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Labor Unions and the Nafta and the EU Enlargement Process

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DIVERGENT REACTIONS TO GLOBALIZATION: LABOR UNIONS AND THE NAFTA AND THE EU ENLARGEMENT PROCESS

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Abstract: The 1990s witnessed the launching of two ambitious trade regionalization plans, the Nafta and EU enlargement to Central and Eastern Europe. In contrast to previous projects for the creation or expansion of regional trade blocs, these two projects concerned states at dramatically different levels of economic development: The Nafta involved the very wealthy economies of Canada and the USA and the significantly poorer economy of Mexico, whereas EU enlargement involved the very wealthy economy of the 15 member-state European Union and the significantly poorer economies of former Communist states in Central and Eastern Europe. Ultimately, the Nafta and EU enlargement are responses to the challenges of globalization. Paradoxically, however, they have been met with radically different societal reactions in the wealthy partners that participated in the launching of these processes. This paper focuses on the reaction by labor unions on both sides of the Atlantic. I conclude that while labor relations and welfare institutions constrained the trade policy choices made by labor unions in the United States and Europe, they do not tell the whole story. It would seem that United States labor unions were more sensitive to the potential risks for workers associated to the liberalization of trade than were their European counterparts.

Key words: Globalization, Labor Unions, Nafta, EU Enlargement, Labor Relations, Welfare Institutions

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1. Introduction

The 1990s witnessed the launching of two ambitious trade regionalization plans, the Nafta and EU enlargement to Central and Eastern Europe. In contrast to previous projects for the creation or expansion of regional trade blocs, these two projects concerned states at dramatically different levels of economic development: The Nafta involved the very wealthy economies of Canada and the USA and the significantly poorer economy of Mexico, whereas EU enlargement involved the very wealthy economy of the 15 member-state European Union and the significantly poorer economies of former Communist states in Central and Eastern Europe. Ultimately, the Nafta and EU enlargement are responses to the challenges of globalization. Paradoxically, however, they have been met with radically different societal reactions in the wealthy partners that participated in the launching of these processes. While their governments were uniformly in favor, political parties and interest groups reacted in sharply contrasting ways. In North America opposition to the Nafta was widespread, whereas in the pre-enlargement European Union there was anxiety and criticism but rarely outright opposition. This paper focuses on the reaction by labor unions on both sides of the Atlantic. In particular, it compares the United States with four European Union countries that are also highly advanced economies and that were likely to be strongly affected by the EU enlargement process. These countries are Austria, Germany, France, and the United Kingdom. The paper is part of a large project concerned with explaining why US labor unions uniformly opposed the Nafta whereas European labor unions uniformly supported EU enlargement. It draws from the literature on the determinants of trade openness to explore the role that labor rights, welfare institutions, and the economic effects of these institutions play in explaining the contrast observed between US and European labor unions. I conclude that while labor relations and welfare institutions constrained the trade policy choices made by labor unions in the United States and Europe, they do not tell the whole story. It would seem that United States labor unions were more sensitive to the potential risks for workers associated to the liberalization of trade than were their European counterparts.

When confronted with a liberalization of foreign trade, labor unions evaluate the extent to which the workers they represent are protected against the impact of competition. In particular, they consider whether national institutions protect the workers’ jobs and wages and whether they allow workers to confront potential wage declines and job losses and find a new job if they lose it. One should not assume that this evaluation is a straightforward matter, however. An overall assessment of the institutional environment requires weighing various institutions at once and there are no written rules about how to determine how good each of them are nor about how to weigh them. There is no reason to think that labor unions can solve this problem more easily than can scholars devoted to examine the role of institutions in predicting macroeconomic performance. For analytical purposes, and in order to simplify the problem, I assume that unions consider these institutions comparatively, both relative to institutions in other countries and, more often, relative to how they have evolved over time. It is also likely that labor unions evaluate the institutional environment based less on what the letter says than on measurable results (i.e. earnings and jobs).
Labor unions are no passive agents, however, who simply react to what governments hand them in. Just as they have more or less successfully contributed to shape the institutional environment in the past, one can reasonably expect that labor unions will also attempt to shape trade policy so as to minimize risks for workers. They will try to directly influence the tariff and non-tariff content of the trade agreement under negotiation and, at the same time, bargain for institutional measures that minimize the risks involved in the liberalization of trade. Their eventual positioning on the resulting trade agreement should to some extent reflect the labor unions’ degree of satisfaction with the additional institutional protection they are able to win for the workers they represent.

The literature on trade policy has focused on the relationship between trade policy and public expenditure (e.g. Cameron, 1978; Ruggie, 1982; Katzenstein, 1985; Rogowski, 1987; Huber, Stephens, Ray, 1997; Rodrik, 1998; Iversen and Cusack, 2000; Burgoon, 2001, Adserà and Boix, 2002; Hicks and Zorn, 2005; Brady, Seeleib-Kaiser, and Beckfield, 2007) and between trade policy and systems of labor relations (e.g. Wallerstein, 1987; Western, 1991). The literature has also focused on the role of public expenditure in shaping attitudes to free trade among the general population (e.g. Hays, Ehrlich, and Peinhardt, 2005). Authors have conceptualized public expenditure and labor rights as a form of compensation for risks incurred when opening the economy to competition from abroad. Although there is currently a strong disagreement and, it is fair to say, confusion, as to the direction, magnitude, and character of the relationship between openness and compensation, authors at least agree that the state, workers adversely affected by the lifting of barriers to trade and capital, and labor unions representing them are the main actors behind the adoption of these compensation mechanisms. Some authors simply present the state as magnanimously spending more to compensate for the risks of a more open economy (e.g. Myrdal, 1960; Gilpin, 1975; Lehmburch, 1977). Recent research suggests that globalization may have changed this, as states are constrained to exert fiscal discipline. Other authors defend the thesis that labor unions are stronger in more open economies and are thus able to pressure governments for state compensation in the form of greater public expenditure or greater labor rights (Cameron, 1978). Yet another group of scholars simply say that losers among the working class demand compensation in the form of greater public expenditure and labor rights (e.g. Rodrik, 1998; Burgoon, 2001) and then go on to examine the factors that explain the degree to which workers’ demands are met. In empirical tests of their hypotheses, scholars have focused more on general measures of trade openness and even globalization than on support for particular trade agreements or legislation. Because of this, they have framed trade policy as exogenous to public expenditure and labor relations legislation and overlooked the impact of current levels of public expenditure and labor rights on the workers’ and their union representatives’ approach to future trade policy. Adserà and Boix (2002) are almost alone in having noticed the problem of endogeneity and in having addressed it analytically (although see Katzenstein, 1985 for a similar argument focusing on consensus between workers and employers in small states). They thus present trade policy as an outcome of negotiations between groups in the population favorable to free trade and groups opposed to it, with compensation in the form of greater
public expenditure facilitating the formation of winning free-trade coalitions. One can push Adserà’s and Boix’s approach further and take into account that trade policy negotiations do not occur in a policy and institutional vacuum; rather, they take place in a context where the state already incurs expenditures of all sorts and where institutions provide for specific labor relations arrangements. It is reasonable to assume that potential losers of a lifting of trade and capital movement barriers will take into account both extant conditions and bargains offered by those in favor of free trade before making their mind on a trade agreement or policy. One can even go a step further and hypothesize that given uncertainty about the future, actors skeptical about a pro-trade agreement or policy will weigh more the quality and relevance of current labor institutions and public outlays than promises about institutional reforms or increases in public expenditures.

Interestingly, the literature has neglected to investigate the factors that determine the labor unions’ strategies in trade negotiations and their final positions on specific trade agreements. It simply tells us that they will normally demand welfare and labor rights compensation for trade liberalization concessions, and more so the more vulnerable workers are to the lifting of trade barriers. Following this lead, the focus of this paper is on the role that the characteristics of the United States’ and the European Union’s welfare states and systems of labor and industrial relations play in the explanation of the labor unions’ position on the Nafta and the European Union’s enlargement to Central and Eastern Europe. The paper first synthetically describes the Nafta and EU enlargement debates. Then it examines the labor-related legislation and institutions contained in the Nafta’s Labor side-agreement and in the European Union’s acquis communautaire, as well as national legislation and institutions in both the United States and the European Union. I show that labor relations institutions empower workers and labor unions more in the wealthier economies of the European Union than in the United States. Provisions contained in the Nafta Labor Side Agreement and in the Treaty for the European Union’s enlargement to Central and Eastern Europe do not significantly alter this contrast. Furthermore, I show that welfare and public expenditure mechanisms in the European Union are generally more generous toward workers than are equivalent ones in the United States. Based on these comparisons, one can reasonably conclude that these contrasts are key elements in the explanation of why US labor unions opposed the Nafta while European Union ones supported enlargement. I argue, however, that contrasts in welfare and labor relations regimes between the United States and wealthy economies in the European Union are not as large as to explain the unanimity in opposition or support one finds on both sides of the Atlantic respectively. To this effect, I briefly focus on the US-Britain contrast, closely examine the United States labor unions’ response to the Nafta, and examine the results of a mail survey conducted with US and EU labor union leaders in 2008.
2. The Nafta and EU Enlargement Debates

2.1 The Nafta Public Debate

In May, 1990, Mexico’s President, Carlos Salinas, opened the door to the negotiation of a free trade agreement with the United States, and possibly with Canada. Salinas had recently undertaken serious neoliberal reforms in his country and felt that a free trade treaty with the United States would make these reforms irreversible. This view was also shared by the United States’ administration. After all Mexico was the United States’ third largest trade partner at the time, even though Mexico only represented a seven percent share of US trade.

