

# Protectionism's Other Names

## Traps India must avoid at the G-20

Jagdish Bhagwati and Arvind Panagariya

Lagging employment recovery and continuing high levels of unemployment have marked the macroeconomic scenario in the United States. So, it is natural that the United States, which chaired the G-20 meeting in Pittsburgh, would use its privileged position as the host to invite the US secretary of labour, a well-known union activist, to convene a meeting of the employment and labour ministers on the jobs situation prior to the next G-20 heads of state meeting in Canada.

The macroeconomic aspects of the labour situation are indeed a proper focus of such a meeting. But the Pittsburgh declaration goes further and urges the G-20 countries not to "disregard or weaken internationally recognised labour standards" and to "implement policies consistent with ILO fundamental principles and rights at work".

Led by their federation, the AFL-CIO, the US labour unions have had a long history of pushing for a "social clause" into trade treaties at every forum. For international economists familiar with this history and the stranglehold the unions exercise on the Democratic Party and Congress today, the G-20 declaration constitutes a carefully designed trap. It is drafted in a way in which the US and the European Union can get developing-country employment and labour ministers unfamiliar with the agenda and influence of developed-country unions, to endorse measures that have a "feel good" façade but are, in fact, a protectionist dagger aimed at our jugulars. Indeed, the US undersecretary of labour, Sandra Polanski, who has been put in charge of the meeting, is well known to us as a long-standing proponent of such measures and a relentless activist on their behalf.

When the unions in the US and the EU insist

on a set of labour standards in the developing countries with which they compete for markets at home and abroad, they take an altruistic line: we are doing this out of solidarity; we are doing it for your workers. But when you push them hard, they always say: it is "unfair" to have to compete with others who do not have our standards. Now, the latter is an argument about competition; it is about losing out in trade. So it is an argument motivated by self-interest, not altruism.

The traditional demand by the American unions has been that others should have the same standards as the US does. But this



Don't buy the tales the US and Europe spin

argument is comic, were it not tragic. Is the US a paragon of virtue on labour standards? After all, less than 10 per cent of its private workforce is now unionised. And this is because the main weapon that unions have, the right to strike, has been crippled by the Taft-Hartley legislation of over 50 years ago. Even liberal universities have refused to let their administrative employees organise. In consequence, Human Rights Watch, which has investigated the right to unionise, a central feature of the ILO principles, has found that this is far from being guaranteed in the US.

So, US unions have shifted to asking for ILO "core standards" instead. But this will not

wash either. The US has not even ratified many of these core conventions. So, in effect, this version is also to be aimed at others, not themselves.

The truth of the matter is that, frightened by competition from our exports, the American and European unions seek relief. This can be obtained by conventional import protectionism. But, if this is constrained by WTO obligations, then it can be obtained by raising the cost of production of the foreign rivals. Raising their labour obligations is one way of doing this. Therefore, we have called it a form of "export protectionism", like the Voluntary Export Restraints, where the exporting country restrains its exports.

An alert must therefore be sounded and the matter discussed at the highest levels of the Indian government, with the labour minister fully briefed by trade experts and officials on the traps that await him at the impending meeting. We can also be sure that the US delegation will be assisted by Washington think-tank proponents of such protectionist proposals, many of them from the Carnegie Endowment (where Polanski sat during the Bush years), the Petersen Institute for International Economics (which has had a history of advocating trade-labour link), and the Centre for Global Development (which is captive to the protectionist notion of fair trade extending to labour standards in trade). Our best trade experts can effectively counter their arguments if only we use them.

But it is not enough to push back on proposals, which will harm us and the developing countries, more generally. India needs to be proactive and offer its own resolution that explicitly discourages the insertion of labour clauses into trade treaties and institutions. The intellectual argument is on our side on this issue. We should not be content to act as if we came at the banquet but have no say in the choice of the menu.

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Jagdish:

I was shocked by the sheer stupidity and abject pettiness of your calling the Petersen (sic) Institute "protectionist" in one of your recent screeds in the Indian press. You have sunk far beneath even the abysmally low standards you have set in recent years with this one.

I realize that the dominance of the Institute (Top Think Tank in the World etc.) and me personally (most quoted think tank economist in the quality media over an entire decade etc.) over you and your acolytes must rankle badly. But any poll of observers of trade policy, knowledgeable or not, would obviously place us among the top advocates of liberalization in the entire world and probably at the head of the class. Your blind obeisance to MFN ideology and hangups over third order issues, like labor standards, have unfortunately made you irrelevant to most of the serious policy debates of the past thirty years.

All this is a shame because you and I are basically on the same side of virtually every one of those debates, strongly supporting freer trade and vigorously opposing protectionism. And you cannot even spell the name of our Institute correctly.

Sincerely,

C. Fred Bergsten  
Director

\*C. Fred Bergsten, *Director*

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**Professor Jagdish Bhagwati's letter to Dr. C. Fred Bergsten**

I am afraid your outburst, which is pretty ill-informed and does not begin to understand the nature of "export protectionism", does no justice to your credentials to object to the well-argued piece we wrote.

The only point at which we talked about your Institute was one short phrase which accurately described the Institute's long-standing position on the trade-labour standards link. It does not merit the screed you direct at me.

Please do not think, in any case, that I want to compare myself with you. I cannot aspire to climb the Himalayas! You are, as you say, the greatest thinker on trade that we have. You are in fact a national, even an international, treasure. I salute you.

Best, as always,

Jagdish