

**“Achieving Fair Trade through a Social Tariff Regime:
A Policy Thought Experiment”**

Abstract:

This paper presents a fair-trade policy thought experiment which a) presents and explores the Social Index Tariff Structure (SITS) regime; and b) simulates a global SITS regime drawing on contemporary bilateral trade flows. A SITS regime seeks to protect strong labor and environmental standards in those countries where they prevail, while providing both the incentives and means for countries that perform poorly in these regards to improve their standards. We demonstrate that a global SITS regime would generate substantial and stable flows of development funds while incentivizing a global ‘race to the top’ in labor and environmental standards.

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Introduction

By the early 1990s a new trade debate had emerged. It concerned the question whether the trade regimes then being negotiated, most importantly NAFTA and the Uruguay Round of GATT that would create the WTO, should incorporate labor and environmental standards. At the time many labor, women's and human rights activists, environmentalists and heterodox economists advocated new rules to prevent trade in goods that are produced under egregious labor or damaging environmental conditions. The "fair traders" claimed that such rules were necessary to protect the hard-won social protections achieved in high-standard countries while promoting the improvement of social and economic conditions in low-standard countries. In contrast, business interests and virtually all mainstream trade economists endorsed "free trade" which in this context was re-defined to include the idea that trade agreements should remain silent about labor rights or the environment. In place of "fairness," this camp advocates forcefully for "freedom."

This was not primarily an academic debate. Suddenly civil society in the global North and the South began to pay attention to the details of international trade negotiations. All sorts of actors took a stand against what was often referred to as globalization; their objections primarily concerned the rules under which countries were integrating their economies. Labor and human rights advocates and environmentalists locked arms in protest of the WTO, NAFTA, the World Bank and the International Monetary Fund and just about every other institution that was implicated in globalization.

Mainstream economists were bewildered. How could free trade, which is so obviously beneficial to rich and poor alike and so well established by almost two

centuries of economic theory, possibly incite such anger and anxiety? Leading trade economists took it upon themselves to discredit the fair traders. Paul Krugman was particularly forceful in dismissing fair trade throughout the 1990s. In a 1997 article entitled “In Praise of Cheap Labor,” Krugman argued that the fair trade position was nonsensical, grounded as it was in an unethical “fastidiousness” of American consumers:

Unlike the starving subsistence farmer, the women and children in the sneaker factory are working at slave wages *for our benefit*—and this makes us feel unclean. And so there are self-righteous demands for international labor standards: We should not, the opponents of globalization insist, be willing to buy those sneakers and shirts unless the people who make them receive decent wages and work under decent conditions.

But not buying these goods, Krugman continued, would hurt those whom the fair traders purported to want to help:

...A policy of good jobs in principle, but no jobs in practice, might assuage our consciences, but it is no favor to its alleged beneficiaries...

In short, [fair traders] are not entitled to their self-righteousness. They have not thought the matter through. And when the hopes of hundreds of millions are at stake, thinking things through is not just good intellectual practice. It is a moral duty (Krugman 3/21/1997).

Later he would argue that

[Fair trade is] not a serious position. Third-world countries desperately need their export industries... They can't have those export industries unless they are allowed to sell goods produced under conditions that Westerners find appalling,

by workers who receive very low wages. And that's a fact the anti-globalization activists refuse to accept (Krugman 2001).

In the end the free traders won this debate. NAFTA was passed despite substantial opposition in the US and Canada with only a gesture toward labor rights and environmental protection. The Uruguay Round of GATT negotiations was concluded with even less regard for these concerns. Since then there has been a growing number of new bilateral trade and investment agreements between the US and developing countries that lock in free as opposed to fair trade. So we might expect that trade economists today would be self-satisfied that they had saved the world from the ignorant, the imperialists and the deceitful.

But today we find little celebration of free trade. There is growing anxiety today among influential economists across the political spectrum about the flows and outcomes that are associated with international economic integration. In the past few years Paul Samuelson (2004), Paul Craig Roberts (Schumer and Roberts 2004), William Baumol (Gomory and Baumol 2000), Alan Blinder (2007) and Paul Krugman (2007) have expressed concerns about the potentially damaging effects for the U.S. of free trade. This shift occurred at the same time as a new approach to trade policy took root in Washington. In 2007 the Democratic Congressional leadership reached an agreement with USTR Susan C. Schwab, "A New Trade Policy for America." This pact committed the Bush Administration to include in pending free trade agreements (with Peru and Panama) provisions that require the parties "to adopt, maintain and enforce in their own laws and in practice the five basic internationally-recognized labor standards, as stated in the 1998 ILO Declaration." In response, Krugman (May 14, 2007) had this to say:

The key element of the new trade deal is its inclusion of “labor standards”:
countries that sign free trade agreements with the United States will have to allow
union organizing, while abolishing child and slave labor...the inclusion of these
standards in the deal *represents a real victory for workers.*

*By all means, let's have strong labor standards in our pending trade agreements,
and let's approach proposals for new agreements with an appropriate degree of
skepticism.* But if Democrats really want to help American workers, they'll have
to do it with a pro-labor policy that relies on better tools than trade policy.

Universal health care, paid for by taxing the economy's winners, would be a good
place to start (emphasis added).

Elsewhere Krugman wrote, “those who are worried about trade have a point, and deserve
some respect” (Krugman, Dec. 28, 2007).

In making this turn Krugman is placing much greater emphasis than he has in the
past on the short- and even long-term adjustment costs associated with free trade. In his
case, the causes of this about face include most importantly the depressive effects on US
wages of the large and persistent US trade deficit with China; for others, such as Blinder,
it is off-shoring of even high-skilled, white collar jobs (Blinder 2007).

In this context, it appears that fair trade may now have a chance for a new hearing
among trade economists and policymakers. But this presents heterodox economists with a
substantial challenge that they did not face so acutely in the 1990s, when fair trade
remained elusive. What should fair trade look like? What kinds of fair trade regimes
would be effective in achieving its primary purposes, and be ethically defensible in a
world of tremendous inequality in wealth, income and life chances? In what follows we

offer a thought experiment in fair trade—one that is intended to

Revisiting Fair Trade

The fair traders of the early 1990s advocated several distinct approaches to achieve fair trade. The first (and the simplest) is the approach now codified in the “New Trade Policy for America” initiative that we just considered. It entails provisions in trade agreements that permit a signatory to ban any imports that are deemed to be illicit in the sense of having been produced under inadequate labor or environmental standards abroad. Precedents exist for this kind of action. For instance, US law has prohibited the importation of goods produced by prison labor at least since the passage of the Trade and Tariff Act of 1930.

A second approach, the social charter, is more ambitious in the extent and depth of the harmonization of standards that it requires. In principle a social charter mandates that nations recognize and protect some minimum set of social rights and entitlements as a condition for participating in a common market. Established through multilateral negotiations among the affected nations, these rights might be taken to reflect what are deemed by member states to be vital rights and interests that cannot be compromised in pursuit of export performance. In the view of its proponents, a sufficiently strong charter would prevent destructive competition among member states. Some advocates argued for the adoption of a social charter as a central component of NAFTA (e.g., Castañeda and Heredia 1992).

