

The producer interest in foreign labor standards

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Received 21 November 2000; received in revised form 10 August 2001; accepted 15 October 2001

Abstract

This paper considers the producer interest in foreign labor standards. We describe multinational, import-competing and exporting firms that have different preferences regarding foreign labor standards and which lobby a government to implement their preferred policy. The policy position chosen by the government depends on the form of international market integration and on the domestic political process. We compare the producer interests in foreign labor standards with protection through a tariff, and show that there are asymmetries, so that seeking to change foreign labor standards does not correspond to seeking tariff protection, although the reason for the producer interest in foreign labor standards is producers' profits. © 2002 Elsevier Science B.V. All rights reserved.

JEL classification: D72; F13; F15; F16

Keywords: Multinational firms; Endogenous trade policy; Labor standards; Globalization

1. Introduction

The last decades of the 20th century witnessed a marked shift in the agenda of international trade policy. Because of successive rounds of trade liberalization under the GATT and the proliferation of various regional trade agreements, the 'classical' policy instruments of tariffs and quotas lost much of their importance. At the same

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time, changes in technology and communication, together with a reduction in transport costs, increased the integration of national economies (Harris, 1993). The process of ‘globalization’ and reduction of trade barriers has been accompanied by complaints of ‘unfair trade’ and by political pressures on countries’ national sovereignties in determining competition policy, environmental policy and labor standards and wage costs.¹

In this paper, we evaluate calls for ‘fair trade’ relating to foreign labor standards. We consider whether complaints about foreign labor standards reflect a concern about ‘unfair’ competitive advantage and a problem of a ‘race to the bottom’ in standards (see Rodrik, 1997; Brown et al., 1998), or whether the complaints are quests for ‘disguised protectionism’ (see Bhagwati, 1996; Krugman, 1997)?²

An empirical study by Krueger (1997) finds some evidence supporting a political economy interpretation of calls for high common international labor standards. Krueger looked at support of members of the US congress for a bill aimed at prohibiting the import of goods produced with child labor. Representatives from electoral districts with a large presence of unskilled workers, who are most likely to lose from such imports, were less likely to cosponsor the bill. He also found that representatives who had opposed NAFTA were more likely to support the ‘Child Labor Protection Act.’ This suggests that representatives supporting international labor standards were more likely to favor protectionist policies in general.

The political economy case that would associate interest in foreign labor standards with disguised protectionism has in general been formulated in intuitive terms. In this paper, we set out a formal model in which political economy considerations underlie calls for common international labor standards.

We are interested in identifying the political–economic links between ‘globalization’ and the end of use of tariffs as an instrument for protectionism, and demands for international labor standards.³ We shall stress the special role of multinational enterprises, which are a defining feature of globalization and are prominent in political processes. In particular, vertically integrated multinational firms, which shift part of their production abroad to take advantage of lower labor costs, have come under political pressure for

¹ For an early analysis of these trends, see Vernon (1971). See Anderson and Blackhurst (1992) or Bommer and Schulze (1999) on environment and trade, and Sengenberger and Campbell (1994) on labor standards. ‘Labor standards’ usually refer to such basic rights as the freedom of association, the freedom of collective bargaining, the prohibition of forced labor as well as child labor and non-discrimination (OECD, 1996). A more comprehensive interpretation also includes rules on working and safety conditions, working hours and minimum wages.

² Bhagwati (1996) has called this mechanism the ‘law of constant protection,’ implying a simple substitution of traditional forms of protectionism.

³ In this paper, we do not study the welfare implications of labor standards; on this see, for example, Basu (1999), Swinnerton (1997), and the papers in Sengenberger and Campbell (1994).

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