child labor. They are against these practices and have increasingly improved freedom of association.

While most core standards are thus universal, there is some division of thought about the standards to apply to child labor (Swinnerton 1996). Some who favor standards believe child labor should be banned: the Rugmark label guarantees that its rugs are produced by adults. Others, worried that the loss of employment could force children into worse situations in the market, favor policies that create other programs for them as part of the process. The Levi Strauss solution to child labor in its Bangladeshi operations provides a useful model here: the firm provides some money so that previously employed children can go to school and return to their jobs when they are of age. The Organization for Economic Cooperation and Development (OECD) distinguishes between child labor exploitation and child labor per se. The ILO stresses the need for flexibility in dealing with child labor to ensure that such restrictions benefit the children. Ongoing discussion and the experience of programs in the ILO's International Program on the Elimination of Child Labor (IPEC) may help find the best solution to the problem of developing a core standard, if any, regarding child labor.

There is a similar, though not widely examined, problem with occupational health and safety standards. The most modern and expensive technology may be safer than 1970s technology in producing, say, autos, but to set a health and safety standard that requires developing countries to choose the more expensive technology would be putting the cart before the horse, to mix travel metaphors. Rates of occupational fatalities are markedly higher in the same sector in developing than in advanced countries (World Bank, *World Development Report 1995*, 76). The assurance that workers have egress in a facility might be part of a core standard on health and safety, but many other safety conditions are a cash standard, whose level must depend on GDP per capita.

A second way to examine the motivation for international labor standards is to assess who supports them in advanced countries. In 1995 US legislators proposed a Child Labor Deterrence Act that would have prohibited the importation of goods produced abroad with child labor. Were these legislators motivated by the hope that less-skilled Americans in their district would benefit from reduced imports?

Alan Krueger (1996) has examined this question, using the share of the population in the relevant congressional districts with less than a high school degree as an indicator of potential beneficiaries. He found that representatives from districts with many high school dropouts were less likely, not more likely, to have sponsored the bill. Representatives from states with high apparel and textile employment have traditionally opposed lower tariffs but did not take a stand against child labor. Krueger (1996, 18) concludes: "Although support for child labor standards does not appear to be related to constituents' economic interests, support for tariffs and quotas does appear to reflect constituents' economic interests." That is, the political-economy opposition to trade shows up in support of good old-fashioned tariffs and quotas, not in the demand for standards.

But what about trade unions? Table 2 showed that unions are in the forefront of standards activism. Krueger found that representatives from districts with a high union representation were more likely to co-sponsor the Child Labor Deterrence Act and to oppose NAFTA (on which the AFL-CIO had taken a strong position), though they had not opposed GATT. Isn't this a sign of protectionist sentiment behind the cloak of standards? If the typical US union worker competed with child labor or low-wage developing-country workers, one might suspect that it was. But, in fact, US union workers compete with EU workers (who work under higher standards than Americans) or Japanese workers. Union support of labor standards is not motivated by the possible indirect gains to members' income from higher standards in developing countries. Union support for standards represents a principled commitment to improving the situation for workers around the world, and in particular to strengthening the position of unions in developing countries.

In sum, while the banner of standards attracts some protectionists, it is wrong to treat the call for standards as largely arising from protectionist motives.[5]

Labor Standards, Costs, Trade

> *Forget motivation. What matters are the effects of international labor standards. If they increase labor costs in LDCs and those costs shift production in labor intensive goods to advanced countries, that's bad for economic efficiency and the truly poor in the world.*
>
> —Archetypical skeptic of standards

There are two empirical issues in assessing the economic effects of labor standards: the costs of implementing core standards and the elasticity of demand for developing-country products with respect to changes in costs.

I do not believe that core standards are all that costly to firms. Core standards involve changes in labor relations practices—how workers are treated—that affect costs only indirectly. Does a policy of nondiscrimination or protection against sexual harassment or the right to freedom of association raise costs greatly? Swinnerton (1996) has argued that some core standards are efficient and thus would reduce costs. The OECD concurs on some points. But one does not have to believe in the efficiency of, say, nondiscrimination to accept the weaker claim that the costs of standards are modest relative to the costs of production. Even child labor does not, according to the ILO, have great labor-cost savings (cited in OECD 1996, 142).