The US government’s positive reaction to Salinas’ announcement was not extensive, however, to society at large. Although studies published at the time suggested that the treaty’s net impact on jobs would actually be negligible (e.g. in tradable industries like textiles and autos) or even positive (NYT, 5.21.1991), political representatives, unions, and manufacturing associations immediately warned about a potential decline in real wages, the loss of jobs, and the weakening of unions.

Official talks between Canada, Mexico and the United States began in 1991, despite opposition to a treaty by US unions, textile manufacturers, environmental groups, and other citizen organizations. The first battle was fought in Congress on whether to extend the fast-track mechanism for two years, as requested by President Bush on March 1st (extension would in fact be automatic if House or Senate failed to vote by June 1st to discontinue it). The administration responded to pressure and on May 5th, 1991, as vote on fast-track neared, it offered a 70-page proposal with environmental and job-security commitments to accompany the pact. Among these commitments, the document included plans to curb pollution at the border with Mexico, the strengthening of environmental law enforcement (through environmental reviews), and assistance to and retraining of workers who lose their job. Reaction in Congress was cautiously favorable and the House’s Majority leader, Richard Gephardt eventually endorsed the negotiation of the free-trade pact. The unions, on the other hand, expressed disappointment.

Between May and August, 1992, representatives from the three partners closed 22 trade chapters, ranging from the right of US insurance companies to compete on equal foot with Mexican ones in Mexico to the elimination of temporary visa restrictions to highly qualified employees being transferred by their corporations. The text provided for the elimination of tariffs on all but a couple of hundred products of about 20,000 different product categories at issue. Tariffs for most products were to be eliminated either immediately or over a five-to-ten year period. As the conclusion of negotiations neared, however, Congress members positioned themselves again with respect to the Treaty. Richard Gephardt, in particular, criticized that it did not include adequate safeguards for workers, the environment, and public health. For his part,
Governor Bill Clinton, until then mostly silent on the treaty, signalled to unions and environmental groups that he would not accept a treaty that would harm US workers or the environment.

When it became clear that the signing of the treaty was imminent, Richard Gephardt sponsored a nonbinding resolution that called for the accord not to jeopardize American health, safety and environmental standards. The Bush administration had no option left but to support the resolution. Since most pressure was directed to environmental issues, where the Bush administration was prepared to show more flexibility, the White House agreed to create a trilateral panel on the environment and to push for detailed environmental rules to dissuade countries from lowering their environmental standards in order to attract foreign investment. On August 12, 1992, the Nafta treaty was finally ready.

Bill Clinton won the 1992 Presidential election before the treaty was submitted to Congress. Thus, although President Bush still signed it in December, the leadership change put ratification of the treaty on hold. President Clinton requested a lengthy review of the pact and a report from the International Trade Commission, a bipartisan Federal Agency independent of the executive branch. On August 17th, 1993, the Mexican, Canadian, and United States governments signed supplemental accords on environment and labor. The labor agreement, in particular, included a $140 million job retraining program. In addition to this, and in order to prevent Mexico or Canada from gaining a commercial advantage by systematically violating the enforcement of labor laws, Administration trade officials spent their first six months in office negotiating a supplemental agreement that established fines and trade sanctions for patterns of law infringement. As had been the case at other key moments in the negotiation of the treaty, all sides in the debate mobilized immediately. The AFL-CIO, for instance, mailed 1,500 letters to state and local union leaders in which they told them that the labor and environmental side agreements would not protect workers. They also threatened to withdraw Political Action Committee election funds to representatives who favored the treaty. These efforts proved futile, however, as the United States Congress approved the treaty by the smallest of margins. As agreed by the governments of Canada, Mexico, and the United States almost a year and a half earlier, the Nafta treaty entered in force on January 1st, 1994.

2.2 The European Union Enlargement Debate

The fall of Communism caught the European Community (as it was called then) in the process of becoming a single market and in the midst of negotiations toward the Treaty of European Union. In these circumstances, the European Community’s approach to the Central and East European transition states was to some extent improvised and constrained by an overcrowded agenda. The Danish “no” to the Maastricht Treaty and the dissolution of Yugoslavia complicated things
even more. Central and Eastern European states, however, quickly expressed their desire to join the European Union. The European Union met them halfway and offered them Association Agreements, a solution that did not commit it yet to a precise roadmap toward eventual membership. It was only at the Copenhagen Council of June 1993 that the European Union finally laid-down a list of political and economic pre-conditions that states wishing to join the European Union would need to fulfill before the beginning of formal EU-accession negotiations. The three conditions for the beginning of negotiations were that candidate states adopt market and democratic institutions and that they transpose the acquis communautaire, 20000 legal acts, some of them concerning labor, health, environmental, and safety standards and institutions, to their national legislation. At the Essen Council Meeting of December 1993 the European Union sketched a pre-accession strategy to make this transposition possible. The European Union proceeded then to prepare a new inter-governmental conference to again adapt the European Union’s institutional architecture to the prospect of enlargement.

Following the Essen Council, ten Central and Eastern European states (the CEECs) applied for accession. It is only then that debate over the enlargement of the European Union, until then a distant and not always agreed upon project, really began. In contrast with the Nafta negotiations, however, public discussion over the enlargement’s trade, social, and environmental implications were only secondary to intergovernmental disputes related to the enlargement’s impact on existing European Union policies and on the process of deepening integration.

In the mid-1990s, after the signing of the Amsterdam Treaty, the European Union agreed that ten Central and Eastern European candidates were eligible to EU-membership and started accession negotiations with those five that had until then made more progress toward meeting the Copenhagen criteria (the Czech Republic, Estonia, Hungary, Poland, and Slovenia).

In the following years, domestic actors let their voices be heard and occasionally managed to shift public debate from the intricacies of the negotiations themselves to a consideration of the expected benefits and costs of enlargement. German and Austrian unions, in particular, voiced their fear of an imminent invasion by Central and Eastern European workers just after accession and pressed for long transition periods before the free movement of people between the candidate members and the EU-15 member states be granted. Also, political and social actors expressed the fear that the simultaneous accession of a large number of former Communist countries, many of which ruled by neoliberal governments, would endanger the social standards achieved by workers in the richest part of Europe. The tone of public debate over enlargement at the turn of the millennium was thus not very different from the one that had dominated the Nafta negotiations a decade earlier. In contrast with the Nafta debate, however, hardly any voice opposed enlargement. Eventually, EU governments struck a bargain at the Goteborg summit, six months after Nice, and agreed on transition periods (3 years, renewable two times for two years).
In a context of general acceptance of the enlargement process, especially among dominant political parties in the European Union, employer associations and labor unions, far right parties and small left-leaning political groups became the most vocal opponents. These groups’ opposition turned louder after 2002, once they realized the inevitability of the enlargement, set for May 1st, 2004. On the left, the most vocal opposition to enlargement came from the ranks of the French socialist party, where a few deputies created a eurosceptic faction called Nouveau Monde, and from the French Communist Party. Meanwhile, proponents of enlargement repeatedly stressed the negligible impact of enlargement on imports and employment, the benefits of a larger market for workers and consumers alike, and the solidarity owed to former Communist countries that had undertaken significant sacrifices in a very short time in order to join the European Union. On May 1st, 2004, coinciding with the elections to the European Parliament, the fifth enlargement of the European Union took place. Only three years later, Bulgaria and Rumania enlarged the European Union from 25 to 27 members.

3. The Social Dimension of Free Trade Agreements: The NAALC and the Acquis Communautaire

Both the Naalc and the European Union’s acquis communautaire contain laws and regulations that uphold common labor standards. This section shows that the European Union is certainly a more ambitious social project. Nonetheless, neither of the two regional blocs have committed as many resources as would be needed to actually enforce the agreements’ social provisions. Because of this, differences between the content of the two agreements appear greater on paper than they are in fact.

