

**GLOBALISATION, LABOUR STANDARDS AND
ECONOMIC DEVELOPMENT**

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Abstract

In recent years a few advanced countries have been advocating multilateral rules permitting punitive trade measures to be taken against countries not upholding core labour standards. The mainly developing target countries have rebutted these initiatives which they argue are protectionist, in intent and in effect.

Whilst closely examining the economic arguments in this controversy, this paper is also concerned with the broader political and moral dimensions. The authors suggest that developing countries are committed to improving core and other labour standards; the reason why they are unable to implement many of these forthwith is not because of the wickedness of their governments, but essentially their economic circumstances and the structure of their economies. The paper concludes that core ILO Conventions 87 and 98 should be re-drafted to take into account the economic conditions of developing countries.

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GLOBALISATION, LABOUR STANDARDS AND ECONOMIC DEVELOPMENT

1. Introduction

For some time now, the governments of a few advanced countries, as well as their unions and some parts of the business sector, have been pressing proposals to establish multilateral rules permitting punitive trade measures to be taken against countries deemed to be failing to uphold core labour standards. The countries most likely to be arraigned would be developing countries. The latter have, however, firmly rebutted these initiatives, which they argue are protectionist both in intent and in effect.

This policy study seeks to move the debate beyond the present stalemate onto a more constructive plane. Whilst closely examining the economic arguments in this controversy, it is also concerned with the broader political and moral dimension. The authors suggest that developing countries are committed to improving core and other labour standards; the reason why, in general, they are unable to implement many of these forthwith and much more widely is not because of the wickedness or perversity of their governments but essentially their economic circumstances and the structure of their economies. It is emphasized that developing countries should continue to adhere fully to these commitments both for intrinsic developmental reasons and also, importantly, so as not to lose the moral argument.

2. The North's Case for a Social Clause

The pressure for adopting measures to compel developing countries to adhere to labour standards comes in part from workers in the North, particularly those in the US, whose perceptions and fears have inspired a powerful union campaign spearheaded internationally by various international trade union federations. They complain that competition from 'cheap labour', resulting from low labour standards in the South, is unfair. They also complain that, unless labour standards are observed in all nations, there will be a 'race to the bottom' with respect to the terms and conditions of work. (ICFTU, 1999.) Their perception is that the generally lower labour standards in the South pose three direct threats to their own employment, wage levels and bargaining position.¹

A more specific complaint is that "Unfair competition does not lie simply in the fact that labour costs (pay, health and safety requirements, social spending, etc.), are extremely low compared with those prevailing in most of Europe; it is

also that the state is often acting to keep wages low, by denying workers the rights necessary to improve their conditions and by failing to enforce even such legislation as may be on their statute books.”² (Morris, 1994.) Particular targets for criticism are those “countries with development models based on Export Processing Zones -- where cheap labour, use of young female workers and, often, lack of union rights are among the main selling points.” (ICFTU, 1996.)

It is indeed true that during the last two decades labour markets in advanced economies have displayed unfavourable tendencies, especially compared with the previous two decades of the Golden Age. These deficits have been manifest in three important areas: de-industrialisation; increased inequality of wages and incomes; mass unemployment. The following examples will be sufficient to indicate the nature of these deficits in the U.S. and in the European Union countries.

- During the 100 years before 1973, real average hourly earnings of American workers rose by nearly 2 per cent a year. At that rate real earnings doubled every 36 years. In other words the standard of living of each generation of workers was double that of the previous one. This long standing rise in the standard of living came to an abrupt end in 1973.³ However, over the two decades between 1979 and 1998, instead of increasing, the average real wage fell.
- At the same time, there was a reversal of the long-term trend towards reduced wage and income inequality which had been experienced in the couple of decades following the second world war, and some say goes back as far as the 1920s. To illustrate, in 1979 male workers who had received a college education earned on average 30 per cent more than those who only had high-school education. By 1995, the college educated were earning 70 per cent more than those receiving only high school education. Considering only those with high school education, the top ten per cent of workers, in terms of wages, earned 60 per cent more than the average worker in 1979. By 1995, this wage gap had increased to 83 per cent. (Slaughter, 1998.)
- Rising inequality is also manifest not just in terms of education, but also in terms of experience, other indicators of skill, as indeed in the wage structure as a whole. As mentioned above, the real average hourly wage of the average US worker declined continuously between 1979 and 1998; that of those at the bottom of the wage distribution, that is the lowest 10 per cent, declined over an even longer period,

namely between 1973 and 1998. Real hourly wages stagnated for all other groups except those in the top 10 per cent of the distribution. Even for this top decile, real wages have risen by a mere 6.6 per cent over the 25 years between 1973 and 1998. (McCall, 2000.)

- Further, the erosion of trade union power represents another important deterioration of labour standards in the US in recent years. While the US claims that its Constitutional guarantees of worker rights and freedoms absolves it from signing ILO Conventions, there is widespread failure to comply with some of the ILO's core labour standards.⁴ Indeed, a number of independent studies and government reports indicate that American labour law no longer protects workers' fundamental right to join a union. Instead "unions are involved in a battle in which workers risk losing their jobs to realize their rights." (Kochan, 2000). A number of states have passed anti-union legislation asserting the "right to work" which makes it more difficult to organize union and the unions to go on strikes. In addition to this encouragement given to non-union plants, the right to organize is still denied in the agricultural sector, which is among the lowest paid. By the early 1990s, only 15 per cent of American workers were organized in unions, whose role in protecting and improving the terms and conditions of work through collective bargaining has been much diminished.⁵ Although, with the tightening of the labour market in the last two or three years union membership has at least stopped declining, the United States is still considered to have a relatively unregulated regime with regard to labour market issues and what is referred to as a "union-avoidance culture." (Brown, 2000.)

European workers have similar but different concerns compared with US labour. The European welfare state system, despite serious attempts by governments and employers to erode the scope of the benefits, still provides a floor for the lowest paid workers. However, unlike the US, Europe has been afflicted by mass unemployment and, in the popular perception, this is attributed to outsourcing by multinationals and, among other important factors, to unfair competition from developing countries.

- Since the early 1970s, European countries have experienced a high rate of increase in unemployment, such that the average level of unemployment rose from an average of 2.7 per cent in the period 1964-1973 to 10.3 per cent between 1990-1999.⁶ In 1995, France,

Italy and the UK the rate was 10 per cent of the labour force, and in Spain and Finland over 15 per cent. Even in Sweden, which previously had maintained a high level of employment, the rate rose rapidly from 1.5 per cent in 1990 to over 10 per cent in 1995.⁷ (Singh and Zammit, 1995.)

