Labor standards in the context of a global economy

Symposium marks the ILO's 75th anniversary, its work, the policy issues related to a stronger link between international trade and labor standards, and the perspectives of business and labor

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A recent symposium sponsored by the U.S. Department of Labor's Bureau of International Labor Affairs (ILAB) focused attention on the relationship between internationally recognized labor standards and global economic integration. The gathering considered the connection between international labor standards and international trade, the perspectives of business and labor, and policy perspectives and future directions for initiatives on international labor standards.

The April 25, 1994, 1-day symposium, entitled "International Labor Standards and Global Economic Integration," also celebrated the 75th anniversary of the founding of the International Labor Organization (ILO) and its work in promoting international labor standards. A diverse group of U.S. and foreign government officials, academes, trade unionists, business owners and managers, and other private sector representatives came together to consider the ILO's work and the policy issues related to a strengthened link between international trade and labor standards. This article presents a summary of the proceedings of the symposium.

The program

U.S. Labor Secretary Robert B. Reich opened the symposium with the keynote address and U.S. Trade Representative Mickey Kantor presented the luncheon address. A special address was given by ILO Deputy Director-General Heribert Maier. The first of three panel sessions, including three academic economists (Michael Piore from the Massachusetts Institute of Technology, Richard Freeman from Harvard University, and T. N. Srinivasan from Yale University), considered the connection between international labor standards and international trade. The second, which considered the perspectives of business and labor, featured Frank Doyle, executive vice president of the General Electric Co., and Thomas Donahue, secretary-treasurer of the AFL-CIO. The third session, with former U.S. Representative Donald Pease, former U.S. Trade Representative Clayton Yeutter, and Columbia University economist and political scientist Jagdish Bhagwati, considered policy perspectives and future directions for initiatives on international labor standards.

As with any policy initiative, a discussion of labor standards and their role in global economic integration should assess the overall need for action, the specific actions to be taken, and how, where, and by whom they are to be implemented and monitored.

The U.S. interest in labor standards

The symposium took place shortly after the Marrakesh ministerial meeting that formally concluded the Uruguay Round of multilateral trade negotiations. Among other measures, the Uruguay Round trade agreements will establish the World Trade Organization as the successor organization to the General Agreement on Tariffs and Trade (GATT). At Marrakesh, the United

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States and other nations succeeded in getting the issue of international labor standards placed on the agenda for discussion of the new organization.

The U.S. government representatives indicated that they see some scope for the World Trade Organization to join the ILO in addressing internationally recognized labor standards. Labor Secretary Reich and Ambassador Kantor described some of the current thinking by U.S. government policymakers about what labor standards should be pursued, why the connection between globalization and labor standards should be addressed, and how results of standards setting might be monitored.

Reich identified "slavery, forced labor, the suppression of freedom of association, and the employment of very young children" as "outside the boundaries of what is expected of governments with regard to how they treat their citizens." He observed that prohibitions on these types of activities constitute core labor standards to which all countries should adhere, regardless of their level of economic development. Other labor standards, such as those related to minimum wages, make up a "vast gray area" and "[w]e cannot expect [every country] to reach our level." Economic constraints, which may be particularly onerous in developing countries, affect expectations of what the present level of these standards should be. However, a nation's "ability to offer its citizens better working lives rises with development, and . . . international expectations may properly rise as well."

Ambassador Kantor presented a rationale for international labor standards that turns on positive implications of such standards for sustaining high levels of global economic growth over the long term. In this view, global labor standards are important for ensuring economic efficiency. Kantor discussed some broad principles that guide U.S. policy in the area of international trade. First, the goal of the World Trade Organization is to raise living standards worldwide by opening new markets and opportunities to increase growth and job opportunities. Second, all interests are served by maintaining growth in the middle class around the world, because middle-class consumers provide large, growing, and sustainable markets for U.S. products and those of other countries. Third, democratic and social justice, which includes labor standards, enhances the economic growth potential of market-oriented trading systems; therefore, the global trading system must strive to eliminate unfair competition based on exploitation of workers.

Kantor observed that this last principle is not meant to deny a country's legitimate comparative advantage based on low labor costs; however, he submitted that a global trading system cannot be supported or fully prosperous when some countries' low labor costs are created through illegitimate political suppression of wages and working conditions.

Reich proposed a two-part test to evaluate the labor standards record for a country. First, it should be examined to see if the country has, or is developing, democratic institutions. These institutions help ensure that increased economic wealth is translated, through improved living and labor standards, into enhanced well-being for all citizens. The absence of democratic institutions may create a barrier to sharing increased wealth.