The effect of cost increases on production depends on the elasticities of product demand for the relevant imports. To the extent that developing countries specialize in different goods than low-wage firms in the same

5. Here I disagree with Srinivasan (1994, 36), who believes that "the demand for linkage between trading rights and observance of standards with respect to the environment and labor would seem to arise largely from protectionist motives." Protectionists such as Goldsmith, Buchanan, Perot, and their allies do not disguise what they want.

sector in advanced countries, substitution in the product market between developing-country goods and advanced-country goods is likely to be modest: the substitution will be between commodities, rather than in head-on competition between producers of the same commodity. If you raise the costs of making rugs by replacing child with adult labor, the handwoven rug industry will not move to Belgium, though some consumers may shift their purchase of rugs to Belgium's artificial textile products. Econometric estimates of the elasticities of developing-country exports and developed-country imports from developing countries are not that large (Goldstein and Khan 1985).

Consider the polar opposite case, in which production of traded output in low-wage goods teeters between developing and advanced countries so that modest increases in costs due to higher standards can greatly change the locus of production of, say, apparel or shoe manufacturing. If this were true, the growth of trade with developing countries in the past must have had a huge adverse effect on low-skilled Western workers. But most economists who have studied the issue reject the notion that such trade is the root cause of the economic problems of Western workers. How could it be, when the group most directly competing with developing-country workers, such as low-skilled women, have actually done better in the job market than low-skilled men, who do not in general compete with these imports (Freeman and Revenga 1995)? If you agree that trade has had only modest effects on the distribution of income within the West, you are led naturally to reject the claim that higher labor standards will devastate developing countries' comparative advantage.

Rodrik (1996) and the OECD (1996) have examined the linkage from labor standards to labor costs' and ultimately to trade using cross-country empirical evidence. Both use new indicators of labor standards. Rodrik measures standards by the number of basic ILO conventions to which a country has agreed and by reports on lax child labor standards, based on US embassy reports. The OECD focuses on violations of ILO Conventions 87 and 98, which relate to trade unionism and collective bargaining, that are listed in the ILO's new data base. Rodrik examines three outcome variables—labor costs, trade in clothing, and foreign direct investment (FDI)—and finds that standards are correlated with outcomes, though not always in the anticipated direction. The number of basic conventions and superior child labor standards to which a country adheres are associated, in particular, with considerably higher labor costs, when GDP per capita is held constant. But the number of ILO conventions is uncorrelated with developing-country textile and apparel exports, while lax child labor standards and other measures of labor standards have only weak effects on those exports. Finally, FDI by US majority-owned foreign affiliates is unrelated to ILO conventions and is negatively associated with lax child labor standards: US firms appear to prefer countries with stronger standards.

There are problems with these findings—the estimated effect of labor standards on labor costs is too high to be accepted at face value and is inconsistent with the positive relationship between FDI and child labor standards that leads Rodrik to term them ''suggestive.''[6] Still, they raise the possibility that standards may have greater effects on trade than I would have expected.

The OECD, by contrast, finds no evidence for any effect of compliance with standards on trade outcomes. Countries with greater freedom of association have not experienced greater increases in real wages nor in export performance (OECD 1996, chart 2, 3). The OECD notes, for example, the large share of high-standards countries in US imports of textile products and the similarity in prices by country even though freedom of association rights differ (OECD 1996, table 10).[7] Perhaps most important, improvements in freedom of association are unrelated to changes in economic growth or export performance (OECD 1996, table 7).

From its study, the OECD (1996, 7) concludes, ''These results imply that concerns expressed by certain developing countries that core standards would negatively affect their economic performance or their international competitive position are unfounded. . . .'' As the OECD analysis is based on comparisons of outcomes with minimal control for possible confounding factors, I find this conclusion a bit strong. Still, the absence of any simple relation between freedom of association—the core standard that might be expected to have the most substantive effects on outcomes—and outcomes across countries and over time, as countries increase freedom of association, leads one toward rejecting the claim that core standards substantively affect developing-country comparative advantage.

Neither the Rodrik nor the OECD study is definitive. The effect of labor standards on comparative advantage and trade is one of empirical magnitude, which further research should be able to clarify. We need studies with alternative measures of standards, models, and samples of countries. We also need complementary microeconomic evidence from firms operating in developing countries about the costs of enforcing standards at their workplaces and about their perceptions of how standard-induced increases in costs might affect exports, as well as additional cross-country analysis, before we can declare confidently that core standards have no effect (like the OECD) or some, albeit not fully consistent, effects (à la Rodrik). At this point, the safest conclusion is that while core labor standards *may* modestly affect developing-country comparative advantage, this effect is hard to pin down.