- While the freedom to associate largely remains intact in Europe, the actual strength of trades unions in terms of membership has diminished significantly and their role in collective bargaining has been considerably eroded in the last twenty years. These changes were an integral part of the post-1980 economic order which is rooted in different social norms and which has involved the unravelling of the social pact between government, employers and labour and a weakening of the welfare state. (Singh, 1990.)
- During the period 1980 to 1988, trade union membership declined in all countries except Sweden and Finland. In France, trade union membership dropped from 19 to 12 per cent, in Italy from 50 to 39 per cent and in the Netherlands from 40 to 26 per cent. In the UK, trade union membership fell from over 50 per cent to about 33 per cent, covering only one in three employees. (Milbank, 1993)

The above data regarding trends in the wages and employment of workers in the North provide clear evidence that their concerns are genuine. The key question is whether these detrimental developments are due to competition from developing countries. As the analysis below suggest, this is not the case.

3. Competition from Developing Countries and Labour Market Outcomes in Developed Countries: An Assessment

These labour market difficulties in the advanced countries are extremely important and deserve full consideration. If it were true that trade in manufactures with low-wage developing countries was the main cause of increasing inequality in the US or of mass unemployment in Europe, this would not bode at all well for constructive international co-operation. In the event, however, the results of research, especially the most recent contributions, indicate that this popular perception has very little basis.⁸ The important insights of this research may be summarized as follows.⁹

- An elementary but extremely important point is that most manufacturing trade of the advanced countries takes place between these countries themselves. Only a small part is with developing countries. It is indeed true that, starting from a very low level, the volume of manufactured exports from developing countries to advanced countries expanded at a very fast rate of 12 per cent a year between 1970 and 1990. Similarly, their share of world exports of manufactures has increased from just 12 per cent in 1980 to 25 per cent in 1996.¹⁰ Nevertheless, despite this impressive increase in manufactured exports of developing countries, the total imports by advanced countries of manufactured goods from developing countries (excluding China) amounted to only about 1.5 per cent of the combined GDP of OECD countries. It will therefore be difficult to argue that the huge shifts in income inequality and phenomena such as mass unemployment in the North are being caused largely by this rather marginal amount of trade with the South.¹¹
- Another simple but significant fact is that advanced countries, despite their increased manufactured imports from developing countries, have generally maintained a surplus in manufacturing trade with developing countries as a whole. UNCTAD (1995) carried out a comprehensive analysis of North-South trade over two decades – from the early 1970s to the early 1990s. This indicated that in 1993 the total OECD manufacturing imports from developing countries amounted to approximately US\$ 150 billion (in 1985 prices). However, the corresponding exports from the OECD to developing countries totalled nearly US\$ 250 billion, yielding a net OECD surplus of nearly US\$ 100 billion. As a proportion of GDP, the OECD surplus was about 1 per cent, approximately the same as two decades earlier in 1974. Disaggregation of the OECD figures suggests important intercountry and interregional differences. The European Union's manufacturing trade balance with developing countries followed much the same pattern as that for the OECD as a whole. The situation, however, has been rather different with respect to the US and Japan: Japan's trade balance with developing countries increased appreciably between 1974 and 1993, while that for the US fell over this period, becoming negative by the mid 1980s.

The industrial countries' surplus in manufacturing trade with developing countries has fluctuated in response to world economic events: it rose in the 1970s as developing countries borrowed petrodollars and greatly increased their imports of capital goods from advanced countries. With the debt crisis engulfing many developing countries in the 1980s, the surplus fell. Importantly, this was due to reduced exports to the developing countries rather than to increasing imports from them. In the first half of the 1990s, as economic growth in developing countries revived, the surplus again rose as a result of increased Southern imports from the North.

- Research indicates that neither mass unemployment nor the extent of deindustrialization, that is, the fall in employment in manufacturing, in G7 advanced countries are associated with fluctuations in this surplus but rather with cyclical and conjunctural movements in economic activity in these countries themselves.¹² Thus, for example, the US was among those of the G7 industrial countries losing the least number of manufacturing jobs during this period, whilst experiencing a trade deficit with developing countries.
- The experience of the 1950s and 1960s on these issues is illuminating. Just as in the recent period 1974 to 1993, there has been a sharp increase in the import penetration of leading advanced country markets by manufactured imports from the South, there was a similar fast increase in imports in the 1950s and 1960s into the US and the original six EEC member states from Japan and Italy (which could be regarded as developing countries in that period, much like the newly industrializing countries today)¹³. However, this earlier acceleration in the North's imports did not lead either to mass unemployment, reduced real wages, or increased income inequality. Rather, European countries had full employment, in the US real wages grew at a rate of nearly 2 per cent a year and inequality decreased. The main difference between then and the more recent period under discussion is the fact that in the earlier period advanced economies were growing at about 5 per cent a year compared with half that long-term rate since 1973.
- Most economists recognize that the unfavourable labour market characteristics in advanced countries detailed in the last section (deindustrialization, mass unemployment and increased wage

dispersion) are far-reaching economic and social phenomena which do not arise from a single cause. Although trade with developing countries may be one of the factors, there are additional interrelated factors which may be equally plausible and more important. These include trade imbalances between developed countries themselves, cyclical movements in economic activity and its slow long-term growth in advanced countries, technical change, and changes in economic and social policy in these countries. In practice it is difficult for economists to isolate and measure the influence of each of these possible causal factors and it is therefore not surprising to find that there is considerable controversy over this matter.¹⁴

- There is, however, agreement among mainstream economists that the proximate cause for these developments is the diminished demand for unskilled labour. This is deemed to cause increased wage inequality in the US because the labour markets there are flexible, whilst in Europe, because of the welfare state and more rigid labour markets, the effect is in terms of increased unemployment. Linking the decline in the demand for unskilled labour to mass unemployment in Europe and increased wage dispersion in the US in a unified explanatory framework is referred to as the “transatlantic consensus”. (Atkinson, 1999.)
- The extent of the consensus is limited, however, to agreeing on the supposed fall in the demand for unskilled labour. As to what causes this fall in demand is subject to much debate. A large majority of mainstream specialists in this area attribute it mostly to technological progress which is biased in favour of those with more skills, rather than to trade with developing countries. (See footnote 14).
- Some recent important research, however, criticizes the simple theoretical framework (the two factor, two sector, two country Heckscher-Ohlin model) normally used in mainstream approaches as being too limited or unreal. This two-by-two-by-two model for the North-South trade, with the North specialising in skill intensive industries according to its comparative advantage and the South producing and exporting low-skill products, does predict that there will be a fall in the demand for unskilled labour leading to increased wage dispersion in the US and unemployment in Europe. However, a somewhat more realistic formal model involving trade

between three groups of countries (the US, Europe and the NICs) does not yield such predictions at all.¹⁵ Furthermore, other economists put greater emphasis on the lack of reality of the assumptions of the traditional trade models which assume constant returns to scale, perfect competition and full employment, giving no consideration to demand side factors or to the accumulation of capital and therefore to growth.