Second, trends in the development of labor standards should be monitored to determine whether developments are consistent with what would be expected, given a country's pattern of growth. If a country "lacks democratic institutions and fails to disseminate the benefits of growth, other countries might justifiably conclude that low labor standards are due not to poverty itself, but to political choices that distort development and warp the economy's structure."

Reich mapped out three general principles to be followed if a country fails the two-part test. The first states that any action should be, to the extent possible, multilateral. The second suggests that a broad range of policy choices should be available to respond to the failure of a country to comply with a standard, and that the response should be appropriate to the nature and severity of the effect of the noncompliance. The third requires a pragmatic response aimed at bringing about change in the behavior of the party that violates a standard.

The ILO's perspective

ILO Deputy Director-General Heribert Maier discussed the activities of the ILO, and its view on the challenges that lie ahead in incorporating labor standards into global integration schemes. His remarks were organized around four general themes: the role of international labor standards in international trade and foreign direct investment; labor standards in the context of global versus regional economic integration; the extent to which global economic integration is self-propelling or policy induced; and the effectiveness of binding and discretionary social clauses in meeting their objectives.

First, Maier observed that even though recent discussions have been centered on the link between labor standards and international trade, labor standards are also an important issue in the pattern of foreign direct investment flows. He warned that competition for investment may lead to bidding wars in which individual nations try to offer multinational companies attractive op-

portunities by suppressing labor standards to keep operating costs low. He noted that transnational actions must be taken to limit this type of bidding. He pointed out that examples of this type of action already exist in, for instance, the ILO's 1977 *Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy.*

Maier's remaining three themes addressed the process of setting and enforcing labor standards in multinational and regional trading agreements. He noted that the ILO believes that, "(1) there should be a body of minimum international labor standards . . . agreed on by all parties concerned; and (2) that . . . different minimum standards for different regions or cultures must be avoided . . . at all costs." He argued that minimum standards would thus serve as a floor of departure in the development of social charters that might accompany trade agreements. Maier made the point that while global economic integration is largely "self-propelled" by market forces, policy plays an important role in the shape and timing of this integration. He argued that in this connection, policy discussions may have to address whether supranational institutions are needed to replace national institutions weakened by increased global integration. Finally, he described some benefits and drawbacks of including binding, as opposed to discretionary, social clauses in trade agreements. He cautioned that a focus on including binding clauses may reduce the set of standards that might be addressed or included if the clauses were discretionary with a reliance on persuasion from organizations such as the ILO to ensure adherence of member parties.

Emerging themes

The presentations by Reich, Kantor, and Maier provided a thematic framework within which the remarks by other symposium speakers may be cast: the moral imperative for considering and taking action on global labor standards, the economic efficiency implications of doing so, and the best approach to follow.

Moral imperative arguments. Most participants at the symposium agreed that there are legitimate moral concerns about some fundamental conditions under which human beings work and live. However, some disagreed that the best way to express these concerns is through mandated labor standards, even for a core set of practices.

Several speakers suggested that, in some cases, absolute standards may do more harm than good for those whom the standards are designed to help. Each used as an example prohibitions against child labor. They argued that prohibiting child labor will not make the affected children better off if the alternatives to working are worse. Freeman summed up the sentiment succinctly: "Better that they work and eat than starve."

Srinivasan suggested that a better way for the international community to express a moral consensus against child labor is to provide income transfers to families, allowing them to make choices that do not require their children to work. Freeman made a similar argument, suggesting that efforts to increase the educational and training opportunities available to these children might serve to make their employment a less attractive choice.

Bhagwati said he believed that core labor standards might impose first-world requirements on third-world economies that are unable to afford them. Of proposals to include a social clause in multilateral trade agreements, he said, "Wittingly or unwittingly, its proposed contents are selectively focused on the practices of the developing countries, shielding the practices of the developed countries." In Bhagwati's view, those who propose such standards might, unless their motives are protectionist, find themselves disappointed by the outcome of their policies.

Former U.S. Representative Pease echoed Kantor when he argued that the wide acceptance of internationally recognized labor standards would help gain public support for a more open world trading system. "The American public will not support free trade if it means free entry into the U.S. market of goods made by . . . workers whose most simple hopes for a better life are systematically denied by their own leaders," Pease said. In his view, the moral imperative creates a political reason for linking international trade and labor standards. If they are not linked, public opinion will defeat efforts to foster a more open less protectionist trading system.