A third approach entails the imposition of “social tariffs” on goods produced in countries with relatively weak labor rights and environmental protections. The goal of this approach is to protect the gains in labor and environmental protections achieved in

high-standard countries and to encourage the adoption of higher standards in low-standard countries. It seeks these results by canceling the competitive advantage enjoyed by firms operating where standards are weak (see Dorman 1988 and 1992; Lebowitz 1988; Chapman 1991; Ramstad 1987; and Rothstein 1993). In Dorman's view (1992), high-standard countries would impose social tariffs unilaterally since low-standard countries were unlikely to agree to multilateral accords that include a social tariff.¹ Under this approach, a nation's own standards would be taken as the relevant benchmark for instituting tariffs. Workers or firms that believe they have been harmed the existence of lower standards abroad would seek redress in the form of a tariff through a petition to an authority that is authorized to hear evidence and issue a binding ruling.²

Under a fourth fair trade approach high-standard countries would require domestic corporations that invest in low-standard countries to respect the worker rights and environmental protections that exist in the home country. This policy was proposed by a most unlikely source, free-trader Jagdish Bhagwati (1993; 1995), in the context of the debate over North American integration. The proposal is patterned after the "Sullivan

¹ Advocates of this approach tend to view government provision of low standards as subsidies to domestic producers. This allows these producers to undercut world prices, which is tantamount to dumping; hence the term "social dumping."

² Chapman's proposals regarding environmental standards and trade are similar. Lebowitz (1988) develops a simple game theoretic analysis to argue the case for a social tariff, although in his view the tariff is a second-best strategy made necessary by the current inability of workers to organize internationally (for him the first best solution). See also Ramstad (1987) for a discussion of Commons' defense of social tariffs.

Principles” which required US corporations that invested in South Africa during the apartheid era to comply with US laws against discrimination. It is designed to prevent corporations in high-standard countries from relocating to developing countries simply to secure cost savings owing to the lower standards that generally exist in the South.

Bhagwati argues that this approach removes the incentive for firms to seek low standards, but does so in a manner that respects the governance rights of the host country. Bhagwati opposes any requirement that developing countries adopt the same standards as developed countries on the grounds that it would infringe upon their sovereignty and reduce their level of economic welfare. For example, the demand that Mexico harmonize its environmental standards and practices with those of the US, expressed by some opponents of NAFTA, is unacceptable to Bhagwati:

[Surely] the manner in which Mexico divides its overall effort to meet environmental objectives among different industries and regions must reflect its own priorities just as ours reflect our own interests. Demands on Mexico to do exactly what we would do are therefore not sensible. Since we would properly not submit to them if made by others, they are also unreasonable (Bhagwati 1993, 13).

Evaluating Fair Trade

Evaluating each of these proposals requires *inter alia* a careful consideration of the normative criteria that we bring to bear. What purposes should fair trade achieve? Who is to be its primary beneficiary? Who should bear the costs that it imposes? Krugman and the other free traders were certainly correct in the 1990s in drawing attention to the consequences of well-intentioned fair trade—in demanding that we look

beyond a reflexive outrage at sweatshops and ecological destruction to inquire whether the fair trade alternatives on offer would in fact improve the life circumstances of the dispossessed. And when we undertake such an investigation, we find that in fact the standard fair-trade prescriptions were problematic when judged against the normative claims that the fair traders espouse.

What are these normative claims? At its best fair trade is motivated by an ethical commitment to international egalitarianism. Fair traders seek policy regimes that ensure that the benefits of economic integration flow broadly and benefit most those in most dire need. Drawing on the capability framework of Amartya Sen, Martha Nussbaum and others, DeMartino (2000) frames this commitment in terms of an internationalist ethic that seeks equality among the world's inhabitants in their ability to live valued lives, or what Sen (1992) calls their capabilities to achieve valued functionings. Functionings are beings and doings that people value; capabilities refer to the full set of functionings that are available to a person. This framework yields the following normative standard for evaluating global policy regimes: "*A global policy regime is just to the degree that it promotes the harmonization of capabilities to achieve functionings at a level that is sufficient, universally attainable and sustainable.*" Harmonization of capabilities signals the commitment of this principle to substantive equality that refers not just to the formal rights people enjoy but also what they can actually achieve, given the determinants of income, wealth, physical and mental well-being, the institutional structure of their societies, their race, gender and other factors that shape the opportunity set that is available to them. Sufficiency implies the need to attend to the level at which this equality is achieved. The goal is not maximization of consumption but instead the

achievement of a level of capabilities that provide for a good human life (Nussbaum 1992). Finally, sustainability requires attention to the ways in which the enjoyments of our freedoms bear on future generations. It may place limits on the functionings that people can pursue and especially on the means by which they pursue them so that their actions do not diminish the capabilities set of those who will follow.

How do the circa 1990s fair trade proposals fare against this (admittedly demanding) normative standard? Unfortunately, each fails substantially in one way or another. First, those strategies (such as the Sullivan Principles and social tariff approaches) that are intended to be imposed unilaterally run the risk of serving purposes quite opposed to those for which they are intended. They open the door to exploitation by nationalist or other powerful interests, and this opportunity is of course far greater for wealthy societies than it is for poorer countries. The politically biased application of trade sanctions on supposedly humanitarian grounds by the Reagan Administration during the 1980s provide a case in point: the Reagan Administration used trade sanctions to punish those countries with regimes that were viewed as hostile to the US, such as Nicaragua during the Sandinista regime, while ignoring egregious worker rights violations in countries taken to be allies, such as Guatemala. It is no surprise, then, that many labor rights advocates across the South opposed the new fair trade initiatives of the 1990s that linked US trade access to labor standards (see Cavanagh 1993; Cavanagh et al 1988). Though there are no guarantees against misuse of any policy instrument, these risks might be reduced through participatory, cooperative multilateral approaches that establish new global policy regimes. The goal of global capabilities equality, then, weighs heavily in favor of multilateral approaches that afford poorer countries meaningful opportunity to

shape the rules under which they will live, and that provide a policing mechanism to prevent distortion by rich countries for their own ends.

Second, the labor standards and social charter approaches include no dynamic that will lead to improving standards over time. Given the extraordinary inequality today in income and standards, it is likely that negotiations that seek to harmonize standards and include both rich and poor countries would yield a very low floor—one so low as to fail to prevent the corrosive effects of competition on strong protections in high-standard countries. Moreover and equally important, there is no mechanism to assist low-standard countries in enforcing, let alone raising their own standards. Hence, there is little prospect in this approach for achieving the goal of equalizing critical capabilities between rich and poor countries.³

We conclude tentatively that while the institution of a fair trade regime is desirable and perhaps today even likely, the proposals of the 1990s that received the most attention are normatively inadequate. They do not go far enough in promoting genuine international equality. Indeed, they threaten to punish poor countries for their poverty, while failing to provide them with the means necessary to ensure expanding freedoms for their inhabitants.

But what kind of fair trade regime might do better? What kinds of mechanisms

³ DeMartino (2000) explores these and other normative and practical shortcomings of these fair trade approaches. In response to those who worry that the premature raising of labor standards in the global South will undermine economic development, Dorman (2006) presents the case that low standards entail particularly high (but often hidden) costs in this context that offset (and may entirely negate) their purported growth benefits.

might it include to promote harmonization of capabilities to achieve functionings in a world in which the gap between the capabilities rich and capabilities poor is so stark? What kind of regime might incorporate incentives that induce countries to take steps to promote capabilities equality, while continuing to take advantage of the benefits derived from an essentially liberal trade regime?

