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RAISING LABOR STANDARDS THROUGH TRADE

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One of President Bush's top trade policy priorities is securing trade promotion authority (TPA). As proposed in H.R. 3005, TPA (formerly known as fast-track authority) would limit Congress to a straight up-or-down vote on any trade agreements negotiated by the Administration. This would accelerate the implementation of trade agreements and enhance U.S. credibility by assuring foreign countries that there will be no counterproductive changes in deals they negotiate with the President.

Opponents of TPA fear that labor standards will deteriorate around the world with increased trade. In reality, however, increased trade generates economic development, which has proven to be a key factor in improved labor standards. If trade agreements are used to impose higher labor standards, developing countries will face a tough choice: either implement higher standards and bear the burden of increased costs, or choose not to trade with the United States and forgo needed export trade. Either option will reduce their prospects for economic development.

Members of Congress concerned about the working conditions in developing countries should give President Bush a version of TPA that does not contain labor standards that developing countries cannot afford to implement.

False Assumptions. The argument that trade agreements must include labor standards is based on two false assumptions, both of which are refuted by the evidence.

- **False Assumption #1: Low wages and labor standards attract investment.** This argument assumes that countries will keep wages and labor standards low in order to attract investment. It implies that the primary factors influencing investors' decisions are wages and labor standards and ignores other key factors such as the productivity of labor.

- **Reality: Labor productivity attracts investment.** Wage rates reflect worker productivity. Competition forces firms to pay higher wages to those workers who can produce more, and vice versa. High-wage labor can compete against low-wage labor because higher productivity at least compensates for higher wages. Firms may choose to direct their investments to countries with higher wages if they know that productivity will be greater.

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The actual flow of capital refutes the false assumption that low labor standards and low wages are key to attracting investment. Otherwise, investment should flow into the least-developed countries, where wages and labor standards are the lowest. However, the United

Nations Conference on Trade and Development reports that, although the least-developed countries make up approximately 25 percent of all countries, they receive only 0.5 percent of global foreign direct investment (FDI), while developed countries receive more than 80 percent. This shows that companies are willing to invest in countries where wage rates and labor standards are high because of the productivity of the labor force.

- **False Assumption #2: Labor standards can be improved externally.** Those who want trade agreements to be tied to demands for improved labor standards assume that conditions can be improved by fiat. However, mandated labor standards can undermine a country's prospects for economic growth, and attempts to impose high labor standards will be counterproductive if they entail increases in costs that stall economic development.

- **Reality: As the wealth of a country increases, so do labor standards.** Labor standards are significantly affected by a country's level of economic development. For example, in many developing countries, children must work so that their families can have the food they need to survive. Research on developing nations has shown that there is a lower incidence of child labor in countries with higher per-capita incomes. A Brookings Institution study found that, in countries with a per-capita income of $500 or less, 30 percent to 60 percent of children between the ages of 10 and 14 work, whereas in countries with a per-capita income within the $500 to $1,000 range, only 10 percent to 30 percent of children in that age bracket work.

  The inverse relationship between income level and child labor also occurs within the populations of individual countries. The Inter-Agency Task Force of the International Labor Organization, the World Bank, and the United Nations Children's Fund collected data on child labor participation rates for nine developing countries (including countries in Asia, Africa, and Latin America). The data revealed that, on average, 20 percent of the children in the poorest 20 percent of the population work full-time, while only 4.5 percent of the children in the wealthiest 20 percent work full time. The data also showed that school participation rates increase as wealth increases: On average, in the countries surveyed, only 52 percent of the children in the poorest 20 percent of the population attended school, whereas in the wealthiest 20 percent of the population, 83 percent of the children attended school. These data indicate that when they can afford to do so, parents in developing countries will take their children out of the labor force. Therefore, promoting economic development plays a key role in improving labor standards (including reducing child labor).

  The link between increased trade and economic growth has been well-documented. According to the World Bank, developing countries that significantly increased their share of trade as a percentage of GDP since 1980 experienced an average increase in economic growth of 5 percentage points annually during the 1990s. The World Bank also found that the income of the poor tended to rise at the same rate as the overall economic growth. That is, if a country's average income increases by 5 percent, its poor will likely experience a 5 percent rise in their incomes as well. Therefore, increasing economic growth through trade promises to improve working conditions for the rich and poor alike.

Conclusion. The House of Representatives should give President Bush TPA that will allow him to negotiate trade agreements with foreign countries without insisting that they adopt labor standards that they may not be able to implement. If the President has TPA, it is likely that more countries will enter into trade agreements with the United States. Increased trade with the U.S. market will spur economic development in these countries, and this in turn will increase their labor standards.

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