Economic efficiency arguments. The economic arguments centered around whether international labor standards are an efficient way to encourage economic growth and increase the economic well-being of all citizens. In general, the arguments revolved around two questions: Should there be internationally agreed-upon labor standards, and should there be an effort to link compliance with these standards and international trade?

Freeman argued that a certain level of working conditions may be considered as a commodity for which consumers and workers are willing to pay, and that sufficient information, conveyed perhaps through labeling, may, in many cases, be all that is necessary to ensure these conditions are met. He argued that firms or countries whose goods are not produced under "good" conditions, will, unless their products are much

cheaper, find that they need to improve conditions to stay in business. A corollary to this argument is that increasing globalization would make it even harder for noncomplying regimes to follow their course.

The implication of Freeman's argument is that there is no need for an active international labor standards policy (or a link between standards and trade and investment policy) because a well-functioning market will ensure development of appropriate standards consistent with the desires of participants in the market. When the market does not function well, as when the dissemination of relevant information on working conditions is impossible or too costly, Freeman suggested there is some room for international action.

However, the essence of his argument is that in most cases, the provision of information, rather than the international imposition of standards, is all that is needed to ensure acceptable working conditions. Freeman's argument is in line with the thinking underlying much of the "neoclassical" economic theory that maintains that the market, left to its own devices, leads to optimal economic outcomes.

Economist Michael Piore of the Massachusetts Institute of Technology argued that this thinking is grounded in too narrow a conceptualization of how economic activity is organized. He suggested that the neoclassical model, in which labor and other factors of production are used within the confines of a particular production process, is constrained by not allowing the possibility for other influences (such as labor standards) that can affect the development of the production process itself.

According to Piore, the historical shift that took place in the United States from industrial organization that relied on paying workers piece rates to industrial organization based on paying workers hourly rates, illustrates this point:

> The sweating strategy seems to grow out of a market where workers are paid by the piece and the employer has virtually no capital costs, either because there is little or no capital involved in the production process or because its costs can be shifted to the labor force. When this is the case, the employer has very little interest in worker productivity. As soon as capital costs become important, the employer begins to have an interest in the hourly productivity of the labor force . . . since high worker productivity increases the productivity of capital. A minimum hourly wage is a substitute for capital; it creates an incentive for the employer to worry about the workers' hourly output. In these terms, the early labor standards can be thought of as a spur toward capital sensitive business strategies. The labor standards designed to foreclose sweating thus operated to promote economic development and industrialization.

The important point about this example is not the specific labor standard cited—the minimum wage—but that labor standards generally need to be evaluated in terms of how they might affect the development of the production process, and not just how they might affect resource deployment within any one given process.

Finally, there is the question of whether an explicit link should be made between labor standards and international trade and investment. Bhagwati, Freeman, and Srinivasan do not believe the two should be linked. In their view, variations in labor standards across countries largely reflect differences in the collective ability and willingness of a country's population to pay for labor standards, in much the same way as household consumption decisions reflect differences in ability and willingness to pay for various goods. In this view, one country's labor standards policy does not affect another's. In particular, bad labor standards in one will not drive out good standards in another.

Other speakers argued that bad labor standards can indeed drive out good ones. Pease and AFL-CIO Secretary Treasurer Donahue paralleled Maier's thinking when they discussed the possible phenomenon of nation-states that suppress wages and working conditions to offer global companies low operating costs as an incentive to establish facilities within their borders.

Frank Doyle, GE's executive vice president, provided a reason why a uniform set of international labor standards might be economically beneficial. The alternative may be many conflicting sets of vastly different unilateral standards. The costs to global businesses to learn about, and comply with, all these different codes may be a larger drain on the world economy than costs arising from a uniform set of standards.

While the Bhagwati-Freeman-Srinivasan arguments focused on the consumption aspect of international labor standards, the Donahue-Doyle-Maier-Pease-Piore arguments focused on decisions that affect production. Thus, arguments for and against an active labor standards policy rest on their respective implications for production and consumption.

Best approach arguments. Presuming that further international action on labor standards will be sought, what is the best way for doing so?

Yeutter set a pragmatic tone. In his view, the first step in pursuing further action is to develop a clear and focused agenda on a narrow set of impor-

tant, well-defined, and widely recognized labor standards, and a reasonable timetable for action.

Currently, the predominant mechanism for establishing international labor standards is through the ILO's system of Conventions. According to Maier, ratification of an ILO Convention by a member state establishes an obligation between its government and the citizens. The focus of international labor standards has generally been their ratification, their inclusion in national legislation, and compliance with them in a national context. The ILO's principal means of action has traditionally been persuasion.