**A Fair Trade Thought Experiment:
The Social Index Tariff Structure (SITS)**

The previous discussion suggests a demanding set of criteria for judging fair trade regimes. A global trading regime that is consistent with the principle of capabilities equality should achieve several interrelated objectives. First, it should incorporate incentives for countries to take steps to promote capabilities equality domestically. Second, given the extreme gap between the North and the South, it should also provide the means necessary for impoverished countries to expand the capabilities of their inhabitants in the aggregate. Third, and contra neoliberal trade agreements that are silent on the matter of the policy sources of comparative advantage, this regime should penalize countries for pursuing strategies to enhance export performance that are capabilities-reducing for those at home with relatively meager capabilities sets. Fourth, the regime should also preclude domestic policies that induce international capabilities inequality, such as those that benefit a wealthy country at the expense of a poorer trading partner. Finally, the regime should ideally alter domestic and international political landscapes in ways that promote political reforms that deepen capabilities equality.

We explore here one possible means for achieving these goals—what Cullenberg and DeMartino (1995) and DeMartino (2000) have called the “social-index tariff structure,” or SITS. It is intended as a thought experiment that results from asking the

question, *what kind of trade regime might achieve ethical trade ethically?* It foregrounds a strong commitment to international egalitarianism, and seeks ways to put international economic integration in service of this objective.

Put most simply, the SITS is a multilateral trade regime that would promote benevolent means by which countries seek good trade performance, while at the same time punishing countries that pursue export-promoting strategies that undermine capabilities equality. It does this through the implementation of a system of social tariffs. Unlike unilateral social tariffs, this approach would arise out of multilateral negotiations that would determine the criterion for establishing social tariffs, and establish a new institution for imposing and policing them.

Under a SITS regime, each country would be assigned an index number that reflects its performance in promoting the *average capabilities* of its citizens *relative to its means*, and the degree to which these capabilities are *distributed equally*. This index number provides a basis for assessing and ranking countries' respective capabilities performance. Countries with relatively similar levels of performance would then be grouped together for trade purposes. These groupings would determine the application of social tariffs: tariffs would be applied when a country exports to another with a significantly higher index number that reflects its superior capabilities.

Constructing a SITS regime entails several steps, each of which entails judgment rather than the mechanical application of rules. We view this feature of the SITS as a virtue, since it brings to the surface and opens up to close scrutiny the normative values that necessarily underlie any international trade regime. In what follows, we construct a hypothetical SITS regime.

Human Development and Equality

First, we need some measure of each country's level of capabilities. The Human Development Index (HDI) generated by the UNDP and reported yearly in the *Human Development Report (HDR)* represents an explicit first approximation of a measure of capabilities. The HDI is a composite measure based on three indicators: welfare, life expectancy and educational attainment. On the basis of this index, countries are ranked according to levels of "human development."

Each of these three indicators is taken to be important in its own right, and to serve as a proxy for other indicators of capabilities that are harder to measure. For instance, life expectancy provides insight into the ability of people to avoid preventable mortality, of course, but also reflects their ability to get access to health care, and to be properly nourished and sheltered. It might also provide some indirect information about relative equality since a country marked by particularly severe inequality in the distribution of income and other opportunities might exhibit a life expectancy index number that is very low relative to its per capita income. For example, though Brazil enjoyed a per capita income substantially above Cuba in 2007, its life expectancy index value of .813 fell below Cuba's .863 (UNDP 2009). The educational attainment indicator reveals something about the ability of people to make sense of and respond to the events and forces shaping their lives, to use new (information and other) technologies, etc. These also may be vital to (but are by no means sufficient for) their political efficacy.

There are limits to the information provided by any one component of the HDI—and even to all three components taken together. Certainly, there are important functionings that the HDI misses—such as the ability to achieve self-respect, or to voice

one's opinion on pressing political matters free of fear of reprisals. But while we should exercise some caution in interpreting HDI data, we can fairly treat the index as a source of useful information on at least certain basic functionings.⁴

As an aggregate measure, the HDI provides no direct information about the degree of capabilities inequality in a country (though it does provide some indirect information, as discussed above). If the goal is to devise an index that is sensitive to both the level and degree of equality of capabilities, then we need to incorporate other information.

Systematic inequality in a country takes many forms, tied as it often is to differences in class, gender, ethnicity, race and so forth. Under the principle of

⁴ Various researchers have expressed concern about the HDI as a measure of capabilities in particular, and other means to measure capabilities more generally (see Comim, Qizilbash and Alkire 2008). There is a consensus that theorizing and measuring capabilities pose difficult challenges. In our view, whether the HDI is an appropriate measure of capabilities depends entirely on the purposes to which it is to be put. In the present context what might otherwise represent deficiencies (its focus on basic rather than complex functionings, its thin empirical basis, its conflation of functionings achievement with capabilities and so forth) are likely to be beneficial. The goal here, after all, is to envision a *multilateral* trading regime that will promote capabilities equality; as such, it must be agreeable to negotiators from nations across the globe with diverse levels of wealth, diverse cultures, etc. In this context, an approach to capabilities that focuses on a small set of basic functionings might be expected to induce less resistance than a more precise, nuanced and complex measure, as Sen has argued (1992).

capabilities equality, all of these are illegitimate. Our measure of a country's performance should account for these. In the absence of good cross-national information on these matters, and insofar as all of these may be expected to contribute to income inequality, we might take the latter as an imperfect but relevant proxy for these diverse forms of inequality. We therefore incorporate the Gini coefficient into SITS computations since it is widely regarded as useful and, equally important for present purposes, it is available for most countries.

Worker and Women's Economic Rights

Worker rights are central to the capabilities that people enjoy. Fair traders seek to ensure that the competitive pressures that arise through international trade do not undermine labor rights—either through explicit government actions (such as increased labor repression) or through worker accommodation in the face of capital flight. Ideally, we want a trade regime whose competitive pressures induce an enhancement rather than a subversion of worker rights. Moreover, women and men should equally share these rights.

The Cingranelli-Richards (CIRI) Human Rights Dataset “contains standards-based quantitative information on government respect for 15 internationally recognized human rights for 195 countries, annually from 1981-2009...for countries of all regime-types and from all regions of the world” (<http://ciri.binghamton.edu/>). The National Science Foundation, the World Bank, GTZ (of the German government) and other institutions have sponsored the project. CIRI presents useful measures of worker rights and the economic rights of women. It is particularly appropriate for present purposes because it focuses on state behavior: “The data set contains measures of government

human rights practices, not human rights policies or overall human rights conditions (which may be affected by non-state actors)” (“CIRI Human Rights Data Project: FAQ,” at <http://ciri.binghamton.edu/faq.asp>). This is important, since a SITS regime targets *inter alia* changes in state behavior in pursuit of human development.

CIRI has established 16 individual measures of rights—ranging for example from freedom from extrajudicial killings, disappearances and torture to freedom of speech, movement and assembly. It also derives two composite measures of rights from these individual components. One of these, the Empowerment Rights Index (EMPINX), combines a country’s scores on five of these individual indices: Freedom of Movement, Freedom of Speech, Worker’s Rights, Political Participation, and Freedom of Religion indicators. This indicator is scored from 0 (which implies no government respect for these five rights) to 14 (for full government respect for these five rights). We incorporate this index in the SITS calculations because it relates so closely to the concerns of labor and human rights advocates who see in free trade an inducement for governments to deny these kinds of rights in order to secure labor passivity and low labor costs.