- Significantly, new research also questions the underlying empirical generalisation on which the ‘transatlantic consensus’ is based, namely that there has been a fall in the demand for unskilled labour in advanced economies in the last two decades. The latter is inferred in the US, for example, from the fact that the relative wages of the unskilled workers fell relatively to those of skilled workers. The evidence for 1977 to 1987 is broadly compatible with this proposition: the earnings of the bottom decile (assuming these to be unskilled workers), fell with respect to the median. However, very importantly, the corresponding data for the US economy for the period 1987 to 1997 suggests an opposite trend, that is, the bottom decile to the median ratio rose. Similarly, wage differentials in the UK fell in the 1990s, in contrast to the 1980s when these rose substantially.

In short, recent research suggests that traditional trade models are not applicable and that the basic premise regarding a decline in the demand for unskilled labour cannot empirically be sustained for the 1990s. It also suggests that the principle explanations put forward for this ostensible fall in demand, that is, technological change and trade, are not sufficient to account for the broader observed facts regarding increased inequality in incomes in general. Indeed, Atkinson (1999) sees the need to look to wider explanations. For example, he points out that what is observed in many countries in the 1990s is not a decline in wages at the bottom end of the scale but rather a rise at the very top. This, it is suggested, is in part a reflection of changing public perceptions of what is socially acceptable and the associated changes in policies, rather than being entirely a result of economic factors, such as technological change or trade. Economists nowadays tend to overlook the fact that labour markets are unlike product markets. In the real world, even the most flexible labour markets require social agreement on the fairness of wage and income differentials. How these norms are arrived at is a complex social and political process.

Limitations of the theoretical framework of mainstream models on the subject are further highlighted by considering the effects of the Asian economic crisis on unemployment in advanced countries. Two years ago it was widely thought that the considerable fall in the price of manufactured exports from the Asian crisis countries consequent on devaluation would lead to a further net loss in US jobs. This, however, has not materialized, as indicated by rising levels of employment, particularly among the unskilled. In fact one could argue that these exports from crisis affected Asian countries have helped increase rather than decrease employment to the extent that they exerted downward pressure on wages and prices and hence lessened inflationary pressure. This enabled the Federal Reserve to allow the US economy to operate at a higher level of economic activity and employment than would otherwise have been possible. Thus, although the direct effect of reduced wages in the crisis affected Asian countries on US employment may have been expected to be negative, once the indirect effects are taken into account, the result is very different.

To sum up, analysis and evidence indicate that trade with developing countries does not necessarily lead either to unemployment or low real wages for workers in advanced countries. Between 1950 and 1970, despite the rapid increase in imports from the then NICs, European countries enjoyed full employment and rising real wages. In the US, real wages grew rather than remaining stagnant as they were later. Income inequality and wage dispersion became less in both Europe and the US, unlike in the following period. Although there are many factors which could explain the differences, a very important cause was the much faster economic growth in Northern economies in the earlier period. Even those economists who believe that there is a tendency for the trade between rich and poor countries to be detrimental to unskilled workers will recognize that this tendency can be overwhelmed by the “lift all boats” effects of faster economic growth. (Bhagwati, 1994.)

Considered in these terms, even if there were some significant adverse labour market outcomes in the 1980s and 1990s of trade with the South, these could have been overridden by faster economic growth. However, the slower economic growth observed in advanced economies in these decades was the result of their own policy decisions and social and political dynamics. (Glyn et. al., 1990; Crafts and Toniolo, 1996.) It did not result from manufacturing trade with developing countries.

Finally, it is important to reiterate that the empirical evidence for the 1990s, contradicts the key theoretical expectation of those mainstream economists who believe that trade with the South necessarily leads to a fall in the demand for unskilled labour.

4. Labour Standards and Economic Development

The previous section considered Northern apprehensions that unemployment and increasing inequality in the advanced countries were due to competition from developing country imports. The discussion concluded that this was neither a necessary outcome nor did the analysis of recent developments prove these apprehensions to be well founded.

This section considers the implications of imposing compulsory labour standards on developing countries. This is a complex question, with many layers of argument, which requires a careful and extensive analysis. However, the analysis of these issues here will be necessarily brief.

In their advocacy of such standards for developing countries, advanced countries make a distinction between the seven core labour standards and other standards. The former relate to the core conventions concerning freedom of association and collective bargaining, freedom from forced labour, non-discrimination and the abolition of child labour.

There is, of course, a whole host of ‘other’ labour standards, but in the current context of developing countries the most likely ones at issue would include minimum wages, employment guarantees and health and safety measures. In advocating a social clause or other mechanisms to force compliance with the core conventions, the advanced countries suggest that they are only asking developing countries to adopt core labour standards, and not measures such as minimum wages. The enforcement of core labour standards is justified on the grounds that they are basic human rights and hence no other considerations enter the picture. It is argued, further, that the enforcement of core labour standards will not, in any case, alter developing countries’ comparative advantage in production and trade.¹⁶

This perspective raises two issues, which need to be addressed here in view of their importance for developing countries. The first concerns the suggestion that the implementation of core standards has no impact on wage levels and other labour costs. The second concerns the primacy of core labour standards, and whether their classification as human rights completely rules out any discussion of the best way to proceed to implement them.