3.1 The Labor Side-Agreement (NAALC)

The Nafta was conceived to deal with trade issues. Only deep controversy over the US Congress’s extension of fast-track authority forced the Bush Administration to finally promise that the agreement would speak to these issues. The final draft fell short of labor and environmental groups’ expectations, however, and when Clinton succeeded Bush the prospects for Congress approval were dismal. It is in this context that the new President, encouraged by environmental groups’ representatives, offered to negotiate labor and environmental side-agreements (Kay, 2005). The labor side-agreement (North American Agreement on Labor Cooperation or NAALC), just like Nafta, is an intergovernmental institution, as those who drafted it were careful to emphasize. It does not harmonize labor legislation, nor does it impose one country’s law and regulations on other countries. Furthermore, the agreement retains the Nafta’s main spirit, which is economic and neoliberal. There is no concession to the language of social justice and embedded liberalism.
The labor principles that the agreement prioritizes are set out in Annex 1:

-Freedom of association and protection of the right to organize
-The right to bargain collectively
-The right to strike
-Prohibition of forced labor
-Labor protection for children and young persons
-Minimum employment standards (including minimum wages and overtime pay)
-Elimination of employment discrimination
-Equal pay for women and men
-Prevention of occupational injuries and illnesses
-Compensation in cases of occupational injuries and illnesses
-Protection of migrant workers

Among these areas, the ones that can be subject to sanctions if a country is considered to be in breach of the agreement are “safety and health”, “child work”, and “minimum wage” labor technical standards. The Naalc is certainly not about the development of standards common to Canada, the United States, and Mexico. The signatories are simply compelled to maintain high work standards and to improve these over an undefined time frame (Ross, 2000). The emphasis of the Nafta is on the enforcement of each country’s laws and regulations. As Compa remarks, the Naalc is “intended as a review mechanism by which members open themselves up to investigation, reports, evaluations, recommendations, and other measures...” (Compa, 2001, p. 453). To this effect, it commits the signatories to the principles of transparency and access, and, upon Canadian and United States insistence (Kay, 2005, p. 747), even provides for the possibility of sanctions. These ensue if arbitration provides strong evidence that a country judged to have failed to enforce its laws and regulations concerning child work, safety and health standards, and minimum wage has also failed to implement changes that would lead to their actual enforcement. The principle of transparency means that labor laws and regulations, their implementation, and changes thereof must be public and readily available to interested parties in the three Nafta countries. The principle of access means that any person or group in the three countries (e.g. trade unions) can invoke the agreement to challenge that labor laws and regulations are actually enforced in one of the partners to the treaty and that those whose law enforcement is questioned receive clear guarantees that their case will be heard and decided upon in a fair way (Article 4). The Naalc has thus created a new institutional window of opportunity to promote the enforcement of labor law in the three countries, one that worker representatives have not used as much as it would be desirable, but which nonetheless has promoted cross-national union cooperation and occasionally constrained governments into being more watchful over labor and industrial relations practice (Compa, 2001; Kay, 2010). Much of the Naalc is devoted to carefully laid-out procedures for cooperative consultations and evaluations and, more importantly, the resolution of disputes. The process is somewhat convoluted and such that, in the worst case scenario, it can take years for a verdict on a non-enforcement case to be reached. The only social areas where disputes can lead to sanctions are laws and regulations concerning child work, minimum wage, and
safety and health technical standards, provided that they are trade-related and deal with mutually recognized labor law.

3.2 The Social ‘Acquis’

Whereas the Nafta is conceived as a mere instrument toward economic growth and the Naalc frames the promotion of labor rights as a vehicle toward increasing productivity, the European Union was from its origins in the 1950s a very ambitious economic and political project, with a strong supranational component and a complex organizational structure. The European Union also balances its central objective of increasing the overall competitiveness and growth of the member states’ economies with a social purpose. In contrast to the Naalc, the European Union presents the pursuit of social progress, not in instrumental terms (i.e. in terms of its contribution to productivity and economic growth), but as a necessary component of the European Union’s goal of sustainable development. This spirit pervades the institutions and organizations of the European Union, including the legal texts of reference that frame the European Union’s approach to social issues: the Treaty of European Union, the Charter of Fundamental Rights of the European Union (2000), the Community Charter of Fundamental Social Rights for Workers (‘Social Charter’) (1996), and the Council of Europe’s European Social Charter (1989). Thus, the European Union’s legal framework goes well beyond the defense and promotion of labor rights. It also concerns employment policy (Title IX of the TEU), welfare protection, social dialogue between business and labor, social equality, cross-regional and cross-national equality, and the fight against poverty and social exclusion.

One should not overemphasize, however, the constraining power of European Union labor legislation. Just as the Nafta, the Treaty of European Union and other framing legal documents to which European Union member states attach the same legal value, enumerates prescriptions in the social domain that countries are allowed to implement more or less as they see fit, based on their national traditions. This allows, of course, for great diversity in the legal environments for workers across Europe. Two main characteristics, however, give the European Union’s social dimension a distinctive supranational character when compared to the Nafta. First of all, the European Union has approved, often through qualified majority, more than seventy legal acts (directives) to introduce a significant level of legal harmonization in the areas of 1) information and consultation of workers, 2) health and safety conditions, 3) non-discrimination by age, national origin, and disability status, and 4) equality of men and women. Second of all, enforcement of European Union legislation is monitored by member states and by the European Union’s supranational organization, the European Commission. Finally, the European Union’s Court of Justice can sanction a state for failing to fulfill an obligation under the treaties and impose serious fines. A major contrast between the Naalc and the European Union is that whereas arbitral panels in the former can only judge and sanction on issues related to minimum wage, health and safety, and child work, the scope of action for the European Union
Commission and the European Union Court of Justice covers all labor issues. While one should not underestimate the normative pressure toward labor law enforcement that can be applied under the Naalc, it is not comparable to the credible threat of severe sanctions and large fines under the European Union’s institutional framework.

The description above shows that objectively speaking, the scope of European Union legislation on social issues is vastly more ambitious, its degree of harmonization greater, and its enforcement scope broader than they are under the Naalc. Examination of the content of the Naalc and European Union law does not speak, however, to the Naalc’s and the European Union’s actual capacity to adequately enforce labor law. Regarding the latter, and in connection to the new member states from Central and Eastern Europe, Vaughan-Whitehead remarks that the weak administrative capacity of the governments of candidate countries “makes it unrealistic to believe that the necessary mechanisms will be in place in the next few years to ensure the proper implementation—or even the monitoring—of the directives at enterprise level” (2003, p. 107). Another issue that makes a difference between the Naalc’s and European Union’s legal frameworks potentially inconsequential with respect to levels of employment, relocation of firms, and foreign labor migration, is that neither one nor the other treaty provides for a significant cross-national equalization of wages. Although the European Union can theoretically impact on wages, through its cohesion and structural policies, it can only do so in the long run. Wage differentials, however, and their potential impact on jobs, were the most sensitive issue for trade unions in the United States and the European Union’s old member states when evaluating the Nafta and the Enlargement Treaty respectively. Finally, while it is true that US trade unionists frequently criticized the social instruments attached to the Nafta, European trade union leaders do not seem to have been guided by a positive assessment of the “acquis” while forming their opinion on enlargement. They actually rarely referred to it in the debates and, if anything, their central preoccupation was with the wage differential between extant and candidate members, about which the community’s acquis has little to say. Only rarely did trade union leaders demand that the enlargement treaty do something about this differential and when they complained about it they did not blame the European Union institutions for doing little to reduce it.

4. National Social Rights and Protection against the Consequences of Free Trade

Although both the Naalc and the Enlargement treaties are concerned with social rights, on the whole they either affirm or upgrade to the supranational level existing national legislation and exhort the countries to respect their respective national social right legislation. Both treaties’ major addition is the institutionalization of monitoring and enforcement mechanisms. Although I have shown that these mechanisms are stronger in the enlargement case, specialists such as Vaughan-Whitehead warns us
about the EU’s limited resources to seriously accomplish a rigorous monitoring and enforcement of the acquis. Therefore, the social content of the treaties cannot by itself account for the contrast in labor union support. Without abandoning the social dimension, however, and taking my lead from the emphasis that both the Nafta and the Enlargement treaty place on the implementation of national social legislation, I now explore another possible explanation for this contrast: that labor relations and welfare state institutions are more favorable to workers in the European Union’s member states than in the United States. European labor unions may indeed have been more receptive to the Enlargement treaty than the US labor unions were to the Nafta because they trusted that their more developed labor relations and welfare state institutions and policies would protect them against the worst consequences of foreign competition (lower wages, layoffs, firm bankruptcy, and delocalizations).

It is unnecessary to belabor the point that, at least formally, the US system of labor relations and the US welfare system are weaker than their European Union counterparts, for there is an abundant literature on the topic (Schmitter, 1981; Flora and Heldenheimer, 1981; Cameron, 1984; Amenta and Skocpol, 1986; Quadagno, 1987; Amenta and Carruthers, 1988; Esping-Andersen, 1990; Soskice, 1990; Western, 1991,1997; Traxler, Blaschke, and Kittel, 2001). It could thus be legitimately argued that US trade unions opposed Nafta more than European trade unions opposed enlargement of the EU not so much because of contrasts in the respective treaties’ social content but rather because US workers were generally less protected by national legislation against the negative social externalities of free trade than were European workers. It is useful in this respect to synthetically compare labor rights and welfare arrangements in the United States and those in Austria, Germany, France, and Great Britain.

Labor and industrial relations systems in the OECD area have generally been stable in the post-WWI era (with the notable exception of Britain), although there is a general trend toward liberalization since the late 1970s. The United States’ system was firmly established by the Wagner Act (1935) and the Tafts-Hartley Act (1948). These pieces of legislation enshrine the workers’ rights to unionize and negotiate collective agreements with their employers. They also regulate the recognition of unions by employers and the consequences of a failure to agree in collective negotiations, and set constraints to union and employer behavior toward other. In the United States, collective agreements are usually negotiated at the company or plant levels. Since the late 1970s, however, employers have been able, thanks to state, judicial and consultant agency support to thwart the workers’ attempts to unionize, very often through illegal means. This anti-union mobilization by employers explains, in particular, the US trade unions’ insistence during the Nafta negotiations that the US Congress ratify the ILO’s 87 and 98 conventions, which establish the freedom of association and the right to organize and bargain collectively (see AFL-CIO Task Force on Trade’s 1993 discussion paper Labor Rights and Standards and Nafta). The percentage of unionized workers thus dropped from 31% in 1960 (already far below from the unions’ heyday in the 1950s, when trade union density reached about 40%), to 15% in 1990. In the year 2000, union density remained at a low 13%. Employer opposition to unionization ef-
forts and to the signing of collective agreements has led to a considerable reduction in the number of signed collective agreements and in the percentage of workers in the manufacturing sector who are covered by collective agreements. Thus, as reported by the 2004 OECD Employment Outlook report, this percentage dropped between a low 26% in 1980 to an even lower 18% in 1990. In 2000, the equivalent figure was 14%. Low union density and limited coverage of collective agreements mean that companies and plants within companies can generally compete against one another and against foreign competitors through lower wages and benefits, and thus drive both average wages and benefits down.