Unfortunately, this measure largely ignores gender rights (though a country that denies worker rights to women would score lower in the worker rights component on that account). Given the frequency with which women workers face labor market discrimination and the frequency with which this serves as a strategy to depress wages to attract foreign investment and promote export performance it is imperative to incorporate a measure of women’s economic rights. CIRI provides a separate measure of this variable (WECON). This is scored on a scale from 0 to 3; adding this to EMPINX yields a

composite, gender-sensitive empowerment rights indicator (GER) that ranges from 0 to 17.⁵

Environmental Protection

Environmental quality also bears heavily on the capabilities that people enjoy. Moreover, taking our obligation to future generations seriously, as egalitarians must, implies that a fair trade regime must promote environmental stewardship. Hence, we need a measure of countries' environmental performance.

Over the past several decades environmental researchers have identified a number of environmental performance indicators. The indicators cover a wide range of environmental measures ranging from carbon emissions and water quality to indicators of the level of stress on fisheries, forest and agricultural lands.

⁵ Under standard mainstream trade theory (especially the Heckscher-Ohlin model and the Stolper-Samuelson theorem) women in developing countries ought to benefit most from trade liberalization since they provide the abundant factor (unskilled labor) in these countries. More generally, trade theory predicts that free trade will reduce overall income inequality in developing countries since the chief beneficiaries should be unskilled labor. Unfortunately, neither of these predictions is sustained by recent empirical studies. Indeed, in recent years overall inequality generally has risen in developing and developed countries as a consequence of free trade. On trade and inequality see Koujianou Goldberg and Pavcnik (2007); on the complex relationships between gender and trade liberalization and export promotion see Seguino (2000); Braunstein (2006); the essays in Grown, Braunstein, and Malhotra (2006); and Bussman 2008.

A handful of comprehensive environmental indices exist that seek to present comprehensive accounts of countries' environmental performance. Of these, we have chosen the Environmental Performance Index (EPI) as a comprehensive and yet tractable measure of a nation's environmental policy performance and pursuit of environmental sustainability. The EPI is calculated based on a set of 25 indicators that represent measurable impacts of policy on the environment. Indicators are chosen based on their relevance, transparency, and data quality. A long-term public health or ecosystem sustainability goal is identified for each indicator based on internationally accepted standards set by international organizations and leading national regulatory requirements or prevailing scientific consensus (Esty et al. 2008).

The EPI is not without drawbacks, of course. The EPI draws upon the best available global datasets on environmental performance, yet data quality and availability are uneven. The weighting of the 25 indicators also invites controversy. However, the approach of the EPI is to look to international consensus and improved data collection techniques to migrate toward an ever-better environmental indicator (Esty et al. 2008).

Each of the 25 indicators is converted to a proximity-to-target measure with a range of zero to 100 (where 0 corresponds to the worst performance observed and 100 corresponds to the achievement of the indicator target). The distribution of each indicator is studied closely to identify extreme outliers, which are adjusted using various statistical techniques. In the unusual instances where countries exceed the target, index values are reset accordingly (Esty, et al. 2008).⁶

⁶ The data used for calculating each of the indicators described in the text come from various years. The UNDP data used in constructing the HDI and the Gini data are from

Measuring Country Performance

We are now in position to develop a performance indicator (PERF) that combines country's performance in these areas: education, health, income equality, worker and women's economic rights, and environmental practices. We standardize each indicator, so that the range for each value is [0,1]. A value of 0 indicates the lowest practical or possible achievement, while a value of 1 indicates the highest practical or possible achievement.⁷ We take the simple average of all these terms, which signifies their equal

2007 or most recent year available (MRYA); the CIRI data used in constructing the rights indices are from 2008 or MRYA; and the EPI data are taken from the MRYA.

⁷ The UNDP computes for each component of the HDI the performance of each country against minimum and maximum values, or what it calls "goalposts." The EPI is also constructed in this way (as per the text). We have used this method throughout. For instance, our Gender-Sensitive Empowerment Rights Index (GER), which appears below, is calculated as follows: for any country i , $GER_i = 1 - [(17 - (EMPINX + WECON)_i) / (17 - 0)]$ since the range for $(EMPINX + WECON)$ is $[0, 17]$. If a country achieves a $(EMPINX + WECON)$ score of 17, it earns the GER value of 1 in the PERF calculation. We have also standardized the Gini data in this way. We note one complication in our doing so: while the values of the educational attainment, health and environmental indices are clustered from .2 to .9 (approximately), our standardized measures for income equality and rights protections range from 0 to 1. This implies that the latter variables have a larger impact on our performance measures than do the former. This could be corrected for by standardizing them on a $[.2, .9]$ scale, of course.

weighting in the PERF calculation.

Each of the terms in PERF is correlated highly with per capita income, as we would expect. There is no guarantee that a country will improve its performance in each term as it grows richer, to be sure. But it is certainly the case that wealth enhances a country's ability to improve its performance. As a consequence of this correlation we must take account of countries' means to promote capabilities; otherwise, we would simply reward wealth and punish poverty. To do this, we first remove the welfare component of the HDI (since it is based entirely on per capita income). Even with this term removed, wealthier countries are far more likely to perform well relative to poorer countries because they can better afford investments in health, education, environmental protection and the like. What we want to know is how well a country is performing in promoting capabilities levels and equality *relative to its means*. Hence, we need to adjust performance by accounting for differences in per capita income.

We achieve this adjustment by regressing country performance against log GDP/capita. We then take the ratio of each country's actual PERF value to its Expected PERF (E(PERF)) as given by the regression. This yields a simple way to assess each country's performance relative to its means: good performers at all income levels achieve a ratio greater than one while poor performers at all income levels score below one. Let us call this the Means-Adjusted PERF, or APERF. The derivation is as follows:

$$\text{PERF}_i = (\text{ED}_i + \text{H}_i + \text{EQ}_i + \text{GER}_i + \text{ENV}_i) / 5 \quad (1)$$

where

ED = Educational attainment index, country i

H_i = Health attainment index, country i

EQ_i = Income equality index, country i

GER_i = Gender-Sensitive Empowerment Rights index, country i

and

ENV_i = Environmental Performance index, country i.

Then,

$$APERF_i = PERF_i / E(PERF_i) \quad (2)$$

The SITS Trade Regime: A Simulation

With the APERF index we can develop a multilateral tariff structure that rewards and penalizes countries based on their capabilities performance relative to their means.

The social tariff between any two countries is determined by their relative index values: if France achieves a significantly higher APERF value than the US, the US would face a social tariff in its exports to France. If, at the same time, French performance significantly lags that of Kenya, it would face social tariffs on its exports to Kenya.

Table 1 presents SITS country rankings based on APERF values for the 123 countries for which the necessary data are available.⁸ The APERF values approximate a normal distribution; we have standardized these values (transforming them into standard deviations about the mean).

SITS tariff bands are unique for each country. Under this regime, a country would export freely to all other countries that have APERF values sufficiently close to or below

⁸ Educational attainment, health and Gini data are taken from the UNDP. The rights data are taken from CIRI, while the environmental performance data are taken from the EPI.