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6. The estimates suggest that child labor standards have effects on costs of $5,000 or so, while adherence to the basic ILO conventions has effects of around $1,800. Rodrik (1996, 20) notes that ''the parameter estimates are probably giving us an indication of the aggregate effects of all [standards].'' Effects of this size should greatly reduce foreign direct investment, which depends inversely on labor costs.

7. This may simply indicate that the products are in fact close substitutes.

The lesson to draw from inconclusive findings depends on where you think the burden of proof in the trade-standards debate lies. If you value trade per se highly and labor standards just a little, so that you are unwilling to risk *any* reduction in trade that improved standards might cause, the results may be enough to convince you that standards should not be part of any discussion of world trade. But if you value standards highly, the results should convince you that there is not much to worry about from improving core standards. Most people, aside perhaps from trade economists, have the latter preferences. Most seem willing to pay a price for policies that would reduce forced labor, improve the conditions of child labor, and assure core standards for employees worldwide. The smaller the price of standards in the form of reduced trade, the less plausible is the argument that the trading community should oppose international core labor standards as a protectionist threat to the global economy.

National/International Trade Policies and Labor Standards

That core labor standards may have only modest effects on trade does not imply that standards should be made part of trade agreements, either through addition of a social clause to the WTO or in some other way. Perhaps trade policy is an ineffective mechanism for promoting core labor standards worldwide. To understand how to raise labor standards, I ask two questions: What are the bottlenecks that prevent governments from enforcing the near-universal commitment to core labor standards? Can trade policy help remove those bottlenecks?

Government Enforcement of Standards

Given that most countries accept core labor standards and that many have signed various ILO conventions, enforcement rather than enactment is often the bottleneck to achieving acceptable standards. For example, India prohibits bonded and forced labor, bans employment of children under age 14 in hazardous work, and has appropriate regulations for health and safety. It is signatory to many ILO conventions. But scarcity of government resources and lack of political initiative, combined with incentives by private parties to avoid some standards, renders some of the legislation ineffectual.

In general, less developed countries do not adequately enforce their labor laws, particularly in small firms (World Bank, *World Development Report 1995,* figure 11.2, 76). Ministries of labor do not generally carry great weight in national deliberations, nor can they obtain the resources needed to carry out their responsibilities. At the ground level, government inspectors may be so low-paid as to neglect violations of law in return for modest bribes and may be too insufficiently trained to be effective.

Some officials may also decide that enforcement is socially undesirable. In 1984 I visited Sri Lankan brick factories where 6- to 8-year-olds worked. "But this is against the law," I said to a Labor Ministry official. "Why isn't something done?" The officials replied, "You want them to starve?" While government officials cannot readily say so, some discretion with enforcement can be better than perfect regulation (Freeman 1992; Squire and Suthiwart-Narueput 1995).

The labor supplemental agreement to NAFTA, the North American Agreement on Labor Cooperation (NAALC), recognized the enforcement bottleneck in Mexico and required the parties to "promote compliance with and effectively enforce its labor laws through appropriate government action" (NAALC, Article 3, 14 September 1993). It also included a dispute resolution system and potential penalties to support the accord.

Problems with enforcing labor laws are not unique to developing countries. The United States has problems of its own, as the current American concern over the growth of sweatshops within the country makes clear and as one of the initial cases Mexico brought under NAALC highlighted. The US Department of Labor has relatively few inspectors to monitor violations of labor laws and relies extensively on individuals' reporting violations or suing in court over violations. Legal enactment seems most effective in changing behavior where there is a general social consensus that the relevant standard is appropriate (as with antidiscrimination legislation) or when there are many private institutions, such as unions or employer federations, with incentives to monitor compliance (as in much of Western Europe).

There are three ways to improve developing-country standards via increased efficiency of government regulation of markets:

- Raise the competence of the relevant ministries through technical assistance. The ILO has been the major international organization involved in this activity.
- Raise the incentive for developing-country governments to enforce standards by putting international pressure on them. The ILO has a well-developed system for treating problems with the freedom of association. Even though the ILO cannot penalize countries found guilty of violating conventions, it can create sufficient publicity and pressure to produce some changes. In addition, the NAALC dispute/enforcement mechanism raises the costs of nonenforcement to Mexico and should increase the weight the Mexican government gives to enforcement of labor laws.
- Strengthen the competence of nongovernmental organizations concerned with workplace regulations. In the 1995 *World Development Report*, the World Bank praised the role of trade unions in monitoring

employers' compliance with government regulations and called for a greater union presence in developing countries (much to the surprise of the world labor community). Effective trade union movements in developing countries would go a long way to alleviating world concerns over standards. If employees have freedom of association, they ought to be able to gain other standards as well, and increase compliance in their countries. This strategy makes freedom of association central to any effort to rely on private parties to improve enforcement of standards.