4.1 Economic costs and benefits of core labour standards

Even though the implementation of core labour standards in developing countries will not necessarily affect the costs and pattern of production directly, a little reflection will show that the indirect effects may be quite important, and these could involve not just economic costs but also economic benefits. Further, the costs and benefits of implementing core labour standards are likely to be different for each of the various labour standards. It is also important to appreciate that the costs and benefits would be different if some or all of these core standards were to be implemented simultaneously. For example, the costs to producers of introducing equality of remuneration or non-discrimination in employment are likely to be higher if workers also have the right to organize and bargain collectively. To illustrate and clarify the main issues involved, the focus in the following discussion will first be on the freedom of association and on free collective bargaining. Subsequently other labour standards, particularly that of the elimination of child labour, will be briefly considered.

The contention that the implementation of the two core standards under discussion here (freedom of association and the right to collective bargaining -- Conventions No. 87 and 98), will have no economic consequences for producers or to the economy as a whole is not generally valid. At an elementary level, the mainstream textbook model of perfect competition would posit that the introduction of these standards would be distortionary as this will lead to monopsony in the labour market and thus to a misallocation of resources. This is, of course, a static analysis based on a rather restricted set of assumptions and one can envisage a dynamic model of the economy in which labour standards reduce conflict by providing an institutionalized way of minimizing disruption, improving co-operation between the employees and employers and thereby encouraging the latter to invest more. This would generate greater growth in the national economy.¹⁷

While theoretically possible, such a model with positive effects on economic development does not correspond to the economic conditions of most developing countries. In the longer term, however, when a higher level of development and a more advanced economic and institutional structure has been attained, the economic impact of employers' and workers' associations is more likely to be favourable.

There are a number of reasons for expecting negative effects in the short to medium term for developing countries resulting from the compulsory introduction of freedom of association and collective bargaining, according to

the terms of ILO Conventions Nos. 87 and 98. The most important of these are outlined below.

4.1a The structure of the economy

Most developing countries are not only poor but have a sharply dualistic economic structure, extreme segmentation of the labour market and surplus labour. In the mid-1990's, on average, only a small proportion of developing countries' labour force (15 per cent) had employment in industry and services in which they had a formal wage contract. For this segment of the labour force it is feasible to consider applying core ILO labour standards. In contrast, however, 61 per cent of the labour force works in agriculture and another 22 per cent in rural non-farm and urban informal employment. (World Bank, 1995.) Even for the urban sector alone, UNDP (2000) reports that, in the 1990s, informal work accounted for 57 per cent of urban employment in Bolivia, 56 per cent in Tanzania and 48 per cent in Thailand.

It is difficult to introduce and almost impossible to enforce ILO Conventions on this large part of the labour force. The vast majority of labour in these sectors gains a living in micro-enterprises including subsistence agriculture, which creates obvious problems of organizing labour and monitoring standards. Further, in the more populous developing countries, there invariably exists a large reserve army of unskilled low-productivity labour that has to make ends meet by any means. In effect there is a large reserve of labour in search of work at any price. The possibilities for unionization and collective bargaining of the sort traditionally associated with the advanced industrial economies are much more limited. With deindustrialization and the rise of the service economy, even the advanced industrial countries are now confronted with this problem once again.¹⁸

In general, improvements in labour standards, core or otherwise, of this often very considerable portion of the labour force in agriculture and the informal sector in developing countries depends on significant changes in economic structure. Labour standards improve as the proportion of the labour force in these two sectors declines while that in organized industry and the formal service sector rises. Fast economic growth speeds up these phenomena leading to greater employment in the formal economy and there is usually much improvement in both core and other labour standards.¹⁹ Indeed, as an enterprise moves from the informal to the formal sector, there is an improvement in labour standards because, almost by definition, government rules and regulations concerning safety, health standards, etc. for employees do not generally apply in

the informal sector, even if they are on the statute books. (For a further discussion, see Section V below).

1b Autocratic employers and immature trade unions

As will be explained in the following section, freedom of association and collective bargaining in advanced countries has developed through an evolutionary process over a period of well over a century. In the course of this evolution the unions and employers developed responsible institutional mechanisms for conflict resolution. The employers came to appreciate the advantages of trade unions and collective representation for the workers. On the union side wasteful and damaging inter-union rivalry and other dysfunctional features of early trade unions were curbed, and in many industrial countries centralized wage bargaining or other similar pay co-ordinating structures were put in place.

However, if in accordance with the advanced countries' proposals, the two labour conventions under discussion are imposed in a "big bang" manner in a developing economy (through, for example, international trade sanctions), it is more than likely that this would lead not to conflict resolution, but rather to strikes and consequent economic disruption. Many developing country employers, including the largest ones, often have a feudal or paternalistic outlook and do not see any need for trade unions. It is not unusual for them to use violent methods to stop the formation of unions and their activities, much like the historical experience of advanced countries such as the US. On the side of the employees, in the early stages of unionization, there is also likely to be considerable inter-union competition for members, leading to populist positions being taken by union leaders. Further, attempts at violent suppression of trade union activity by employers invariably leads to counter violence by unions. The consequent economic and social disruption discourages investment, both foreign and domestic, and therefore does not help the cause of economic development.

Moreover, free collective bargaining between employers and unions, if it takes place at all, will only be concerned with the wages and employment of those who are already working in the formal sector. The interests of the vast majority of workers in agriculture and in the informal sector who are not unionized would be ignored. Further, to the extent that formal sector unions succeed in getting higher wages and employment guarantees for their members, this is likely to reduce, other things being equal, the demand for labour in that sector, forcing the unemployed to seek work in the informal sector. So the paradoxical result of efforts to impose compulsory labour standards is that it would harm

economic development, reduce structural change, and thereby increase the numbers in the informal sector where labour standards hardly apply.

Thus, the compulsory introduction of free collective bargaining, if successfully implemented, is likely to widen the already considerable wage and income gap between workers in different parts of the economy. Instead of promoting equality and solidarity, the unintended result of unionization of formal sector employees may well be the development of an aristocracy of labour based on extraction of rents by union members, particularly in more productive firms. In these circumstances a concern for broad social justice, especially with respect to the informal sector and small rural producers, may require government intervention and regulation of bargaining between unions and employers in the formal sector (see, for example, Stiglitz 2000). Such intervention may also be necessary to cope with the adverse economic and social consequences of bargaining between autocratic management and immature unions as outlined above. However, many developed country governments lack the institutional and administrative capacity for adequate remedial intervention with unfavourable consequences for economic development.²⁰

The paradoxical results of the enforcement of compulsory labour standards go further. Such enforcement would not only be counter-productive for developing countries, it is also unlikely to help the interests of those seeking protection in the advanced countries. To see this, assume that the imposition of labour standards leads, via trade union action, to higher wages and costs in the developing country's export sector – the most favourable assumption from the protectionist perspective in the advanced countries. Under this assumption, the competitiveness of developing country exports is likely to diminish, but this may provide only a brief respite for the advanced country producers.