The US unions' major claim against the Nafta and subsequent free trade agreement proposals has been that they would result in a vast loss of jobs, as uncompetitive US firms would go bankrupt or/and decide to relocate to Mexico. Labor laws and policies around the world provide workers with resources to confront individual and collective dismissals, which raise the costs for employers of dismissing workers. United States' employment protection legislation, however, ranks the lowest among OECD countries. This is particularly so in connection with the dismissal of permanent workers. While the US hardly provides protection, both in terms of dismissal rules and severance pay provisions, other countries provide a great deal of protection. The US is in fact one of few countries where workers who contest a lay-off case must provide prima facie evidence against their dismissal (see Employment Outlook, 2004). Therefore, in an institutional context like the United States’, workers find themselves in an extremely weak position when employers attempt to lower costs through containing wages.

Viewed from the standpoint of job security, the European system certainly beats the US system, for European employment protection legislation and policies are more stringent. It is thus generally more difficult and onerous for employers to lay-off workers in Europe than in the United States, especially when these are permanent. Also, compared with the United States’, the European Union’s labor and industrial relations systems are considerably more favorable to workers. In theory, one would thus expect West European workers to have approached the elimination of national economic barriers somewhat more confidently than US workers. On average (with France’s egregious exception), union density in the European Union’s richest members, while steadily declining, is still considerably higher than it is in the US. More importantly, collective bargaining coverage rates are generally very high. In 1990, just before negotiations on the Nafta, the collective bargaining rate in the US was only 18%, whereas in Austria and France they were above 90%, in Germany it stood above 80%, and in Britain it reached 40%. In year 2000, four years before enlargement, collective bargaining coverage rates were still very high in Europe, despite declines in Germany, to 68%, and Britain, to 30%. The danger of whip-saw competition between European national firms to cut wages and working standards in order to compete with foreign products was generally less in the European Union’s old member states than it was in the US. It was obvious that many companies would be forced to close down or relocate to the enlargement countries-as they certainly did or threatened to (i.e. Volkswagen)-thus enlarging the ranks of the unemployed. Generally speaking,
however, one could also be confident that constraints imposed on the companies’ collective agreements would lower the pressure on wages and working conditions.

Despite a friendlier institutional environment, European Union workers nonetheless faced a greater challenge through enlargement than did United States workers through the Nafta, for the enlargement treaty not only envisaged the elimination of barriers to the movement of products and capital but also the elimination of barriers to the movement of services and people. The potential arrival of workers from Central and Eastern Europe was likely to strengthen the position of employers in collective agreement negotiations and also evoked the spectre of a growing informal sector that could eventually undermine the unions’ negotiating positions. This is one reason why trade union confederations in Austria and Germany, most likely destinations of migrants from the candidate states, adamantly called for a long transition period before Central and Eastern European workers would be allowed to freely move West.

In sum, faced with foreign competition, European Union workers had thus less to fear than had US workers, at least on paper. The other side of the coin, however, is that the same institutions that protect European wages and their jobs create disincentives to job creation. Thus, a European worker can perhaps expect to be paid better and to hold to his or her job longer than can a US worker in the face of foreign competition, but the risk of not getting another job once unemployed is greater for a European than for a US worker. The quality of welfare institutions can to some extent compensate for this greater risk and for the risk incurred by workers when opening borders to flows of goods and capital. I thus move to comparatively describe these institutions. The literature on the welfare state has traditionally described the United States system as liberal, compared to the corporatist (conservative) and social-democratic welfare states that prevail in continental Europe (e.g. Esping-Andersen, 1990; Castles and Mitchell, 1992; Ragin, 1994). The liberalism of the US welfare system is characterized by relatively low state intervention and rests on such institutions as mean-tested benefits, the high prevalence of private pension provision, and the high relative weight of private healthcare spending. The corporatism (conservative) of many continental European welfare systems is characterized by relatively high but only mildly redistributive or egalitarian state intervention. The corporatist (conservative) welfare system includes institutions such as distinct occupational pension funds—with generous pension schemes for civil servants—and rests on high social security and payroll tax contributions as a share of GDP and significant state resources for family-related policy, including maternity and family leave, public day care facilities, and flexible retirement plans.

When evaluating the contribution of welfare state arrangements to the explanation of attitudes toward the lifting of barriers to trade and capital, the literature has generally bypassed typological debates and focused on social expenditures instead. Data on social expenditures for the periods before and after the Nafta and EU enlargement cast doubt on the literature’s focus on trade policy as a determinant of welfare expansion and is more consistent with a view that privileges the causal impact of welfare and labor relations institutions and outcomes on the labor unions’ reaction to free trade agreements (Table 1). There was indeed very little change in social expenditure in the United States after the signing of the Nafta and even less in Europe after EU en-
largetment. Both in the United States and in Europe there was some increase in social expenditure as a proportion of GDP in the very early 1990s, which actually coincides with the world recession in that period. Lest one constructs the increase in the United States as compensation for the Nafta, I would point out that while social expenditures increased from 13.9% to 15.8% between 1990 and 1993, when the Nafta was signed, they went down again to 14.9% in 1999, as the United States recovered from the crisis of the early 1990s. In Europe, one observes no change in social expenditures between year 2000, before enlargement, and year 2005, after enlargement. Austria, Germany, France, and Britain, however, had experienced significant increases in the early 1990s, when unemployment rates sharply increased. A view of welfare as an independent rather than as a dependent variable in relation to trade policy is thus more realistic (see Iversen and Cusack 2000 for a critique of the openness-welfare causal relationship).

Whether we examine total social expenditure and social expenditure related to unemployment compensation, the United States clearly lags behind European Union countries (but not as much as previously thought: see Howard, 2003). Social expenditures represent a smaller share of the GDP in the United States (13.9% in 1990 and 16.6% in 2000) than in the European Union countries that constitute the analytical focus in the study (four-country averages of 22.9% in 1990 and 26.9% in 2000) (see Table 1). Among social expenditures, those concerned with alleviating the impact of unemployment and promoting re-employment have been privileged by scholars interested in the link between trade openness and welfare compensation (Burgoon, 2001). It is thus of interest that data by Scruggs and Pontusson for 1980 and 2002 suggest that the United States and Europe do not differ as much on these welfare policies as in other policies. In fact, the main cleavage between OECD countries in terms of employment-related welfare state expenditure is between egalitarian Nordic countries and the rest (Scruggs and Pontusson, 2008). Table 1 shows nonetheless that expenditure on unemployment relative to the GDP and expenditure of active labor market policies are significantly lower in the US than in the four European Union countries examined here. They were so at the time of the Nafta and continued to be so just before EU enlargement. Social expenditure on unemployment related programs is only one way, however, to measure the generosity of welfare provision to address unemployment. One can also examine the degree to which unemployment insurance replaces the income people earned while employed. Table 2 presents unemployment programs’ tax-adjusted six-month income replacement rates, for typical households in different countries. It also presents data Scruggs’ and Allan’s index of decommodification for unemployment compensation in 1980, which combines information on income replacement rates, duration limit, qualifying period, waiting period and coverage (Scruggs and Allan, 2006) (see Table 2). The information in Table 2 shows that unemployment programs in the United States were as extensive and as decommodified as in the four European countries examined here up to the 1980s. There certainly was a major regress in the character and extension of the United States programs between the mid-1980s and the time when the Nafta was negotiated, with program replacement rates shifting from 67% to 58.7. This undoubtedly explains why one major demand raised by US labor union representatives during the Nafta negotiations was the improvement of the Trade Adjustment Assistance program, to provide guaranteed benefits to workers harmed by trade. Despite this regression, however, unemployment program income replacement rates were significantly greater than in Great Britain even during last decade and were comparable to those in Austria for most of the period.
between 1975 and 2002.