The extent to which international assistance or pressure can increase the effectiveness of departments of labor, unions, and other nongovernmental organizations (NGOs) in poor countries is, however, unclear. Development economists have been struggling to explain why some governments manage the development process well while others do not. Pressures or assistance from abroad may be a very minor factor in determining government effectiveness. The NAALC experience should be telling in this regard, though the post-NAFTA woes of the Mexican economy are potentially far more important in determining Mexican enforcement of labor laws than the NAALC.

Government Protection of Low Standards

There is another more troublesome obstacle to high standards: the conscious policies of some governments to suppress standards, either in particular areas, such as export processing zones (EPZs), or nationwide.

In 1995 there were approximately 500 EPZs located in 73 countries (OECD 1996, 43). Much of Asian growth in exports is linked to EPZs. They would appear to be the most natural place to apply and enforce international labor standards, given that it is relatively easy to monitor labor conditions in these sites, that the producers are subcontractors to multinationals if not multinationals themselves, and that the sole purpose of EPZ business is to produce for the world market. EPZs should be leaders in labor standards, but in many countries they are not (though pay and benefits may be above national averages). The US Department of Labor reports that in several of the EPZs it investigated labor rights were more restricted than in other sectors.

When labor rights are restricted in EPZs relative to the rest of a country, this restriction smacks of an illegal trade subsidy (Charnovitz 1992). Since EPZs live on trade, the labor conditions in these areas are, in some sense, the responsibility of the world trading community. If there is a case for linking labor standards with trade, and a place where trade pressures might prove effective, that place is with the EPZs. Permitting countries to deny core standards in EPZs is unconscionable if something can be done about it with little effect on developing-country comparative advantage.

The second area of suppression of standards occurs in dictatorial regimes, most of which outlaw independent trade unions for fear of the pressure unions bring for democratization. The big fish here is China, where one-fifth of the world's population resides. China has a poor record of enforcing standards on forced labor, among other violations of core standards, just as it has a poor record of enforcing other trade regulations, such as those to curb piracy of intellectual property rights. But its policies on unions are not a matter of poor enforcement: the Chinese government is committed to preventing the development of free trade unions.

What, if anything, can be done about Chinese violations of standards? Each year or so, the United States threatens China with the loss of most-favored nation trade status for its human rights violations and/or its failure to control piracy of intellectual property rights. There have been agreements to curtail sales of goods made by prison labor. Given the growing size of the Chinese market and the expansion of the market economy in China, it is unlikely that the United States will actually act on trade threats, leastways without cooperation from other advanced countries, unless it blunders. The right strategy for increasing standards in China may be to increase contacts, make protests, educate the next generation of Chinese leaders, and watch democratic practices expand with economic growth rather than to engage in a trade war over standards. Perhaps this is a case where consumer pressures have greater potential than government actions for raising standards.

The Chinese example suggests that government pressures through trade may have greater potential for success on the policies of smaller economies with more democratic regimes, as opposed to large dictatorships. Trade union complaints to the US government or to the ILO about violation of worker rights against Thailand or Guatemala are more likely to improve labor standards in those countries than complaints against China, even though many in the US Congress worry about Chinese violation of human rights. As Srinivasan (1994, 36) notes, "The potential costs of business interests in the United States of withholding [most-favored nation status from China] are substantial enough for them to lobby against it." Even with smaller economies that are dependent on trade with the West, though, there is good reason to ask, how effective can trade pressures be in raising standards?

The strongest case against making labor standards part of trade agreements is a simple one: that trade pressures may have only a limited effect in inducing countries to change their policies. Absent experimentation with a social clause in the WTO to observe how it would work, our best assessment of what trade pressures might accomplish comes from examining the effectiveness of past government economic sanctions with respect to labor standards and other issues.

With respect to labor standards, the United States has explicit policies regarding "worker rights" among its trading partners, with rights provisions added to a host of trade and investment laws, including the US Generalized System of Preferences.[8] The GSP links trade status to labor rights in US trading partners and establishes a review process for assessing worker rights in countries benefiting from tariff preferences.