In analysing this issue, it is useful to remember that most developing country exports to advanced countries are produced by a small number of NICs, whilst the vast majority of developing countries export only a very small fraction of the total. Although, in the short run, all countries are likely to be disadvantaged to a greater or lesser extent in terms of their competitiveness if core labour standards are made compulsory, the NICs are unlikely to be handicapped for long. As they have higher rates of investment, technological change and superior production and export dynamics, they will, in the medium term, be able to re-establish their competitiveness. The outstanding examples of this phenomenon are countries like Korea and indeed before then the example of Japan which started with Asian wage levels and has continued to be competitive in spite of continuing increases in real wages, as well as more and more stringent environmental standards imposed on their exports by importing

countries. Higher labour costs in firms already competing in world markets are likely to stimulate investment in more productive techniques in order to maintain their competitive edge.

However, turning from the NICs to the great majority of developing countries, although accounting for only a small proportion of total developing country manufactured exports to advanced countries, these exports are, nevertheless, crucial to their well being. A rise in their export costs as a result of the compulsory introduction of labour standards would, under plausible assumptions, lead to a lower rate of economic growth of exports in both the short and medium term, worsening their balance of payments, such that the growth rate has to be lower to be compatible with current account equilibrium. This will reduce the pace of structural change and the improvement of labour standards.

It will be appreciated, however, that both for the NICs and other developing countries the costs of adjustment, whether in the short or long term will be lower, the faster the rate of economic growth of production and exports in the domestic and in the world economy.²¹

5. Labour Standards: The Experience of Developing Countries

It is interesting in this respect to reflect on the actual experience of East Asian and Latin American countries during the course of economic development. Taking East Asia first, notwithstanding the recent Asian crisis, these 'miracle' countries experienced very fast long-term growth (near double-digit rates for two decades or more). The result has been fast absorption of surplus labour resulting in labour shortages; very high rates of growth of real wages by comparative international standards; speedy structural change, resulting in the displacement of the informal sector activities by the formal sector. Real wages in the fast growing East Asian and South East Asian economies rose at a rate of over 5 per cent a year between the mid 1980s and the mid 1990s.²² In Taiwan, employment in the agricultural sector fell from 56.1 per cent in 1953 to 36.7 per cent in 1970 and was only 12.1 per cent in 1993. Industrial employment reached more than 40 per cent in 1990. In Korea in 1992, only about 15 per cent of the labour force were still in the agricultural sector and more than 25 per cent in the industrial sector. (Lee and Park, 1995.)

It is a matter of historical record that many of these countries repressed trade unions during the early phases of their developmental spurt. This was the case for example in Korea during the 1960s and 1970s. However, with the fast

expansion of the formal economy and particularly the shrinking of the informal sector, not only labour standards in terms of employment and wages greatly improved, there was also a very considerable expansion of unionization. By the end of the 1980s, unionization constituted 40 per cent of the labour force in Taiwan and 17.2 per cent in Korea, compared to only 15 per cent in the US. (Lee and Park, 1995.) These huge improvements in core as well as other labour standards took place in these countries through the process of economic development itself, without any international coercion.

A comparison of East Asian countries with those elsewhere (for example, in South Asia or Latin America) suggests that fast economic growth may not be a sufficient, but is certainly a necessary, condition for the speedy establishment and improvement of labour standards. To illustrate, a democratic country like India in the 1950s had much better core labour standards in the formal sector than say, Korea; but the situation is now quite the opposite because of the much slower growth of the Indian economy relative to that of Korea. The proportion of the workforce in unions is much smaller than that in Korea, and workers' wages in India have grown much more slowly. Similarly, in Latin America, despite its long history of trade unionism compared with East Asia, its much slower long-term rate of economic growth in the 1980s and 1990s has contributed to further 'informalization' of the economy.²³ Tokman (1997) reports that eight out of every 10 new jobs in Latin America in the 1990s have been created in the informal sector with consequent unfavourable prospects for the workers involved to be able to exercise the rights given to them by the ILO conventions. A small proportion of the increase in informal sector work could be due to labour saving technical progress in the formal sector, rather than to slower growth. However, it is too easy to tell whether the long-term relationship between economic growth and formal job relations has become worse over time.

There are a number of reasons why improved core and other labour standards are associated with structural change and particularly with industrialization. In the first instance, in contrast with the small-scale agricultural sector and the informal sector, work in industry is usually organized in a way that facilitates trade union organization and activities. The relatively higher rate of growth of productivity in industry also provides scope for improvements in substantive labour standards. Employers in the industrial sector who have invested substantial capital in the enterprise are also interested in promoting core and other labour standards such as health and safety standards since these tend to increase the level of commitment of the workforce and to increase the productivity of workers. (See further Piore (1990).

5.1 Core Labour Standards and Human Rights

The subsections above considered some of the most important costs and benefits of implementing the core labour standards relating to freedom of association and collective bargaining, and the appropriateness of such standards in the circumstances in which most developing countries find themselves.

This sub-section addresses the other central issue introduced at the beginning of the section, namely that concerning the primacy given to core labour standards, which have been accorded the status of human rights.

The unanimous adoption by ILO members in 1998 of the Declaration on Fundamental Principles and Rights at Work, embodying the seven core labour standards, is regarded as evidence of the widespread acceptance of the notion that certain labour standards have precedence. The rationale given for the primacy of the seven core standards is that they are universal human rights. Of these the freedom of association and trade union rights are given particular emphasis in that they give workers the freedom to pressure for improvements in other aspects of labour standards. Having the status of human rights purportedly pre-empts any economic cost-benefit analysis. These contentions are contested below.

Historical evolution of labour standards in advanced countries

Historically, labour standards evolved in a rather different manner. In Europe, early efforts to improve labour standards focused on gaining legislation to eliminate the worst forms of child and female labour, and with initiatives to improve health and safety at work. It took many decades before the workers' efforts to associate and bargain with their employers gained legal recognition. In many countries, it was only after many decades of struggle and political debate, that trade unions were recognized and constituted a regulated institutional framework facilitating conflict resolution between employers and workers. Thus, broadly speaking, core and substantive labour standards evolved during the course of economic development, and legislation legitimizing labour standards was introduced as a result of struggle by working people, and not through some *deus ex machina*. Labour standards have been both the cause and effect of democratization in the advanced countries.²⁴ In the light of this evolution, the unions became increasingly responsible and both economic growth and labour standards improved.

