

Environment, Labor Rights, and Trade

- New issues entered trade debates in the last decade. Why?

Globalization brought awareness of a link between trade and issues previously considered matters of domestic regulation.

For example:

- Labor standards: U.S. labor unions linked declining wages to trade with nations that lack basic worker rights.
- Environmental standards: Environmental groups linked trade to environment via the “**pollution-haven**” hypothesis. Posit “**race-to-the-bottom.**”
- Int’l vs. U.S. law: Several U.S. laws protecting environment ran afoul of the GATT/WTO

Background: Economics of the Environment

- **Externalities - positive and negative**
 - Domestic externalities \Rightarrow role for domestic policy
 - Trans-border externalities \Rightarrow role for int'l policies
- **Possible “Market” solutions to externality problems**
 - Assign property rights and bargain. In fact, leads to the...
 - Coase Theorem: Bargaining between individuals will achieve efficient solutions to externality-type problems as long as property rights are clearly defined. Moreover it doesn't matter how ownership rights are assigned. (Figure 1).

Role of Government

- **Why doesn't the Coase Theorem work for many environmental problems?**
 - Environmental quality is a public good which makes assigning property rights virtually impossible.
 - When there are multiple polluters and/or many parties affected by the pollution, high bargaining and transaction costs can make private agreements prohibitive.
 - Suggests a positive role for government
- **Government policy and the environment**
 - Regulatory limits (good)
 - Corrective taxes (better)
 - Create market for tradable pollution rights (best)

Trade and the Environment

- **Concerns created by globalization:**
 - Do domestic environmental laws distort trade?
 - Should governments be paternalistic about the environments of other countries (“eco-imperialism”)?
 - How do you distinguish between legitimate environmentalism and protectionism?
 - Should an international organization (WTO) be able to override national sovereignty on environmental matters?
- **Tuna-Dolphin Case (1991); Shrimp-Turtle Case (1998)**
- **WTO increasingly sensitive to Eco-issues**
 - WTO Committee on Trade and the Environment
 - U.S. vs. Venezuela/Brazil on gasoline (1996)