Citations appear in the text.

its own. We have defined “sufficiently close” as within one standard deviation of the distribution of all APERF values above its own value. On the other hand, the country would face social tariffs when it exports to countries that are significantly better performers; moreover, the size of the tariff would depend on the size of the gap in the two countries’ relative performance. If the trading partner’s APERF value were between one and two standard deviations above its own, the country would face the “base” SITS tariff on its exports to the higher performer; if the gap were between two and three standard deviations, the country would face twice the base tariff on these exports; and so forth. Conversely, a country would win tariff protection when it imports goods from a country with an APERF value that is more than one standard deviation below its own, with the size of the tariff again depending on the size of the gap between the two countries’ respective APERF values.⁹

In Table I we demonstrate the operation of the SITS by focusing on the situation facing one country, China. China has an APERF substantially below 1 (.8804) and so is a relatively poor performer. The standard deviation of the APERF values for all 123 countries is 0.1093. Under a SITS regime China would face no tariffs on its exports to countries with lower APERF values than its own or even to better performing countries whose APERF values are within one standard deviation of China’s (with APERFs at or

⁹For the purposes of establishing the SITS regime the computation of APERF values might be based on a moving average of data over some multiyear period to smooth out the adjustments in tariffs that might otherwise result from short-term fluctuations in APERF calculations.

below .9897). In contrast, China would face the base tariff on its exports to countries with APERF values between one and two standard deviations above its own APERF; two times the base tariff when it exports to countries between two and three standard deviations above its own; three times the base tariffs for countries between three and four standard deviations above it; and four times the base tariff for countries between four and five.

**Table I:
APERF Values, Country Rankings,
and Tariff Bands for China**

Rank	Country	APERF	Rank	Country	APERF	Rank	Country	APERF
<i>Four standard deviations from China</i>			40	Poland	1.048	82	Columbia	0.968
1	Burundi	1.335	41	Paraguay	1.044	83	Morocco	0.967
<i>Three standard deviations from China</i>			42	Spain	1.043	84	Dominican Republic	0.960
2	Guinea-Bissau	1.309	43	Burkina Faso	1.043	85	Kenya	0.960
<i>Two standard deviations from China</i>			44	Cambodia	1.041	86	Gambia	0.960
3	Malawi	1.205	45	Ethiopia	1.041	87	Rwanda	0.959
4	Kyrgyzstan	1.199	46	Netherlands	1.041	88	Mali	0.958
5	Albania	1.186	47	Romania	1.039	89	Algeria	0.946
6	Madagascar	1.179	48	Australia	1.038	90	Congo	0.944
7	Guyana	1.177	49	Germany	1.033	91	Mexico	0.940
8	Tajikistan	1.175	50	Italy	1.032	92	Greece	0.940
9	Philippines	1.158	51	Peru	1.032	93	Venezuela	0.938
10	Dem. Rep. Congo	1.153	52	Armenia	1.031	94	Guinea	0.937
11	Mongolia	1.144	53	Switzerland	1.030	95	Niger	0.933
12	Bangladesh	1.137	54	Indonesia	1.026	96	Bolivia	0.932
13	Moldova	1.129	55	Thailand	1.026	97	Senegal	0.930
14	Sweden	1.125	56	Slovenia	1.025	98	Zambia	0.926
15	Nepal	1.115	57	Nicaragua	1.024	99	Azerbaijan	0.924
16	Finland	1.109	58	United Kingdom	1.023	100	Kazakhstan	0.912
17	Laos	1.106	59	Chile	1.021	101	Sierra Leone	0.907
18	Ghana	1.104	60	India	1.017	102	Trinidad and Tobago	0.900
<i>One standard deviation from China</i>			61	Djibouti	1.005	103	Central African Republic	0.897
19	Czech Republic	1.096	62	Belgium	1.004	104	Tunisia	0.895
20	Costa Rica	1.092	63	Panama	1.002	105	Pakistan	0.893
21	New Zealand	1.091	64	Lithuania	1.002	106	Yemen	0.885
22	Japan	1.090	65	Macedonia	1.000	107	Côte d'Ivoire	0.882
23	Croatia	1.087	66	Ireland	0.996	108	China	0.880
24	Bulgaria	1.075	67	Suriname	0.994	109	Malaysia	0.880
25	Ukraine	1.071	68	Latvia	0.991	110	Bhutan	0.875
26	Tanzania	1.070	69	Luxembourg	0.991	111	Nigeria	0.869
27	Denmark	1.067	70	South Africa	0.990	112	Mauritania	0.867
28	Norway	1.067	<i>Within one standard deviation of China</i>			113	Israel	0.851
29	Portugal	1.064	71	Benin	0.988	114	Russia	0.850
30	Hungary	1.062	72	Brazil	0.987	115	Turkey	0.842
31	Canada	1.061	73	Uzbekistan	0.984	116	Iran	0.825
32	Uruguay	1.057	74	Uganda	0.982	117	Mozambique	0.807
33	Slovakia	1.056	75	Argentina	0.980	118	Namibia	0.800
34	Viet Nam	1.054	76	Sri Lanka	0.979	119	Gabon	0.792
35	El Salvador	1.053	77	Jordan	0.978	<i>One standard deviation below China</i>		
36	Jamaica	1.053	78	USA	0.976	120	Cameroon	0.765
37	Estonia	1.052	79	Honduras	0.971	121	Chad	0.755
38	France	1.051	80	Guatemala	0.970	122	Swaziland	0.709
39	Austria	1.048	81	Belarus	0.970	123	Botswana	0.689

SITS entails a system of carrots and sticks. The sticks take the form of tariff penalties: poor performers would face obstacles in exporting to better performers. But the carrots are equally meaningful—*practically and ethically*. A SITS regime would generate substantial new revenues that could be used *to promote human capabilities in poor countries that are taking steps to make improvements* (as reflected in the terms of APERF). This point is fundamental: one of the ethical weaknesses of many of the fair trade proposals that emerged in the 1990s is that they implicitly would have made demands on low-income countries while providing them with no support: the adjustment costs to fair trade were to be borne entirely by the poorer countries. This contributed rightfully to the antipathy of many free traders (like Bhagwati) and labor advocates in the global South who saw in these proposals a cover for protectionism pure and simple. To be both politically viable and ethically defensible, a fair trade regime must redistribute resources from high-income countries to those low-income countries that are taking steps to promote human development. In the case of SITS, this would require the establishment of new multilateral institutions to receive and disburse SITS-generated revenues.

There are fifty-nine countries for which we have both the data required to calculate APERF values and bilateral trade data as provided by the GTAP 6 Database (Dimaranan and McDougall 2006: these are 2001 data).¹⁰ We simulate here a global SITS

¹⁰ GTAP is a collaborative project based at the Center for Global Trade Analysis, Purdue University. It should be noted here that the simulation presented here is at best an approximation, owing to the fact that by relying on the most recent data in constructing our indices we are able to include more countries than would otherwise be possible, the bilateral trade data available to us at present is taken from 2001. Hence, our comparisons

regime with these fifty-nine countries.