### Table 1. Social Expenditures as a proportion of GDP

<table>
<thead>
<tr>
<th></th>
<th>Public/Private</th>
<th>Mandatory</th>
<th>Unemployment</th>
<th>Active Labor Market</th>
<th>Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>25.0</td>
<td>27.6</td>
<td>28.4</td>
<td>28.1</td>
<td>0.9</td>
</tr>
<tr>
<td>France</td>
<td>25.3</td>
<td>28.8</td>
<td>29.3</td>
<td>29.5</td>
<td>1.7</td>
</tr>
<tr>
<td>Germany</td>
<td>23.9</td>
<td>28.0</td>
<td>28.5</td>
<td>27.9</td>
<td>0.9</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>17.3</td>
<td>20.8</td>
<td>21.3</td>
<td>22.1</td>
<td>0.8</td>
</tr>
<tr>
<td>United States</td>
<td>13.9</td>
<td>15.8</td>
<td>16.6</td>
<td>16.3</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Source: OECD Social Expenditure Database

### Table 2. Unemployment Insurance Income Replacement Rates

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>43.2</td>
<td>65.0</td>
<td>58.3</td>
<td>64.0</td>
<td>61.2</td>
<td>6.9</td>
</tr>
<tr>
<td>France</td>
<td>40.1</td>
<td>67.6</td>
<td>68.0</td>
<td>67.1</td>
<td>71.7</td>
<td>6.3</td>
</tr>
<tr>
<td>Germany</td>
<td>69.2</td>
<td>66.5</td>
<td>66.5</td>
<td>65.6</td>
<td>65.8</td>
<td>7.5</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>57.0</td>
<td>34.9</td>
<td>29.7</td>
<td>37.0</td>
<td>37.0</td>
<td>7.2</td>
</tr>
<tr>
<td>United States</td>
<td>63.2</td>
<td>67.0</td>
<td>58.7</td>
<td>57.4</td>
<td>56.7</td>
<td>7.4</td>
</tr>
</tbody>
</table>

Source: Lyle Scruggs. Entitlements Dataset (http://www.sp.uconn.edu/~scruggs/wp.htm)

Note: Allan and Scruggs (2004) describe their calculations as follows: “Following the methodology discussed in Esping-Andersen (1990) and some recent efforts by the OECD (1999), we estimated the benefits due for the first six months of the event and then annualized this figure in order to calculate a notional “tax owed” for the individual. We then deducted any income taxes or social charges due on that benefit and divided that figure by the net wage of the “average production worker” (APW). For benefits, we drew upon information from national government agencies responsible for such programs and the United States Social Security Administration’s Social Security Programs Throughout the World. Wage and tax structure information are derived from the OECD Tax(Benefit Position and Taxing Wages publications (which have been published since the mid 1970s), with additional information from various national governments. We calculated these net replacement rates for sickness and unemployment for two recipient groups: (a) a single worker, and (b) a married APW with a non-employed spouse and two children. The replacement rates in Table 1 are the average for the two household types.”

Source for decommodification index: Scruggs and Allan (2006). Scruggs and Allan’s decommodification index is based on information about Replacement rates, Duration limit, Qualifying Period, Waiting period and Coverage.

Compared to the United States, European workers thus benefitted from greater coverage by collective agreements, from industry- or national level collective agreements, from greater job security, and from greater welfare benefits. The contrast was not spectacular, but it was real. It was less obvious, when one focuses on unemployment related programs but, even there, one may argue that it made a big difference that Europeans, employed or not, benefitted from national health insurance whereas United States workers and their families were often deprived of from health insurance.

Labor relations and welfare institutions matter, but they matter mostly because one expects that they will be tied to outcomes connected to the lives of male and female workers. It is those outcomes that one expects to directly impact on the labor unions’ approach to specific trade agreements. Data on the growth of real earnings in the manufacturing sector since 1960 convey again that the United States actually lagged behind other developed economies for the entire period, including the pre-Nafta and the pre-EU enlargement years. Real earnings in US manufacturing declined between 1973 and 1993 (see Table 3). In the same period, real earnings in manufacturing in Austria, France, Germany and the United Kingdom grew more than 2% a year. In the pre-enlargement decade, real earnings in big European economies kept on growing, albeit at a somewhat slower pace, especially in re-unified Germany.
A focus on trends in unemployment conveys, however, a very different perspective on how US and European workers fared since the 1970s. Here we see that unemployment levels have been relatively lower on average in the US than in Europe, especially since the 1990s. Nonetheless, when one focuses on the European countries that concern us in this study, Austria, France, Germany, and the United Kingdom, the contrasts with the US are more subtle (see Table 4). In Austria, for instance, unemployment rates have been consistently lower than in the United States, but in France they have been consistently higher. Meanwhile, Germany maintained as low unemployment rates as the United States until early in the 1990s, and then a gap opened between the two countries, as re-structuration in Eastern Germany drove up unemployment rates in re-unified Germany. Finally, except for the early 1990s, unemployment rates in the United Kingdom have been at levels that are almost as low as those in the United States. If instead of focusing on levels, one focuses on trends, especially before the Nafta and EU enlargement, one observes, however, as noted above, that the Nafta negotiations took place during a period of growing unemployment in the United States. In pre-EU enlargement Europe, on the other hand, unemployment was rising in some countries, like Austria, but it was going down in countries like France and the United Kingdom. In Germany, unemployment rates were stable at relatively high levels for this country, between 8% and 9%.

### Table 3. Yearly Change in Real Hourly Earnings in Manufacturing (%)

<table>
<thead>
<tr>
<th></th>
<th>United States</th>
<th>Austria</th>
<th>France</th>
<th>Germany</th>
<th>United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-1973</td>
<td>1.4</td>
<td>--</td>
<td>4.5</td>
<td>5.4</td>
<td>3.7***</td>
</tr>
<tr>
<td>1973-1989</td>
<td>-0.6</td>
<td>2.4</td>
<td>2.2</td>
<td>1.9</td>
<td>2.6**</td>
</tr>
<tr>
<td>1970</td>
<td>1.6</td>
<td>4.4</td>
<td>2.0</td>
<td>3.1</td>
<td>3.7*</td>
</tr>
<tr>
<td>1990</td>
<td>1.1</td>
<td>3.1</td>
<td>2.1</td>
<td>2.9</td>
<td>1.8</td>
</tr>
<tr>
<td>1992</td>
<td>-2.0</td>
<td>3.2</td>
<td>1.0</td>
<td>2.2</td>
<td>-0.1</td>
</tr>
<tr>
<td>1994</td>
<td>-0.6</td>
<td>1.8</td>
<td>1.2</td>
<td>0.3</td>
<td>2.8</td>
</tr>
<tr>
<td>1996</td>
<td>0.1</td>
<td>1.3</td>
<td>0.2</td>
<td>0.9</td>
<td>2.5</td>
</tr>
<tr>
<td>1998</td>
<td>0.3</td>
<td>2.2</td>
<td>0.7</td>
<td>2.0</td>
<td>1.9</td>
</tr>
<tr>
<td>2000</td>
<td>0.9</td>
<td>1.2</td>
<td>1.3</td>
<td>0.9</td>
<td>1.1</td>
</tr>
<tr>
<td>2002</td>
<td>1.8</td>
<td>1.3</td>
<td>1.4</td>
<td>1.6</td>
<td>2.8</td>
</tr>
<tr>
<td>2004</td>
<td>1.0</td>
<td>1.4</td>
<td>1.3</td>
<td>0.7</td>
<td>2.7</td>
</tr>
</tbody>
</table>


### Table 4. Standardized Unemployment Rates, by Country

<table>
<thead>
<tr>
<th></th>
<th>United States</th>
<th>Austria</th>
<th>France</th>
<th>Germany</th>
<th>United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>4.9</td>
<td>1.4</td>
<td>1.9*</td>
<td>0.6</td>
<td>4.3**</td>
</tr>
<tr>
<td>1990</td>
<td>5.6</td>
<td>--</td>
<td>9.0</td>
<td>4.8</td>
<td>7.1</td>
</tr>
<tr>
<td>1992</td>
<td>7.5</td>
<td>--</td>
<td>10.4</td>
<td>6.6</td>
<td>10.0</td>
</tr>
<tr>
<td>1994</td>
<td>6.1</td>
<td>3.8</td>
<td>12.3</td>
<td>8.4</td>
<td>9.6</td>
</tr>
<tr>
<td>1996</td>
<td>5.4</td>
<td>4.3</td>
<td>12.4</td>
<td>8.9</td>
<td>8.2</td>
</tr>
<tr>
<td>1998</td>
<td>4.5</td>
<td>4.5</td>
<td>11.8</td>
<td>9.3</td>
<td>6.3</td>
</tr>
<tr>
<td>2000</td>
<td>4.0</td>
<td>3.7</td>
<td>9.6</td>
<td>7.9</td>
<td>5.5</td>
</tr>
<tr>
<td>2002</td>
<td>5.8</td>
<td>4.0</td>
<td>--</td>
<td>8.7</td>
<td>5.2</td>
</tr>
<tr>
<td>2004</td>
<td>5.5</td>
<td>4.9</td>
<td>8.9</td>
<td>9.8</td>
<td>4.8</td>
</tr>
</tbody>
</table>

Based on the information above, it is difficult to draw an objective balance sheet of how workers in the United States and in Europe fared during the period surrounding the Nafta and the EU enlargement processes. Countries like Austria and the United Kingdom clearly outperformed the United States, with low unemployment rates and rapidly rising real earnings in manufacturing. The picture is less clear, however, when one considers France and Germany, where real earnings in manufacturing were rising at a steady pace but unemployment rates were clearly higher than in the United States. A potentially meaningful observation when comparing the United States with Germany and France is that while the Nafta negotiations coincided with sustained declines in US real earnings and with an increase in unemployment rates, EU enlargement took place during a period when the French workers’ situation was improving while that of German workers was only deteriorating slightly with respect to previous years.