A hierarchy of labour rights?

Although these two core standards concerning the freedom of association and collective bargaining are indeed extremely important and should be given high status, the primacy of those over non-core standards needs to be questioned. For example, should health and safety at work be accorded lower priority than the right to free association and collective bargaining? It is indeed true that 'deficits' in the latter have often resulted in the imprisonment and even murder of trade unionists. On the other hand, the disregard for the health and lives of workers manifested by the widespread lack of health and safety regulations has resulted in appalling tragedies such as those in the Bangkok factory and the Bhopal chemicals plant in which fires and fumes cost the lives of thousands of workers. Less dramatically but more insidiously, tens of thousands of unprotected agricultural workers worldwide suffer slow poisoning by the chemicals used to produce agricultural exports.

Equally importantly, there is international recognition of the fact that absolute poverty blights the lives of 1.3 billion people in developing countries. In 1995, 117 Heads of State or Government attending the Copenhagen Social Summit endorsed the Copenhagen Declaration, which put primary emphasis on the promotion of full employment and poverty reduction. Should not the right to a decent living also be regarded as a basic labour right?

5.2 Terms of Conventions 87 and 98 and the role of the government

There are also serious difficulties from the point of view of developing countries with the precise formulations of Conventions 87 and 98 concerning freedom of association, the right to organize and to engage in free collective bargaining. The texts of these Conventions reflect the needs and institutions of advanced countries at a particular moment in time. The conventions do not take into account the fact that untrammelled collective bargaining may not only lead to social disruption as noted above, but also to serious macro-economic disequilibria, all of which require government intervention in the bargaining process. Governments also need to intervene to ensure that the interests of the unemployed, low productivity sector workers or those in the informal sector or small-scale agriculture are taken into account. These concerns were recognized in European countries themselves during the so-called "Golden Age" (1950-1973) when many governments entered into social pacts with unions and employers to institutionalize the social market economy, which tried to achieve a broadly acceptable distribution of income and wealth.²⁵ (Glynn, et al. 1990, Eichengreen, 1996, Flanagan, 1999).

Moreover, the orthodox approach to trade unions implied in the terms of the two Conventions is hardly relevant to peasant and small-scale farming in developing countries. These require different policies and institutions in which the government often plays a role, as for example, through price support programmes, technical assistance and promoting co-operatives. Some of these measures may be achieved through individual and collective initiatives and organizations, but in practice the government has to play a leading role. In developing country agriculture, one of the main issues is land reform, since the size of land holding is a crucial factor in determining the capacity to earn a decent living and escape poverty.

It would appear that human rights defined and interpreted in terms of these two core Conventions are destined only for a small part of the working population, benefiting mainly those who are already relatively privileged. Furthermore, the untrammelled exercise of these rights by the minority may well prejudice the chance for others to have a decent living or to be able to exercise their rights to freedom of association and to collective bargaining.

6. Should Core Conventions be Made Compulsory?

To sum up, from the perspective of developing countries, there are three significant policy conclusions with respect to the core Conventions:

1. The number of core Conventions should be expanded to make them inclusive and relevant to the needs of the whole working population worldwide;
2. Conventions No. 87 and 98 require fundamental revision to make them relevant to the developing world.
3. There are trade-offs between certain core conventions and therefore economic and social costs and benefits must be part of the moral equation.

These conclusions also have important implications for the question whether core labour standards should be made mandatory by means of international trade sanctions or other punitive measures; these implications are examined below.

In the case of Conventions 87 and 98, the answer suggested by the above analysis is unambiguous. These conventions are deeply flawed, particularly from a developing country perspective, and it would be a mistake for developing countries to implement them in the fashion envisaged in the

conventions. The argument here is not against workers' organizations as such, but the process of raising labour standards should ensure the inclusion of the mass of the working population. If these conventions were revised to make them more inclusive, developing countries would find them easier and more useful to implement. However, their mandatory application in developing countries under international coercion would still be unwise. This is because, although the acceptance of the role of the government in the collective bargaining process may help ameliorate some of the difficulties outlined earlier, there are still likely to be significant costs for the non-NIC majority of developing countries. Consequently, such compulsory standards will be resisted by these countries. However, encouragement to these countries through non-coercive means and technical aid by agencies such as the ILO to implement the standards are more likely to lead to positive results. (Bhagwati, 1994).

The arguments for compulsory implementation of labour standards in developing countries are sometimes based on advanced country allegations of the former's unfair advantages in trade which give rise to social dumping and race to the bottom. These issues will be examined in the next section where it will be seen that these considerations also do not in any way justify compulsion.

Although we argue here against compulsory imposition of Conventions 87 and 98, we do not take the same view for all other core conventions. For example, granting slave and bonded labour their freedom in recognition of their human rights should be implemented forthwith. In view of the limited numbers of people involved, compulsion cannot be rejected on grounds of costs to developing countries. However, in the case of the Conventions on child labour, which we discuss briefly below, again compulsion will not be appropriate.

Child labour

Child labour (covered by a core ILO Convention (No. 138 on Minimum Age) and the Convention on the Elimination of the Worst Forms of Child Labour, which amplifies the former) raises other kinds of problems, which merit careful consideration.²⁶ The latter Convention commits countries to working with the ILO to fix time-bound policies to eliminate the worst forms of child labour. As is increasingly recognized, the phenomenon of child labour is rooted in a number of fundamental factors, not least domestic and global policies that lead to income concentration, poverty, exclusion, under-employment and unemployment. The World Confederation of Labour (WCL) notes that, to abolish child labour, to prevent such situations arising, and to reintegrate children into society "requires a broad-based strategy. Free compulsory and high-quality education is a pre-requisite for concrete results of such a strategy

... and has to include curricula for vocational training, which is now lacking in many countries.” (WCL, 1997.)

The essential point is that parents and governments in developing countries would like their children to be in school rather than at work, but in many poor countries they are unable to afford it. Detailed empirical studies from several countries confirm this view. (See, for example, Grootaert, 1998 and Addison et. al., 1997. For a recent review of these and other studies see Basu, 1999.)