Complaints about practices have come largely from the AFL-CIO and activist groups. For instance, in 1993 the AFL-CIO made submissions against Thailand, centering on child labor violations, the right to organize, and the right to bargain collectively. GSP complaints were brought against 40 countries from 1984 to 1995, of which about half were deemed sufficiently meritorious to lead to a review of country practices. Absent a serious investigation of the outcomes of these cases, it is difficult to judge their effects, but the OECD notes that ''progress in raising core standards has been made in most of the countries petitioned'' (OECD 1996, 86).

The United States has on occasion applied trade sanctions to particular countries, such as Cuba, for political reasons. Other countries have also used economic sanctions as a tool for affecting policy—for instance, against Rhodesia when it established an independent white-minority regime. Studies of the effectiveness of trade policy instruments in achieving nontrade goals in general find that these sanctions are of limited effect and dependent on particular circumstances (Hufbauer, Schott, and Elliott 1990). Difficult though it may be to both sides in the trade-standards debate to believe, trade policy is not Superman in disguise. Countries can prosper in the face of trade sanctions or maintain unacceptable policies even when sanctions noticeably reduce their economic well-being.

That trade policy is unlikely to be a panacea for establishing core labor standards does not mean that it may not be a useful tool, however. What other tools exist in the world community's arsenal? Invasion? CIA subversion? Education? I believe that simply by raising the standards issue, the groups and countries that seek to add a social clause to the WTO have performed a valuable service in forcing the bankers, finance ministers, trade specialists, and multinationals who dominate rule setting for world trade to recognize that many citizens have concerns about standards that affect working people around the world. But I would not expect addition of a social clause to the WTO to dramatically improve global labor standards, any more than the labor supplemental agreement to NAALC has revolutionized labor practices in Mexico.

Conclusion

This chapter has made these arguments:

- There is a legitimate demand for international labor standards that is derived from consumer preferences.

8. There are provisions in at least eight separate pieces of trade and foreign aid legislation, of which the GSP program is the most important.

- The private sector can meet some of this demand with product labeling but is not well-suited to satisfy the public-goods dimension of the demand for standards.
- Adherence to core standards will not substantially affect developing countries' comparative advantage nor will it have more than a minimal effect on trade.
- Government regulation of the labor market is subject to substantial shortcomings of enforcement and needs to be supplemented with NGO activity within developing countries.
- Trade pressures are a legitimate tool for trying to increase standards, particularly in export processing zones, but will not be a panacea for low standards everywhere.

If you accept these premises, then you will be naturally led (at least I was) to a three-pronged policy for enhancing standards:

- Substantial reliance on the private market in advanced countries to ''buy'' higher standards through consumer labeling. Governments concerned with standards, such as the United States, France, and other EU countries, as well as international agencies should promote this effort. The WTO and ILO might convene a joint committee on trade and labor to consider ways to encourage voluntary labor standards labeling. The ILO might consider ways it can provide assistance in any labeling activity, using its detailed knowledge of labor conditions. One important issue is to obtain agreement on standards with respect to child labor.
- A second line of attack calls for some international mechanism for dealing with egregious cases of low standards or mislabeling and for monitoring labor conditions in export processing zones. Perhaps the WTO and ILO could work together to develop codes for EPZs and to suggest some type of sanctions for EPZs that do not meet core standards. Since EPZs are the creation of governments, it is natural to have governments or international organizations take a lead in pressuring countries on this front.
- A third line of attack is to strengthen developing-country regulatory agencies and nongovernmental organizations, notably unions, so that these countries can better enforce their own labor codes. Here, the ILO's IPEC program on child labor, with the help of other nongovernmental groups, may provide a useful model. But strengthening freedom of association rights may require considerable governmental pressures as well. Perhaps the ILO can undertake a major study of the factors that have led many developing countries to accept greater trade union activ-

ity and to determine what role the world community can play in this transition to greater democracy.

I favor a three-pronged effort to raise labor standards—with consumers/activists pressuring firms, governments and international organizations pressuring governments, and the world community seeking to strengthen NGOs in developing countries—because the evidence suggests that a single approach, including addition of a social clause to trade agreements, is unlikely to suffice. Consumers want more goods produced with acceptable labor standards. They want to buy foreign and domestic commodities knowing that they are produced under acceptable conditions by workers with some basic human rights, and they are willing to pay more for goods produced under acceptable standards. Many want their governments to do more to ensure that core standards in the global economy are met. The trade community should not try to suppress, deny, or demonize this demand, but rather should seek the best way to help meet it, in conjunction with other policies. To those committed to freer trade, I say: make the legitimate desire for decent standards your friend, not your foe. You have plenty of real foes to worry about.

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