The US institutional arrangements were thus less able than European institutional arrangements to sustain rising real wages but they were at least as effective in maintaining jobs and more conducive to job creation. Therefore, the emphasis on job losses that characterized the US trade unions’ campaign against the Nafta cannot be explained through the specificity of the US’s job destruction rate nor through the character of its labor and industrial relations institutions (see French, Cowie, and Littlehale, 1994). European labor institutions were not better at preventing job destruction and proved certainly less capable of promoting job creation. At the same time, it is unlikely that US trade union opposition to the Nafta simply reflected the unfavourable economic context in which it was negotiated. First of all, because in economic circumstances that were not very different from those in the United States in the early 1990s, German and French trade unions refrained from opposing the EU enlargement process. Second of all, because at the time when US trade unions successfully mobilized against the granting of fast-track authority to Congress for the launching of the Free Trade of the Americas project in 1998, real wages were rising and unemployment was diminishing. Indeed, it is worth insisting on the fact that German real wages around 2004 were stagnant and that unemployment was on the rise, while French real wages were growing but unemployment was at a high 9%. While this relatively bad economic context may underlie the German unions’ and government’s insistence on transition periods for Central and Eastern European workers and divisions on enlargement within the French left, it was clearly insufficient to even ignite debate over enlargement among these countries’ trade unions.
5. Labor Relations, Welfare Institutions, and Labor Union Leaders’ Position on the Nafta and European Union Enlargement

Although the comparisons above suggest that differences between the United States and European systems of labor relations and welfare systems underlie labor union contrasts in support of the Nafta and EU enlargement processes, the two systems are not as far apart from one another to justify stopping the search for a full account here. Furthermore, the comparison between trends in earnings and unemployment in the United States and Europe has not taken us much further either. The fact that United States trade unions opposed the Nafta while brandishing the job loss argument, despite much lower unemployment rates than in Europe, where support for EU enlargement was unanimous, suggests the need for a more complex explanation. This explanation ought to be able to solve three puzzles. The first puzzle is the resolute support for enlargement by British trade unions. Despite strong similarities between the United States’ and British labor rights and welfare environments, and between the workers’ actual living and working conditions, US labor unions opposed the Nafta and British trade unions supported a much more ambitious lifting of cross-national economic barriers. The second puzzle is that United States labor unions opposed the Nafta from the beginning, and that during the negotiations, their bargaining position privileged protectionist measures over labor rights or welfare compensation. The third and related puzzle is that United States labor’s compensatory demands focused on assistance packages for the unemployed when the discussion above suggests that in relative terms, unemployment was low in the United States compared to Europe and that unemployment compensation is not the weakest element in the United States’ welfare state institutional arrangements. One would have expected United States workers to fight for labor relations reform (i.e. industry-level collective agreements) or for health reform instead.

In previous sections, I have already provided the empirical evidence that raises the first puzzle. The major contrasts between Great Britain’s institutional and labor market conditions and those in the United States are the existence of a national health system in Britain, its absence in the United States, and the fact that at the time of enlargement British real wages were increasing whereas at the time of the Nafta United States real wages were declining. Otherwise, both countries had been converging for two decades toward a decentralized and liberal system of labor and industrial relations and toward a largely liberal welfare state system. In fact, the British trade union movement’s behavior can be viewed as even more of a puzzle than the United States’, simply because despite the liberal character of British labor rights and welfare policies compared to those in corporatist states like Germany, France, and Austria, only its leaders waived transition periods for the free movement of workers after enlargement to Central and Eastern Europe. If we thus remove Great Britain from the transatlantic comparison, the US-EU contrast in support for the Nafta and EU enlargement does not seem so much at odds with theoretical expectations. The British case, however, conveys that factors other than labor relations and welfare institutions and policies enter the explanation of the labor unions’ divergent positions on the Nafta and the EU enlargement process.
The second and third puzzles raise even more serious doubts over an explanation of the contrast between the US labor unions’ approach to the Nafta and the EU labor unions’ approach to enlargement that only focuses on labor relations legislation and welfare state policies. United States trade unions, instead of pushing for corrections to the US’s labor rights regime and to its welfare system, prioritized protective measures; further, instead of calling for new forms of collective bargaining that would benefit real earnings or for health reform that would provide full protection to employed and non-employed workers alike, they re-asserted local collective bargaining, focused their welfare demands on unemployment benefits and concentrated on Mexico’s shortcomings. To examine these puzzles, I now provide some descriptive detail about the claims made by the US labor movement during the Nafta negotiations.

Quite often during the Nafta debate, the labor unions’ insightful diagnosis of the problems faced by US workers revealed a thorough understanding of the underlying structural and institutional causes. This approach seemed to announce an ambitious political agenda, aimed at getting to the root of the problems faced by US workers in the globalization age. The 1980s, they said, witnessed a major decline in the US economy, as producers proved incapable to compete with other countries in world markets. As a consequence, the United States lost thousands of jobs and accumulated a frightening trade deficit (AFL-CIO Legislative Fact Sheet. Mexico Free Trade Agreement: US Job Loss and Exploited Mexican Workers, March 1st, 1991; AFL-CIO. International Trade: Where we Stand, 1992). The AFL-CIO highlighted the companies’ failure to compete on quality and design with other exporting nations. This failure reflected less than optimal productivity levels, rooted in low worker morale and caused by the employers’ systematic opposition to worker unionization and worker participation in management decisions (ACN, p. 8. GMP Convention urges Congress to reject Bush Trade Deal, August 31st, 1992). At the center of the AFL-CIO’s and its member unions’ diagnosis was thus a perception of workers as both disempowered and vulnerable. We read in a Teamsters’ publication of early 1993, for example, that union density rates lead to better contracts and better laws. The Teamsters contrasted the situation of US workers with the situation of workers in Europe (Facts of Life, Jan/Feb 93), showcased Germany as a model for the benefits workers derive from strong unions and contrasted this with the complete political ostracism to which unions had been subjected during the Reagan and Bush administrations, as they lost representation both at the National Labor Relations Board and in the federal judiciary.

In the eyes of the AFL-CIO, disempowerment at the company and political levels made the United States’ workers extremely vulnerable to the effects of the removal of barriers to international trade. Several documents produced by the confederation and its affiliates emphasized indeed that the costs involved in losing a job are greater for US workers than for workers in other advanced economies and thus expressed deep concern about increasing unemployment rates during the 1980s. A document published in 1993 and entitled AFL-CIO Guidelines on A Renewed Commitment to America’s Displaced Workers, describes the United States’ social safety net as one of the weakest in the industrialized world. The document illustrates this while discussing the 1988 Worker Adjustment and Retraining Notification (WARN) Act, intended to
provide dislocated workers with 60 days notice of a plant closing or significant layoff. The AFL-CIO was indeed very critical of the WARN’s high coverage threshold (firms with 100 or more employees and layoffs above a high percentage, which the AFL-CIO would like to cut to 10 percent of the workforce or 100 laid-off workers). In another document, the Facts of Life (Jan/Feb 93) issue cited above, the Teamsters note that during the 1980s both United States and Canadian corporations had forced cutbacks in the living standards of working people. They contrast this trend with that observed in Germany or Japan, where the prevailing mindset is that better-off workers make for a stronger economy. The Teamsters also emphasize that the right to health care is recognized in virtually all industrialized countries, except in the United States, where some 40 million people have no health insurance. Finally, in an earlier issue (Facts of Life, August 92) the Teamsters decry that in 1990 only 38 percent of out-of-work Americans received any unemployment insurance benefits, compared to 75 percent during the 1974-75 recession.

Side by side to a domestic view of the problems faced by US workers presented above, United States labor unions touched on other explanations, however, for the lack of competitiveness of US firms. These suggested a more defensive labor response to the challenges posed by a free trade agreement with Mexico. The AFL-CIO stressed, for instance, lack of fairness in world markets (AFL-CIO Report 39, 12. 1989). In their view, United States products were indeed being penalized for adhering to higher and, therefore, more costly standards than did products from other countries, whether one thinks of clean air and water, health and safety, food and drug safety, and consumer product safety regulations. At the same time AFL-CIO claimed that the United States did not compete in a level-field because companies from other countries benefitted from export and other tax breaks that cheapened their products relative to the United States’. Even more ominous was the labor unions’ emphasis on and very bleak view of labor and political conditions in Mexico. United States labor unions indeed saw Mexico’s labor standards and political situation as both part of the explanation for the United States economy’s and workers’ sad situation and the main justification for opposing the free trade agreement. The AFL-CIO and its affiliates judged Mexico as too poor and unequal to provide a market for United States exports, a country with dismal labor conditions, anti-union, and nationalistic and undemocratic. On the issue of poverty, AFL-CIO documents hammered down the one to ten relationship between manufacturing wages in Mexico’s maquiladora sector and average manufacturing wages in the United States, as well as plummeting Mexican wages during the 1980s (AFL-CIO. International Trade: Where we stand. 1992; May 6th, 1993. Statement of Thomas R. Donahue, Secretary-Treasurer, American Federation of Labor and Congress of Industrial Organizations and Chair, Labor Advisory Committee on Trade Negotiations and Trade Policy Before the Senate Commerce, Science and Transportation Committee on the North American Free Trade Agreement.). The AFL-CIO used this information, Mexico’s low GDP, and the unequal distribution of wealth in Mexico, to make the point that the trade so far created and the extra trade that would be created through the Nafta could not be treated as strictly trade. Low standards of living in Mexico prevents the population from buying United States products and all that the agreement would do is help to finish products with United States inputs and ship these finished products back to the United States. As Thomas Donahue
in the above cited document emphasized, capital goods and intermediate goods accounted for 85% of all imports into Mexico in 1991.