Empirical evidence further suggests that, where parents have been compensated for the loss of children’s earnings and schools are available, children do not work but go to school. However, without such compensations for the parents, the imposition of the standard of child labour will simply lead to the children resorting to other often illegal or unsavoury activities, where they will be worse off than if they were working and earning some income for the family.²⁷ Thus, without supporting measures, the enforcement of the child labour Conventions in developing countries will hinder rather than help the realisation of the objective of promoting the welfare of children.²⁸

7. Conclusion

An extremely important point which emerges from the discussion of core and other labour standards in this section is that substantial improvements in these standards, as well as significant growth of real wages and other substantive standards, can be rapidly achieved voluntarily through the process of economic development itself. As indicated, the fast growing East Asian countries were able to accomplish these objectives without any international enforcement measures.

Efforts to enforce core labour standards will not help to raise standards in much of the informal sector and could well lead to further informalization. If punitive trade measures were used to enforce such standards, a reduction in trade through the application of trade sanctions could result in cuts in employment precisely in the industries where labour standards have generally been seen to grow fastest. This is likely to throw more workers into the informal sector, worsening the already low levels of remuneration and conditions of work. The net result will be the opposite of what is allegedly intended.

This is not to say that leaving it to the market or to the natural forces of economic development will always be adequate to improve labour standards at a fast enough rate. The promotion of labour standards on a voluntary basis,

backed up with technical and financial assistance for both the monitoring and implementing of the standards by the countries themselves, will be helpful in hastening the process. As explained before, developing countries have continually demonstrated their commitment to raising their labour standards, as manifested by various national and multilateral actions, including their recent acceptance of the ILO Declaration on Fundamental Principles and Rights at Work and Their Follow-Up. (for the text, see ILO, 2000a, and for the Follow-Up, see ILO 2000b). In addition to the economic and practical arguments outlined above, they strongly object, however, on political grounds, to labour standards being made compulsory, whether the compulsion is enforced through the WTO or through joint ILO/WTO initiatives. Such measures would introduce yet a further layer of conditionalities to those imposed on them by the international financial institutions and through WTO trade and trade-related agreements, all of which circumscribe developing countries' policy options. (South Centre, 1998a and 1998b.)

The approach of the new ILO Director-General to labour standards seems to be more promising for the purpose of establishing a universal social floor for the globalizing economy. In referring to the notion of 'decent work' as a means of capturing and realizing the aspirations of people throughout the world and seeking radically new solutions to the global problems of poverty and the working poor, Mr. Somavia stated, at the opening session of the 88th ILO Conference in June 2000, that decent work "... is not a straitjacket, a one-size-fits-all solution". On the contrary, it is a way of treating in a coherent and dynamic way the aspirations and goals of different individuals, different cultures, different societies. The question is how to make it real. We all understand that the possibilities for decent work evolve with social and economic progress, and goals can and should rise over time." (Somavia, 2000)

An important conclusion that can be drawn from the foregoing analysis is that the economic interests of informal sector low-productivity labour and those of the small-scale farming families must be promoted by other methods, including the development of popular organizations. The above analysis would also suggest that there is a clear need to redraft conventions 87 and 98 so that they lead to more democratic outcomes in the sense of taking into account the conditions and economic structures of developing countries. The core standards could also be extended to include one focusing on the right to a decent living.

Notes

- ¹ A particular complaint is that the employment of forced labour and child labour facilitates the payment of extremely low wages, if any, thereby putting pressure on other segments of the labour market to accept low wages.
- ² The necessary rights are those specified in ILO Conventions 87 and 98, granting workers the right to organize and to engage in free collective bargaining.
- ³ The basic source for the data in the following paragraphs is the US Council of Economic Advisers (1998) and Economic Policy Institute (1999).
- ⁴ On the issue of forced labour, the requirement that prisoners and youths in detention work for derisory pay is standard practice in the US and in Europe. In the US, the prison population numbers over 1 million while half a million in local county jails. There is a disproportionate number of black and latino persons, often detained for minor offences and arguably as a form of social control (See, for example, Freeman 1995). Prisoners are forced to work in factories, including clothing factories, that have located their operations to prison sites, where they have a captive pool of cheap labour. It is estimated that in 1998 prison labour produced over 280 products worth over US\$ 9 billion and replaced 400,000 jobs otherwise done by the normal workforce. Prison labour is paid the minimum wage but, after deductions for taxes, room and board, victims compensation etc. the pay may be only US\$ 60 a month for nine-hour days. A number of harsh disciplinary measures and other penalties are imposed if prisoners refuse to work. Federal law prohibits the domestic sale of prison-made goods unless prisoners are paid the going wage, so prison industries export the output, often to Asian countries. (WINDS.)
- ⁵ Unionization becomes particularly difficult when a considerable part of the workforce consists of illegal migrant labour, as is the case in parts of the USA. Employers are, of course, keen to employ such workers, since these are willing to work on almost any terms and in the worst of all possible jobs. However, the fear of being arraigned and deported as illegal migrants constrains them from joining efforts to unionize and improve their terms and conditions of work. Inflows of migrant labour, legal or otherwise, are unlikely to dry up, until growth and development has improved the standard of living in the South.
- ⁶ The lower rate of unemployment in the US is partly explained by the fact that welfare provision for the unemployed is not as extensive as that in Europe, so that many people are obliged to seek work however

unremunerative the wage. The higher level of unemployment in the EU compared with that in the US is the source of a vigorous academic and policy debate on labour market flexibility.

⁷ Since then unemployment levels have declined. The April 2000 figure for Sweden was 4.7 per cent and the average for the Euro-11, that is the members of the European single currency, it was 9.2 per cent. (The Economist, 2000.)

⁸ For research suggesting that trade with the South has a detrimental impact on employment and wages in the North, see in particular Wood (1994) and Wood (1995). However, Wood's estimates of the extent of the impact far exceed those of other economists.

⁹ The analysis in this section is based on Singh and Dhumale (2000). For detailed empirical evidence underlying the arguments in paragraphs i-iv the reader is referred to UNCTAD (1995).

¹⁰ The bulk of developing country manufactured exports is accounted for by only thirteen developing countries, mainly in Asia, the percentage reaching 87.9 in 1996.¹⁰ (Ghose, 2000.)