To what degree might a SITS regime alter trade patterns, and relatedly, how much revenue might a SITS regime yield? Generating this estimate is difficult. One problem that undermines precision is the matter of the elasticity of demand for exports. Many estimates of this elasticity exist (see, e.g., Kee, Nicita and Olarreaga 2008; Liu, Arndt and Hertel 2001; Marquez 2002; Senhadji and Montenegro 1999). The range among these estimates is quite large for any one country. Moreover, elasticities of demand for exports vary markedly across countries (owing to the differences in the content of their exports, the nature of their trading relationships and so forth). Making matters worse, estimates of this elasticity are not available for many countries.

For these reasons it is prudent to run multiple simulations and derive from them a range of trade and revenue estimates. We present here three sets of estimates: one that uses the mean elasticity reported in Senhadji and Montenegro (1999) for all countries; a second that uses a measure that is one standard deviation below the mean value (which implies a larger absolute value for the elasticity and hence, a larger impact on trade; and a third that uses a measure one standard deviation above the mean (which decreases the impact of the elasticity). For any given SITS base tariff this approach provides us with a range of estimates of the effects of SITS on trade flows, and of SITS revenues. A more finely calibrated simulation than we are able to provide here would have to take better account of this matter, to be sure—such as by including a unique elasticity measure for each country.

For illustrative purposes, Table II demonstrates the operation of the SITS regime

with other flows (see below) will also be taken from 2001.

based for 15 countries, based on their respective APERF scores and the bilateral trade flows among them (2001 data; see fn.11). It indicates the application of SITS tariffs and the size of the tariffs (i.e., when the base tariff applies, and when a multiple of the base tariff applies). Finally, using the mean elasticity of demand for exports and a one-percent base tariff, it also shows the SITS revenues that would be generated on these trade flows as a consequence of the tariffs.

**Table II:
SITS Tariff Bands and Revenues (millions, US\$), 15 Selected Countries
(Mean Elasticity of Demand; 1% Base Tariff)**

	Botswana	Russia	China	Mexico	USA	Brazil	Germany	India	Indonesia	UK	Australia	France	Japan	Philippines	Malawi		
Botswana	-	0.1	0.0	0.1	1.5	0.1	1.0	0.1	0.0	70.7	0.1	0.4	0.5	0.0	0.1		
Russia	-	-	-	-	75.6	6.6	85.0	7.6	1.6	22.6	1.2	20.6	81.3	3.7	0.0		
China	-	-	-	-	-	-	207.3	25.1	30.7	109.0	59.6	98.7	601.7	31.8	0.4		
Mexico	-	-	-	-	-	-	-	-	-	-	-	10.2	22.0	0.8	0.0		
United States of America	-	-	-	-	-	-	-	-	-	-	-	-	737.7	82.8	1.0		
Brazil	-	-	-	-	-	-	-	-	-	-	-	-	-	1.0	0.0		
Germany	-	-	-	-	-	-	-	-	-	-	-	-	-	11.9	0.3		
India	-	-	-	-	-	-	-	-	-	-	-	-	-	3.6	0.4		
Indonesia	-	-	-	-	-	-	-	-	-	-	-	-	-	8.5	0.0		
United Kingdom	-	-	-	-	-	-	-	-	-	-	-	-	-	7.4	0.2		
Australia	-	-	-	-	-	-	-	-	-	-	-	-	-	7.4	0.0		
France	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1		
Japan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.3		
Philippines	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Malawi	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
																Total	2,440.4

Tariff Band

4
3
2
1

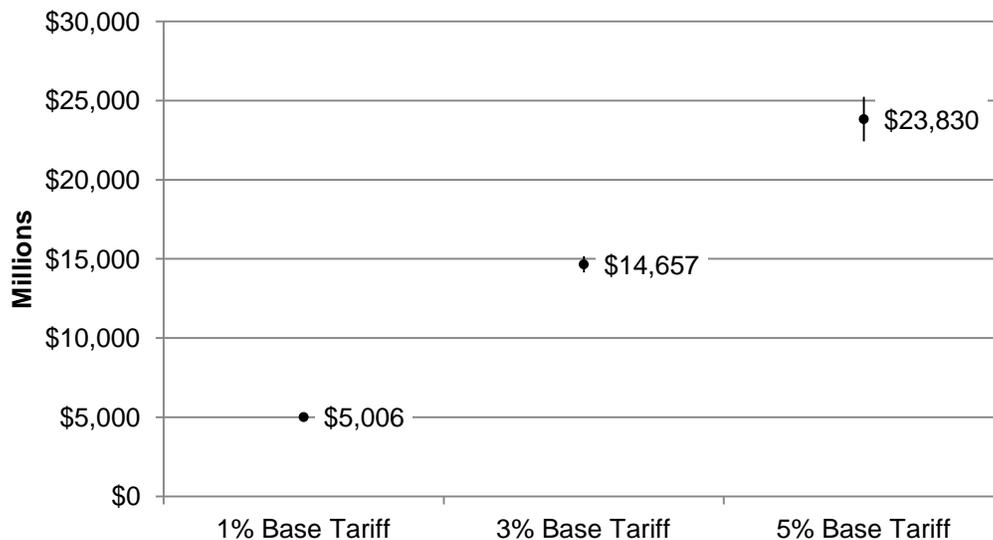
Table III provides aggregate SITS revenue estimates for the fifty-nine countries in our sample, assuming a base SITS tariff of one, three and five percent, and assuming the three measures of elasticity just described.

**Table III:
SITS Revenue Estimate, 2001, 59 Countries
(Millions US\$)**

	Mean Elasticity +1 SD	Mean Elasticity	Mean Elasticity -1 SD
1% Base Tariff	\$4,949	\$5,005	\$5,062
3% Base Tariff	\$14,149	\$14,657	\$15,165
5% Base Tariff	\$22,418	\$23,830	\$25,242

These data are plotted in Figure I, which provides a SITS revenue interval for each base tariff that reflects our three elasticity estimates.

**Figure I:
Range of SITS Revenue Estimates, 59 Countries
(Millions US\$)**



For the fifty-nine countries in our sample, bilateral trade flows in 2001 with a one percent base tariff yields between \$4.949 and \$5.062 billion in tariff revenue. A five percent base tariff yields between \$22.418 and \$25.242 billion. These estimates are

conservative, not least since they exclude all countries for which we do not have data.

How significant are these totals? We can gauge their significance by comparing them with other flows that contribute to economic development, such as official development assistance (ODA), remittances and foreign direct investment (FDI). The most relevant comparison for SITS revenues is with ODA and remittances since for many of the poorest countries (where capabilities are most impoverished) these are the most important international flows. FDI flows to the developing world are particularly concentrated, with China and a handful of middle-income countries garnering the lion's share.

Table IV presents the data on 2001 flows. The SITS revenues generated by trade among the fifty-nine countries in this simulation yield between 14% and 71.5% of total ODA to all developing countries in 2001 (depending on the size of the base tariff and elasticity estimate). Alternatively, these SITS revenues represent between 5.2% and 26.6% of total remittance flows to all developing countries; and, most importantly, between 109% and 556% of all remittances to the "low-income" developing countries. Finally, SITS revenues represent between 2.3% and 11.75% of all FDI flows to developing countries; and between 8.29% and 42.29% of FDI flows to "low-income" developing countries. *These comparisons are notable: they indicate that even very small SITS tariffs suffice to generate substantial new development funds.*

**Table IV:
Trade and Assistance Flows to Developing and Low Income Countries, 2001
(Current Prices, Millions US\$)**

In-Flow	2001
Official Development Assistance /1	35,282
All Developing Countries	
Low-Income Developing Countries	NA
Remittances /2	
All Developing Countries	94,896
Low-Income Developing Countries	4,539
Foreign Direct Investment /3	
All Developing Countries	214,696
Low-Income Developing Countries	59,677

NA = Not Available

Sources

/1 OECD DAC2a ODA Disbursements Dataset (2010).