Throughout the negotiations of the Nafta, United States labor unions relentlessly reminded the public that United States companies were relocating by the thousands to take advantage of Mexico’s low wages and exploitative working conditions. In doing that, however, they seemed completely unaware of inconsistencies in their discourse. Most often, they referred to Mexico’s lower labor standards compared to the United States’. On other occasions, however, they conceded that labor standards are comparable on paper to those in the United States, but they are not enforced. Both the government and corporations in Mexico’s soil were depicted as inefficient and corrupt and therefore unable and unwilling to enforce their own laws (Labor Advisory Committee for Trade Negotiations and Trade Policy on the North American Free Trade Agreement. September 16, 1992). This, according to United States labor unions, reflected the fact that Mexican workers are powerless vis à vis their employers. This point is made in stark terms in an article published in Steelabor, a steelworkers union’s publication:

“The Mexican workers can’t defend themselves. They don’t ratify contracts. They don’t elect their officers. They don’t choose their unions, and they aren’t free to organize. Many workers don’t even know what union has been designated to “represent” them.

To maintain a façade of union democracy, the government and the official unions tolerate a few small independent unions. But if those independents get too far out of line, they risk violent repression, arrests, and even murders. And all this under a labor law comparable to the US National Labor Relations Act.” (Steelabor, March/April 1993).

The root cause of corruption in the unions’ eyes was, of course, the anti-democratic character of the Mexican state, which combined with its strong nationalism and concern for the preservation of sovereignty, precluded the introduction of enforceable obligations with respect to common labor standards in any trade treaty (see Candice Johnson. April 19th, 1993. Labor Gears Up Drive Against Flawed NAFTA).

The United States labor movement thus appraised the Nafta through a discourse that combined sober awareness of the failings of the United States’ system of labor relations and welfare state institutions and policies with emotional scapegoating of United States’ firms and of Mexico. In the end, when it came to bargain on the Nafta, US labor unions’ demands were more inspired by the latter than by the former. In September 16th, 1992, US labor unions publicized a priority list of issues that in their view the Nafta about to be submitted to Congress should have addressed but failed to do. The priorities that the Labor Advisory Committee for Trade Negotiations and Trade Policy on the North American Free Trade Agreement listed included social protection measures for United States workers, limited economic measures aimed at
furthering Mexico’s economic development, demands for common minimum labor standards for all the partners to the agreement combined with monitoring and enforcement procedures, environmental measures, and, foremost of all, a long list of measures that in more or less ambiguous terms could be seen as barriers to trade. They are enumerated below:

- The enactment of a significantly improved Trade Adjustment Assistance program to provide guaranteed benefits to workers harmed by trade.
- The negotiation of provision to provide additional debt relief for Mexico, so that it begins investing at home to improve the standard of living of its people.
- Trade unions in the 3 countries can address infractions of labor rights and workplace standards in production for export. The important areas are:
  * Right to organize and bargain collectively
  * Strong workplace health and safety standards
  * Appropriate minimum wage structures
  * Elimination of child labor

- Make wage compensation in US companies that export to the US market commensurate with productivity, e.g. increase wages when producing in Mexico.
- Enactment of legislation to deny trade benefits to companies that transfer production to Mexico, and a requirement that these companies cover health insurance, pay severance, training and job search costs for dislocated workers.
- Address environmental degradation in border area, based on “polluter pays” principle. - The provision of government funds for increased enforcement of environmental laws and regulations in the three countries. The agreement must permit trade actions to address violations of environmental standards.
- Sufficient funds to improve the infrastructure of the border area (sewers, water, electricity, housing, schools).
- Enforcement of strict sanitary and phyto-sanitary standards with no restriction on improvements in those standards.
- Continuation of current US trade remedy law, including safeguards, subsidies, dumping.
- Protection for import-sensitive industries (i.e. textiles and apparel, tuna and glass).
- Negotiation of tough rules of origin (80% content).
- Elimination of duty-drawback programs.
- Continuation of federal, state, and local “Buy American” laws and regulations.
- Exemption of fruit and vegetables from the agreement and continued enforcement of Section 22 of the Farm Bill and meat import quotas.
- Continuation of necessary federal and state regulations concerning the provision of financial and insurance services.
- Strict limitations on the “temporary entry” of persons to provide services, including transportation services.
- Strict limitations on the “temporary entry” of persons to provide services, including transportation services. (Labor Advisory Committee for Trade Negotiations and Trade Policy on the North American Free Trade Agreement. September 16, 1992.)
The priorities outlined above included at least ten proposals that could be conceived as protectionist. Meanwhile, only three demands addressed issues related to the labor rights and welfare benefits of US workers: First, the request for an improved Trade Adjustment Assistance Program; then, the assertion of the rights to unionize and to sign negotiate collective agreements; finally, the requirement that US companies cover health insurance, pay severance, training and job search costs for dislocated workers. None of these measures were very ambitious and they certainly failed to challenge basic elements in the United States’ labor and welfare regimes, such as company level collective bargaining and employment-related social benefits.

The labor unions offered more detail about their expectations later on in the Nafta negotiations, in a document published while the Clinton Administration was preparing the labor and environmental side-agreements that complement the trade treaty. This discussion paper, entitled Labor Rights and Standards and NAFTA, was published on February 3rd, 1993 by the AFL-CIO Task Force on Trade. Its preface pointed out that labor rights conditions had been part and parcel of previous trade agreements signed by the United States in the past and that the lack thereof in the Nafta was a reversal of trade policy that needed to be corrected. In particular, the discussion paper noted that during the 1980s Congress had conditioned eligibility for certain trade and investment benefits on whether or not foreign governments met prescribed labor standards and respected specific labor rights. Among the treaties and agreements that these trade treaties invoked, the AFL-CIO Task Force on Trade cited the Generalized System of Preferences, the Caribbean Basin Initiative, the Overseas Private Investment Corporation, eligibility rules for foreign assistance programs, regulations concerning trade with South Africa, and, in the 1988 Trade Act, amendments to section 301 that define the denial of certain internationally recognized worker rights as an unreasonable trade practice.

After the preface above, the AFL-CIO Task Force on Trade document moved on to list labor rights, enforcement mechanisms, and institutions that they wanted included as part of the labor-side agreement. The labor rights that the document listed drew on International Labor Organization (ILO) Conventions. These are the freedom of association and the right to organize and bargain collectively (ILO Conventions nos. 87 and 98), the prohibition of forced labor (ILO Conventions 29 and 105), the prohibition of child labor (ILO Convention 138), the establishment of minimum wages (Conventions 95 and 131), a maximum number of hours of work (ILO Recommendation 116), and minimum occupational health and safety rules (ILO Convention Nos. 155 and 170), and antidiscrimination rules (ILO Conventions 100 and 111).

Regarding occupational health and safety rules the discussion paper noted that “any agreement should include rules that provide coverage for all workers and establish governmental staffing levels for safety inspections as well as inspections for health and industrial hygiene issues.”

In addition to the labor standards above, the AFL-CIO’s discussion paper included the demand of stringent monitoring and enforcement procedures. The labor union federation had indeed complained since submission of the Nafta to Congress that while
it was very detailed as to the protection of intellectual rights and as to the enforcement mechanisms in place to protect these rights it said nothing about the protection of labor and environmental rights. The AFL-CIO Task Force on Trade thus strategically used the Nafta’s specifications on the protection of intellectual rights as an example of how the monitoring and enforcement of labor rights ought to look like.

The AFL-CIO discussion paper demanded first that the agreement include workers’ rights and standards as well as procedures for their domestic enforcement in the Canadian, Mexican, and United States statutes. Second, it demanded that the agreement allow interested parties in any of the three countries to petition for trade action to restrict trade in goods made under conditions that violate the agreement. It further emphasized that action in this area could be taken against the operation of individual firms. Finally, the document demanded that any group of workers engaged in commerce among the three countries be entitled to bring a complaint concerning worker rights violations under the Nafta, or intervene as an interested party in any dispute settlement proceeding under the Nafta. The AFL-CIO deemed it important that a parent corporation be held accountable for labor practices of its subsidiaries.

As the discussion above makes clear, all of these demands were mainly directed at the improvement, monitoring and enforcement of labor standards in Mexico. They did not in any way challenge the United States’ system of labor relations, nor its welfare policies, that is, those aspects that differentiate the United States from advanced economies in Western Europe and that expose workers to whip-saw wage competition and to potentially enormous costs during unemployment spells.

The United States labor unions’ evaluations of the final Nafta and subsequent Labor and Environment Side-Agreements were very negative. They criticized the lack of measures for cleaning the environment in the US-Mexico border area, for preventing further environmental degradation, and for sanctioning the polluters. Further, the unions expressed their disappointment because of the elimination of tariff and non-tariff barriers deemed to protect United States firms and their workers. In their view, for instance, the treaty prevented workers from receiving effective relief from injurious imports from either Canada or Mexico. Unions also disapproved of the removal of trade barriers in agriculture and opposed the liberalization of public procurement in the United States. Last but not least, they criticized that the Nafta worsened policies directed to provide relief to workers who have lost their job because of the liberalization of trade. They especially deplored caps on income support, the lack of adequate and affordable medical insurance, the caps on job training support, the lack of bridge benefits for those who lose their job just a few years before retirement, and the insufficient investment in public job creation.