¹¹ Strictly speaking, under the rarified assumptions of general equilibrium trade models, it can be shown that small changes in quantities can cause large shifts in prices. For the intense academic controversy on this subject, see Krugman (2000), Leamer (2000). For earlier contributions, see Bhagwati (1994). It is also important to bear in mind a related point with respect to the effects of trade on jobs. Once a country starts trading there will normally be a gross loss of jobs, but not necessarily a net loss. Other things being equal, employment will contract in importing and expand in exporting industries. The magnitude of the net change in jobs will be determined by the relative growth rates of imports and exports, as well as by the capital intensity of production in the importing and exporting industries. For the individuals concerned, the gross loss of jobs is extremely important as many of them may not have the skills or the capacity to move to jobs created elsewhere in the economy. Thus governments often need to provide special assistance to displaced workers. The US government, for example, provides trade adjustment grants to workers proven to have been displaced because of imports.

¹² For a fuller discussion of deindustrialization, see Rowthorn and Ramaswamy (1997), Singh (1989 and 1994) and Howes and Singh (2000).

¹³ Between 1958 and 1997, import penetration by Italy and Japan of the market for manufactures for the original six EEC countries, excluding Italy, rose from 0.5 per cent to 3.7 per cent of apparent consumption (gross output minus net exports); the corresponding figures for the US were 0.3 to 1.8.

This acceleration in the North's imports is coincidentally similar to that experienced by these countries between 1975 and 1992. Over the latter period, the European Union's manufacture imports from developing countries rose from 0.9 to 2.8 per cent of apparent consumption. The analogous figures for the US for this later period were 0.8 and 4.3.

¹⁴ For recent reviews of this literature, see Burtless (1995), Gottschalk and Smeeding (1997), Slaughter and Swagel (1997). See also Singh and Dhumale (2000), Atkinson (1999), Krugman and Lawrence, (1994), Richardson (1995).

¹⁵ See Atkinson (1999); Atkinson (2000); Davis (1998a) and Davis (1998b).

¹⁶ See, for example, the statement of US Secretary of Trade Barshefsky's statement on this matter at the Singapore WTO Ministerial meeting.

¹⁷ The central question here is whether labour standards would help or hinder economic development, through their impact on the rate of growth of output, employment and labour costs. The general answer, as suggested by the analysis in the text, is that this depends on a number of complex factors and interrelationships, in particular the assumptions which are made with respect to a) the range of labour standards being introduced and the speed with which they are implemented; b) the level of development of the country and degree of export orientation; c) the dynamics of the production structure and production and export capabilities, including the ability to absorb modern technology; d) the rate of savings and investment among others. It may also be useful to note that this analysis of the relationship between labour standards and economic development is somewhat different to the examination of the effects of labour standards on economic welfare in terms of the conventional theories of welfare economics and international trade. For an example of the latter perspective see Brown et al., 1996.

¹⁸ The acquisition of labour rights and standards is not necessarily a permanent achievement. For example, the number of people employed in Indian restaurants in the United Kingdom now totals more than those in coal mining, steel making and shipbuilding put together. These once dominant industries were noted for their strong unions with substantial collective bargaining capacity, which brought continual improvements in substantive labour standards. In contrast, work in the restaurant business, which has low productivity, is typified by its informal, part-time nature, and the level of union organization is low, as are labour standards. This needs to be distinguished from the growing phenomenon of 'informalization' of the work contract, whereby the nature of the

‘contract’ is such as to turn the ‘employee’ into a virtually self-employed person, with few if any labour rights.

¹⁹Employment in the formal sector increases until a very high level of per capita income is reached. At that point, the share of employment in industry declines and that of services, particularly informal services (informal in the sense that many labour laws become difficult to apply due to the small size of the enterprise) begins to rise, as is indicated in the previous footnote.

²⁰Contrary to popular prejudice in advanced countries, most developing country governments are neither perverse nor wicked or worse. Some in East and Southeast Asia have been recognized to be “developmental states” with an outstandingly successful record of close government involvement in the economy (see for example Amsden 1989, Singh 1995a, Wade 1990) Others, such as India, have been equally interventionist but have not been as successful. The large majority of Third World governments are less effective with considerably lower levels of institutional and administrative capacity. These governments may not always be multiparty democracies but it is important to recognize that they tend to be relatively ‘inclusive’, i.e. they cannot simply be regarded as representing the interest of employers. There are, of course, a small number of southern countries, which are totally corrupt, ineffective and non-inclusive, as was the case with Mobutu’s Congo, for example. For such countries, neither compulsory nor voluntary labour standards would help.

²¹For a fuller discussion of these issues see Singh, 1990.

²²For further details, see Singh (2000).

²³The trend rate of growth of Latin American economies during the last 20 years has been only three per cent a year, compared with almost six per cent a year in the period 1950-1980 (Singh, 2000).

²⁴In the words of E. P. Thompson, studying the making of the English working class, “The working class did not rise like the sun at an appointed time. It was present at its own making.” See Thompson (1963) and Hobsbawm (1964).

²⁵The European Agricultural Policy (CAP) was originally intended to improve the livelihoods of small-scale farmers and agricultural workers.

²⁶According to the ILO (www.ilo.org/public/english/ipec) there are 250 million child labourers in the world including child domestic workers. Of these, “60-80 million at least ... work in conditions which cripple their bodies, minds and souls, stunt their growth and shorten their lives.” Less than 5

per cent of these child labourers work in export industries. It is estimated that during the 1990s 300,000 were soldiers.

²⁷Schemes are being implemented in Brazil and elsewhere which, with external financial support, provide a small income to parents on condition their children go to school. In the Bolsa-Escola programme in about 200 Brazilian cities, families below the poverty line are paid the Brazilian minimum wage on condition that all of the household's children between 7 and 14 years of age are registered in school and that their attendance must be regular—they must not miss more than two days of school each month. (Buarque, 2000.)

²⁸Recent theoretical research suggests that, under certain special circumstances, particularly where children constitute a significant proportion of the work force, the banning of child labour could lead to a rise in adult wages, enabling poor households to do without the income from child labour. The author of this theoretical result himself observes that “This is unlikely to be true for very poor economies but maybe valid for better-off countries. Even so, one would need to do detailed empirical work to decide whether such a total ban is worthwhile. The interesting insight the theory gives us here is to tell us that it may be so and to give hints as to the type of economy where this is likely.” (Basu, 1999.)

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