/2 World Bank, World Development Indicators (2010). World Bank staff estimates based on IMF balance of payments data.

/3 UNCTAD, UNCTADstat database (2010).

While a SITS regime would ideally be global, it could also be introduced within any regional trade regime, such as NAFTA. Indeed, in the first instance it might be much easier for a small number of countries to come to agreement on the many details that SITS comprises. Even in a limited regional context, SITS might at least partially achieve the goals of providing some protection to high-standards while providing incentives and means necessary for raising standards where they are deficient. This is of particular concern in North-South trade agreements. For instance, internal NAFTA trade in 2001 would have generated between \$55 million and \$281 million in SITS revenues under the same elasticity and base tariff assumptions that appear above, owing to the substantial gap in APERF values between Canada and Mexico.

SITS Flows and Stability

One of the problems with all international financial flows to developing countries is their variability during the business cycle. Historically, FDI flows have proven to be strongly pro-cyclical (especially but not only in relation to economic conditions in receiving countries). Indeed, from 2008 to 2009, global FDI flows to developing countries declined by 39% (World Bank 2011). In contrast, up to the onset of the current global crisis remittance flows have been countercyclical in relation to economic conditions in the receiving country, as migrant workers attempted to offset the hardships of their family members at home during economic difficulties (Grabel 2008). But in the current crisis, even remittances have proven to be pro-cyclical (dropping by a modest 5.5% from 2008 to 2009), reflecting no doubt rising unemployment among migrant workers. ODA flows have also dropped off during the current crisis (by 6% from 2008 to 2009), when they are most needed (World Bank 2011).

At any given base tariff, SITS revenues too would be pro-cyclical, though less so than FDI flows since trade does not contract during recessions as quickly or as deeply as does FDI. From 2008 to 2009, global trade flows declined by about 21%--greater than the decline in remittances but only about half the decline in FDI flows to developing countries.¹¹ But there is a key difference that warrants attention: *Unlike the other inflows upon which developing countries depend, SITS revenues could be stabilized at any particular level through marginal adjustments in the SITS base tariff.* This implies that the governing body that oversees the SITS regime could set an aggregate annual SITS revenue target, while the administrative authority that manages the regime could be given

¹¹ WTO data, available at http://www.wto.org/english/res_e/statis_e/statis_e.htm.

the more limited authority to adjust the base tariff marginally in response to global economic conditions to ensure that the revenue target is in fact met. Hence, the developing countries that depend on SITS revenues would not face further disruptions during the business cycle from variability in these flows; instead, SITS revenues would represent a stabilizing force during periods of economic instability.

Overall, these data suggest that even small base tariff levels would substantially augment assistance to low-income countries. Since these new flows would be targeted to efforts to improve country performance in those areas that are incorporated into the APERF calculation, their potential effects might be more concentrated than those currently derived from ODA expenditures. Examples of the kinds of projects that SITS could fund include the development of technical, oversight and managerial capacity in environmental stewardship and in enforcement of labor and women's employment rights. Finally, these flows would provide a basis of stability for developing countries during periods of macroeconomic fluctuation.

Assessing SITS

The SITS regime incorporates a simple principle: countries would be rewarded in global markets for making improvements in the conditions of social life that are codified in the index. Unlike the global neoliberal "free trade" regime, in which countries have reason to fear that they will be punished through diminished FDI inflows and deteriorating trade performance if they strengthen worker or women's rights, or promote equality or sustainability, under the SITS regime countries that take these steps would stand to receive both development assistance and improving access to global markets. The SITS regime protects workers and their communities from the pressures they face

under global neoliberalism to accept lower wages and protective standards in order to retain employment.¹² Indeed, the SITS regime is intended to reverse the incentive structure of global neoliberalism—by rewarding those strategies that promote capabilities equality, and by punishing those that undermine it.

Every aspect of the SITS regime is flexible—from the calculation of index numbers to the determination of tariff band groupings, size of the tariffs, the conditions under which countries in distress due to natural or social disruptions might opt out of SITS or be provided free access to others' markets, etc. Constructing any trade regime necessarily reflects various political, normative, economic and practical factors and judgments. The SITS approach is purposely under-specified in these regards, and this might be discomforting for those who seek simple and/or determinate rules of policymaking. But we would suggest that this aspect of SITS is a virtue which allows for the balancing of a great many distinct concerns and objectives.

A viable SITS regime might also require provisions that permit opting out of

¹² In the years immediately following the implementation of NAFTA in 1994, US workers attempting to form labor unions confronted a substantial increase in the incidence of employer threats to close operations and/or relocate (especially to Mexico). In those cases where workers nevertheless voted to unionize, the percentage of firms that did indeed make good on the threat to close increased threefold in the immediate aftermath of NAFTA (Bronfenbrenner 1996). This evidence suggests that workers in the North need defensive protections against the erosion of their effective labor rights; it also suggests that they are apt to continue opposing neoliberal trade regimes that exacerbate their employment insecurity.

SITS protections when a country deems it necessary to do so to promote important economic objectives. For instance, a high performer may opt not to impose the social tariff on a good (or service) that it imports from a lower performing country when imposing the tariff might impede its own development. This might be the case if the trading partner is the only practical source for the good, and the importing country does not itself have the capacity to produce that good for itself. In that case, the tariff may neither encourage the poor performer to improve its performance, nor protect industries (and their workers) in the importing country. In a case such as this, it might be desirable and appropriate for the importing country to choose to forgo the protection otherwise provided by the SITS tariff.¹³

¹³ However, it bears noting that an opt-out mechanism of this sort may open the door to coercion, as politically powerful but low performing countries force higher performers to forego SITS tariff protections. This might imply the need for a rule-based opt-out mechanism that is overseen by a regulatory apparatus within the institution that governs the SITS regime. For example, some goods and services are vital for the health and wellbeing a country's inhabitants. Further, some vital goods and services have no substitute; hence, subjecting them to a tariff could impose a burden on those most in need. Under a rule-based opt-out approach, countries might decide to exempt vital goods and services from the tariff. Alternatively, countries might be required to assess the tariff on these goods while being afforded the opportunity to petition to the institution that governs the SITS regime for an immediate rebate that would be used to offset the price increase in the imported good. The latter approach maintains the tariff structure and country participation and reduces the chances for political coercion by powerful

The flexibility of the SITS regime proves to be particularly virtuous in regards to the contentious matter of cultural autonomy (see UNDP 1999). Whenever we begin to consider the question of multilateral regimes to govern the behavior of trading partners, we immediately encounter the objection that cultural imperialism will trump the inter-cultural respect that ought to obtain when countries encounter ways of being different from their own. Indeed, this objection has been raised regularly in international forums where labor and environmental standards have been proposed as preconditions for trade or capital flows. Neoclassical economists in particular have come to embrace a rather severe form of cultural relativism as an ethical defense against fair trade initiatives (Bhagwati and Srinivasan 1996; DeMartino 2000).