In addition to highlighting the treaty’s failure to meet set priorities, labor unions criticized the Nafta for protecting some Mexican and Canadian economic sectors, such as culture in the case of Canada and oil in the case of Mexico, or from impinging on United States sovereignty. Examples of the latter that the unions cited were the alleged restrictions on the ability to regulate financial services and the creation of a Trade Secretariat to oversee the implementation of the agreement and the settlement of disputes. Similarly, the
unions rejected the implicit limitations that the treaty set to local, state, and federal United States authorities’ ability to set standards as they please. These limitations were seen in the treaty’s creation of binational supervising and sanctioning bodies one of whose functions would be to determine whether the alleged standards actually function as hidden non-tariff barriers.

The Naalc failed to convince the labor unions too. The AFL-CIO criticized the labor-side-agreement for not addressing most of their demands. They pointed out that the agreement did not even identify minimum labor rights and standards to be enforced. In addition, they criticized the agreement for weakening and politicizing the monitoring and sanctioning processes, in a way that completely excludes workers and their union representatives. The unions’ view was that the monitoring process lacked teeth, because it showed more concern for the enforcement of the law than for violations of the law itself. At the same time, the unions criticized that the Labor Side-Agreement excluded them from the monitoring and sanctioning processes by specifying that the Nafta Trade Secretariat only accept governmental submissions of alleged violations and only gather information provided by government agencies, and by specifying that the Commission in charge of judging on submitted cases only include state officials. The unions stressed that it failed to address labor standards and conditions in Mexico, in breach of the assurances that House Representative Richard Gephardt has received a year before from the White House during the fast-track authority debate (Labor Advisory Committee for Trade Negotiations and Trade Policy on the North American Free Trade Agreement. September 16, 1992).

Only few of the complaints listed above referred to compensatory measures against the risks of free trade. At the same time, the reach of these demands was very limited, mainly because it focused primarily on just those unemployment programs where, as I have shown above, the United States does not particularly lag behind Europe. Only the demands for adequate and affordable health insurance for the unemployed and for public employment creation show greater ambition on the part of labor unions. The demand for public employment, however, was hardly ever raised during the Nafta debates and the demand for firm-subsidised adequate and affordable health insurance for laid-off workers was limited in scope.

An examination of the United States labor unions’ reaction to Nafta and the way they framed the debate is somewhat inconsistent with an explanation of their rejection of the Nafta as reflecting the consequences of declining wages and increasing unemployment, themselves rooted in weak labor relations and welfare institutions. The United States workers’ real earnings had certainly deteriorated during the 1980s. Workers were also slightly more vulnerable to spells of unemployment, mainly because of the loss of health coverage and in other benefits tied to employment in a particular firm that they implied. Labor unions, however, focused mainly on job loss and all but ignored declining real earnings. Furthermore, instead of focusing on the recent increase in the unemployment rates, labor unions chose to focus on a hypothetical rise in unemployment linked to the Nafta. Indeed, the labor unions’ documents do not show them investing much effort in describing the plight of those unemployed, the loss of social benefits that goes hand in hand with unemployment, and the institutional roots of unemployment and this associated loss of benefits. It therefore seems that the explanation for the divergent reac-
tion to free trade liberalization among United States and European labor unions does not stem from contrasts between their systems of labor relations and their welfare systems. Instead, it seems that the threshold of tolerance to the negative consequences of free trade for workers was lower in the United States than in Europe. This is probably the thread that future research on this contrast should follow.

6. Concluding Remarks

Studies of regional bloc formation and development have generally lacked a comparative dimension. Recent studies, such as Duina’s comparison of the European Union, Nafta, and Mercosur and Katzenstein’s A World of Regions, are more the exception than the rule. This working paper follows in Duina’s and Katzenstein’s footsteps by focusing on a controlled comparison of how labor unions in advanced economies reacted to the Nafta and EU enlargement. The observed opposition to the Nafta in the United States and support for EU enlargement in the European Union member states despite similar challenges on both sides of the Atlantic, is fertile ground, however, for testing and improving theories of trade liberalization. This working paper has focused on the role of labor rights and welfare institutions and policies in explaining this contrast. One first finding is that, contrary to prevalent approaches in the literature, the effect of welfare compensation on trade openness seems stronger than the reciprocal effect of trade openness on welfare compensation. There were no significant welfare compensation effects associated with the Nafta or with EU enlargement, as measured through social expenditure. At the same time, neither US labor unions nor European ones focused their negotiation position on welfare compensation. Their demands were primarily protectionist (e.g. Austrian and German demands for transition periods for the movement of workers). On the other hand, the impact of welfare institutions and policies on labor union reactions to the Nafta and EU enlargement is more plausible. The puzzles discussed at the end of the paper suggest, however, the need for a more nuanced explanation. One of the puzzles is that British trade unions were more favorable to EU enlargement than their labor rights and welfare institutions would lead one to expect, especially when one compares Great Britain to the United States and to other advanced economies in Western Europe. The other puzzles concern the demands and strategies followed by the United States’ labor movement, which are somewhat inconsistent with an explanation solely focused on labor rights and welfare institutions. The account above indeed demonstrates that the US labor unions were badly predisposed to a free trade agreement with Mexico and that their demands were primarily protectionist or targeted to transforming Mexico’s labor standards and enforcement of those standards. A survey that I conducted in 2008 among labor union leaders in Austria, France, Germany, Great Britain, and the United States consistently shows that the United States labor unions rejected the Nafta more on principle than because of its failure to address some of its compensatory or enforcement demands. Many leading representatives of United States unions said that more stringent

1. The mail survey was addressed to the members of the secretariat of the main labor union confederations and to the members of the secretariat of affiliated unions in these confederations. In France, the survey was addressed to the members of the secretariat of Force Ouvrière and Confédération Générale de Travailleurs (CGT). Details about the survey can be obtained from the author and will be provided in a book on the subject in preparation.
labor rights provisions and better enforcement procedures in the Nafta and Naalc would have made for a better treaty (15 and 13 respondents out of 20 respectively). Only nine out of twenty respondents, however, said that a reform of the United States’ welfare institutions would have led to a better treaty. These answers do not differ significantly from answers obtained from European labor union leaders with respect to the EU enlargement treaty. Where labor union leaders on both sides of the Atlantic differ, however, is that five out of twenty US labor leaders considered that no change in the treaty provisions would have dissuaded them from opposing the treaty and that three out of the fifteen (one in five) who would have otherwise welcomed a stronger treaty in terms of labor and industrial relations standards simultaneously noted that not signing a treaty would still have been the best solution for US workers (see Table 5). This survey results simply reinforce the impression that although labor unions were quite aware of the role that US domestic institutions play in enhancing the risks of free trade to United States workers, their protectionist instinct prevailed over their predisposition toward a modified trade agreement or a reform of United States labor rights and welfare institutions. It is those labor relations and welfare institutions, however, which, as I demonstrated in this paper, most clearly differentiate the stakes for workers in the Nafta and the EU enlargement process. A full sociological understanding of labor union opposition to the Nafta and support for the enlargement process must therefore go beyond merely attesting, as this paper does, that the system of labor relations and welfare institutions, both domestic and supranational, protected United States workers less than European workers. It must also explain why this different level of protection, on the whole not dramatic, translated into such opposed views to the opening of borders to less advanced economies, and why US labor unions prioritized protectionist measures or, at most, enforcement of labor standards in Mexico, over a reform of domestic labor relations provisions and welfare institutions.

**Table 5. Reasons that would have made for a better Treaty for Workers, per Country (Multiple Choice)**

<table>
<thead>
<tr>
<th>Reason</th>
<th>United States</th>
<th>Austria</th>
<th>France</th>
<th>Germany</th>
<th>United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td>More Stringent Labor/Industrial</td>
<td>15 (20)</td>
<td>20 (28)</td>
<td>15 (19)</td>
<td>27 (32)</td>
<td>16 (23)</td>
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<tr>
<td>Requirements</td>
<td></td>
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</tr>
<tr>
<td>Better Monitoring/Enforcement</td>
<td>13 (20)</td>
<td>19 (28)</td>
<td>14 (19)</td>
<td>18 (32)</td>
<td>18 (23)</td>
</tr>
<tr>
<td>Mechanisms</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Improving Welfare System</td>
<td>9 (20)</td>
<td>15 (28)</td>
<td>2 (19)</td>
<td>18 (32)</td>
<td>8 (23)</td>
</tr>
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<td></td>
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<tr>
<td>Gradual Implementation of Trade</td>
<td>5 (20)</td>
<td>8 (28)</td>
<td>2 (19)</td>
<td>5 (32)</td>
<td>6 (23)</td>
</tr>
<tr>
<td>Barriers Removal</td>
<td></td>
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<td></td>
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<tr>
<td>Longer Transition Periods for Movement of Workers</td>
<td>-</td>
<td>12 (28)</td>
<td>4 (19)</td>
<td>13 (32)</td>
<td>5 (23)</td>
</tr>
<tr>
<td>More Modest Agreement</td>
<td>3 (20)</td>
<td>0 (28)</td>
<td>3 (19)</td>
<td>6 (32)</td>
<td>1 (23)</td>
</tr>
</tbody>
</table>

Source: Survey to trade union leaders (2008)
References