Figure 1: Coase Theorem Example

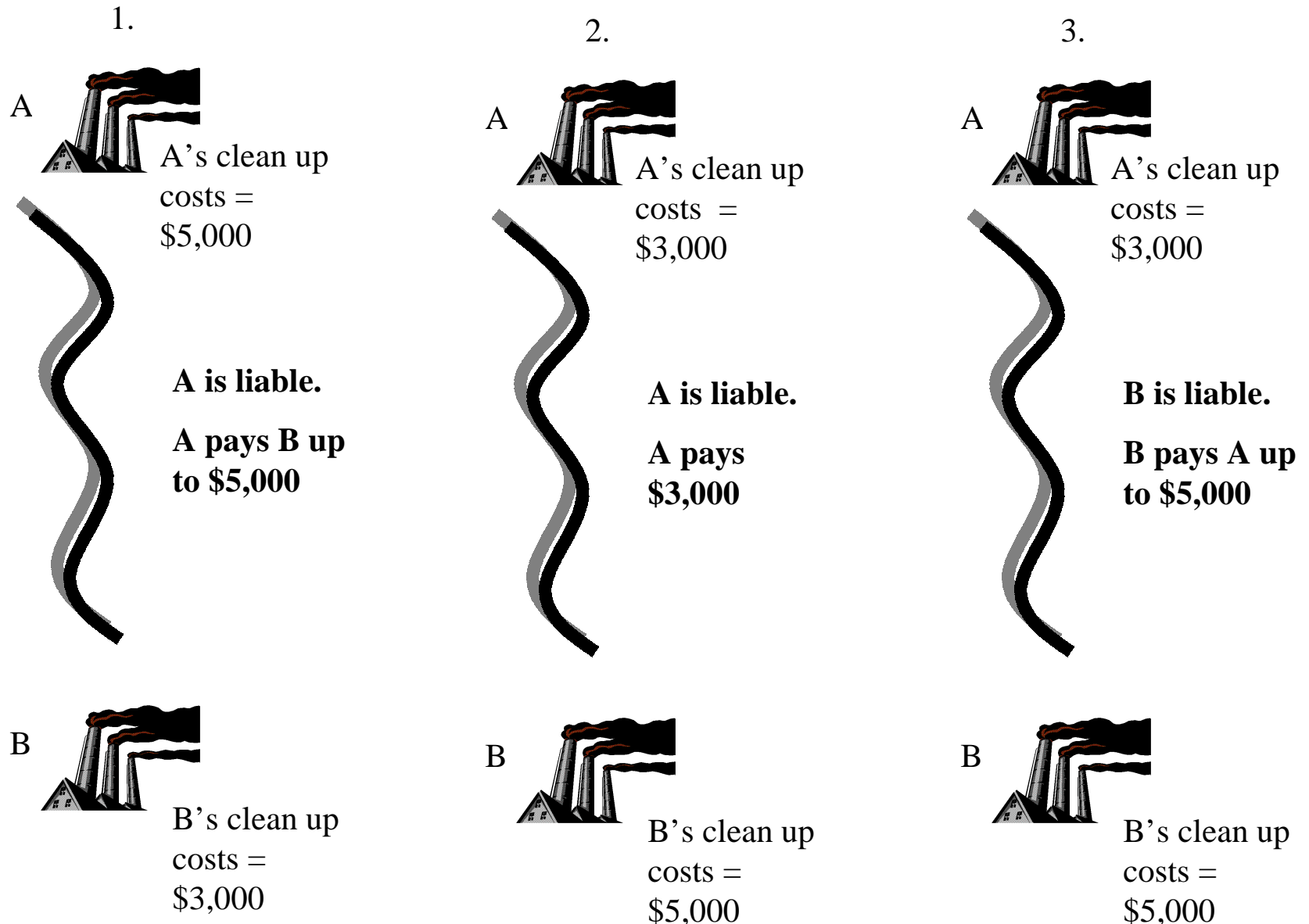


Figure 2: Market for Tradable Pollution Rights

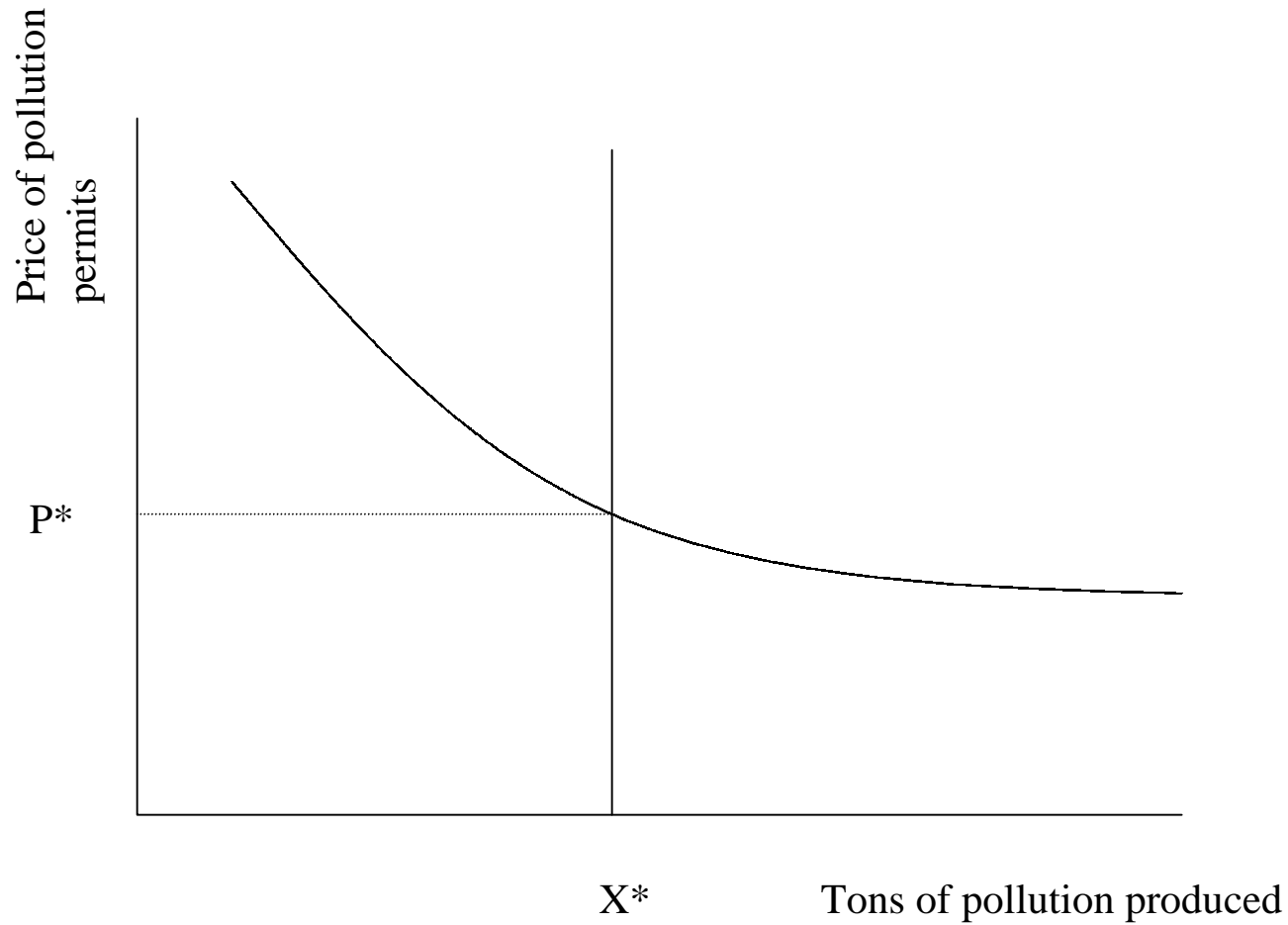


Figure 3: Environmental Kuznet's Curve

Inverse-U relationship between pollution and national wealth