Taking the matter of inter-cultural respect seriously, however, does not necessitate mainstream trade theory's severe agnosticism regarding the sources of comparative advantage. Instead, we should recognize that the SITS regime is flexible with respect to the manner in which a country increases its performance (thereby improving its social tariff position). A country can enhance its position by improving its educational attainment, longevity, gender or income equality, or its environmental stewardship. A composite index of this sort grants latitude for policymakers and citizens in each society to define for themselves the content of their political interventions. Those in one country might prioritize stronger worker protections, while their counterparts abroad might concentrate on securing greater rights and freedoms for women (though these are by no means mutually exclusive). Their efforts in pursuit of objectives that reflect their own

exporters, while eliminating deleterious impacts of the operation of the SITS regime.

economic circumstances and social priorities would be rewarded in terms of the trading relationships facing their respective countries.

How does SITS stand up against the evaluative criteria offered earlier? SITS provides an approach to fair trade that is just in the sense of requiring the greatest contribution from the richest countries while providing low-income countries with resources for enhancing human development. Indeed, SITS revenues might be allocated principally or even exclusively to countries that fall below some multiple of the world mean GDP/capita to ensure that on balance low-income countries benefit substantially from the trade regime. It is noteworthy that SITS tariffs reflect current capabilities *performance*, while the flow of development funds could be driven by current *efforts*. Successful strategies to improve human development performance would increase a country's net gain since they would diminish penalties but not rewards.

Next, as a consequence of its revenue distribution and its use of market competition, SITS entails a dynamic to promote improving human development performance over time. It both protects high standard countries from competition from low-standard countries while providing the latter with both an interest in and means to improve their performance. Moreover, while SITS is consistent with a liberal trading order, it nevertheless ensures that countries seek and achieve comparative advantage through means that are legitimate in the sense of promoting rather than diminishing human capabilities.

The SITS regime is intended as an improvement over the other fair trade regimes that emerged in the 1990s (discussed above). But it bears emphasis that SITS can be implemented alongside, and would stand to improve, the operation of at least some of the

other fair trade initiatives. For instance, SITS can be implemented alongside a social charter. Under this arrangement the social charter would specify the minimum standards that signatories must ensure in order to participate in the trading regime. At the same time and unlike the traditional social charter approach, the SITS-augmented social charter would provide the means and incentives necessary for countries to improve their performance beyond the minima that are codified in the social charter. As the lagging countries improve their performance above these minima the social charter could be adjusted upwards—raising the floor of rights and standards that it comprises. If/as the gap between leading and lagging country performance diminishes sufficiently in any indicator, this indicator could be removed from the SITS evaluation of country performance. The long-term goal associated with this dynamic would be to eliminate the SITS regime altogether in favor of a substantially strengthened social charter that is taken to provide adequate standards for all trading nations.

It bears emphasis that economic policy regimes that emerge at the international level can and often do influence decisively domestic political struggles. A neoliberal regime substantially augments the influence of capital over that of labor in political controversies such as those that relate to worker rights (see fn 12, above). A SITS regime might begin to shift the burden in domestic political struggles in favor of the achievement of egalitarian reform. Labor rights activists would be able to seek new regulations without facing the objection that such measures would necessarily imperil the competitive survival of domestic firms or induce capital flight. At a minimum, a well-structured SITS regime would mitigate the effects of the increasing costs attending the new protections, and perhaps as a consequence, reduce the opposition to such measures

from the business interests that will bear their proximate costs.

The kind of international institution that would be required to operate and manage a SITS regime would be characteristically similar to the WTO, though one hopes with more inclusive governance mechanisms. A SITS-based international organization (IO) would be charged *inter alia* with creating the SITS index; establishing and enforcing the regime's rules; monitoring country performance and development strategies; adjudicating disputes among member countries; determining eligibility for and levels of transfers of SITS tariff revenues between countries; and providing opportunities for meaningful participation by non-state actors. As with all international regimes, SITS would be constantly reevaluated and updated to reflect improving data availability and changing trade practices, normative judgments and technological know-how.¹⁴

Conclusion

It remains to make just a few points about the SITS regime as a thought experiment intended to promote new thinking about fair trade. First, it is worth noting

¹⁴ An IO that directs funding based on a quantitative index--such as is being proposed with SITS--would have significant influence. While it may seem like an unprecedented allocation of authority in an IO, it certainly is not. Currently the World Bank Country Policy and Institutional Assessment project creates an index that is designed to “capture the quality of a country's policies and institutional arrangements” (World Bank 2010). This index is used to allocate International Development Association funding and loans to developing countries. The country rankings are produced by World Bank “staff judgments” (World Bank 2010).

that the SITS approach is not anti-growth. But it is hardly indifferent with respect to the means by which growth is pursued, or to the effects of unmanaged growth. Under SITS, capabilities-impooverishing strategies to achieve growth (such as labor oppression or ecological destruction) would be penalized in global markets. This, we suggest, is a necessary requirement of any appropriate fair trade regime.

Second, neither is SITS anti-trade. SITS does not attempt to reverse the current trend toward deepening international economic integration. It attempts instead to put the efficiency gains of integration in service of the higher goal of global capabilities equality. Its intent is to reconfigure the incentives associated with market integration to remove those practices that currently promote competitiveness at the expense of human freedom. We seek to remove “X” from competition, where “X” stands in for all the strategies that promise competitive success while diminishing human capabilities (DeMartino 2000).¹⁵

Third, it is a certainty that any imaginable SITS country rankings would be

¹⁵ The SITS regime is agnostic with respect to whether trade liberalization is beneficial for development. It could be established in the context of a liberal trading order; or it could exist alongside a trade regime that provides much more policy space for development than does the WTO or the many regional and bilateral trade and investment agreements that the US has negotiated with countries in the global South. That said, our view is that the latter affords a much more promising avenue for development (see Rodrik 2001; Chang 2002; Shadlen 2005); and that the SITS regime is entirely consistent with expanded policy space that affords developing countries the opportunity to pursue strategies that promise economic development, rising incomes, improving equality and human development.

objectionable on many reasonable grounds. The SITS approach invites argument over what is included in and excluded from the evaluation of performance; what weights should be assigned to those determinants of performance; and much else besides. But we should recognize that the dynamic introduced by the SITS is ultimately far more important than the initial rankings. The SITS regime provides the means and incentives for all countries (especially those that lag behind) to improve their performance over time. As countries improve both the number of the tariff bands and the magnitude of the base tariff could be reduced in order to lessen the regime's penalties and impacts on trade flows. That said, and like any other comprehensive policy initiative, SITS would no doubt induce unintended and undesirable consequences. In practice it would have to be amended and adjusted through ongoing negotiations to respond to and mitigate the harms that it causes.

Finally, we emphasize that SITS or any other imaginable fair trade regime would be inadequate on its own to promote human development. Fair trade must be implemented alongside and integrated with a constellation of new egalitarian policy regimes that address financial flows, corporate practices, migration rights and other critical features of international integration. Designed with a focus on human development, such a constellation of policies might do far better than the neoliberal regime has done in advancing equality in genuine human freedoms.

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