The ILO's procedures do not generally lead to agreements between nations. The ILO's activities usually affect national laws, but national governments may differ in the degree of compliance with, or enforcement of, national laws. Because the ILO mechanism does not enable one national government to influence the enforcement efforts of another, the ILO system of Conventions depends on voluntary compliance by national governments.

The possibility of a lack of compliance was pointed out repeatedly during the symposium. Bhagwati noted that the reason many ILO Conventions have been ratified in so many countries is because governments, feeling no external obligation to comply or external threat of action for noncompliance, ratify Conventions and then ignore them. According to Donahue and Pease, this is the major reason why a role for labor standards should be considered for the World Trade Organization, which could apply trade sanctions as punitive measures against countries that do not comply with universally agreed-upon labor standards.

Former trade representative Yeutter pointed out that discussing labor standards in international organizations other than the ILO could benefit ILO activities. He argued that some competition would make ILO officials aware of a potential loss of influence in this activity. He speculated that this could prompt them to step up their efforts to maintain the ILO as the predominant body responsible for international labor standards.

Yeutter and Maier suggested that because the GATT and its successor, the World Trade Organization, are structured to make decisions based on unanimous consent, movement on controversial topics is never easy or quick. The subject of international labor standards is one of those controversial topics. Maier argued that using the World Trade Organization instead of the ILO amounts to a trade-off of "strengthening the means of action at the cost of reducing the sphere of activity." Moreover, Maier pointed out that the ILO is equipped with the capability to monitor compliance and the ability to offer technical assistance to countries that have trouble complying with labor standards.

Doyle, Bhagwati, and Srinivasan favored leaving labor standards within the sole purview of the ILO. Doyle suggested that ILO conventions need to be updated, and made more flexible and universally applicable. In particular, he noted that "if the ILO is to be truly effective, . . . minimum standards must be in the form of generalized guidelines which each country can implement on its own, in its own way, and that mesh with individual national cultures."

Bhagwati and Srinivasan also said flexible standards are needed. Maier asserted that the ILO is aware of this, and that ILO activities reflect the need for flexible standards. Finally, Srinivasan argued that putting labor standards into the purview of the World Trade Organization would take that institution too far afield from its mission of encouraging open trading relationships. He suggested that doing this is unnecessary because the ILO is a specialized international institution whose mission it is to promote labor standards.

The primary reason why some at the symposium wanted to pursue the issue of international labor standards in the World Trade Organization is because it potentially has an enforcement tool—trade sanctions—that the ILO lacks. However, Bhagwati and Srinivasan asserted that trade sanctions have not been a particularly effective policy tool when used to change behavior that is not directly related to trade. Pease and Donahue, on the other hand, asserted that trade sanctions levied under the U.S. generalized system of preferences program have been effective, even though they have not often been used.

Agenda for future research

The symposium raised many issues that should inspire future research and discussion. What follows is an attempt to define an agenda along which these activities might proceed.

Piore's criticism of the neoclassical model implies that empirical research should be directed at what effect, over time, policy changes in labor standards have on the way firms operate. To do this, researchers might take two possible approaches. The first is to conduct case studies of individual firms. Careful scrutiny of a firm can give firsthand insight into the ways in which it adapts to changes in its environment. While this approach can yield important information on how the scrutinized firms react, it also draws criticism that the selected firms may be "special," and that the empirical results of the studies do not apply generally to all firms.

As a result, the case study approach needs to be complemented by work based on statistical samples. In particular, because the question is how firms react over time, one needs to collect

panel data that follow a randomly chosen sample of firms over a sufficiently long period. Currently, data sets appropriate for this undertaking are largely nonexistent. One reason is that policies on labor standards have, in many cases, not yet been enacted. Thus, the event hypothesized to bring about changes in the data cannot be studied. A second reason is that appropriate surveys are not made for collecting this type of data. Preliminary research efforts need to be devoted toward developing a survey that can be used to collect theoretically appropriate data.

Freeman suggested an economic view of labor standards as a private good whose consumption by one person precludes its consumption by another. However, other commodities, called "public goods," exhibit the feature that consumption by one person does not preclude the consumption of the same good by another. Freeman acknowledged that labor standards may have attributes of public goods, but he did not fully draw out the implication of these attributes for policy.

Most of the current focus on labor standards is on those that Secretary Reich identified as fundamental human rights, or core, labor standards. It is possible to argue that these core standards should be thought of as public goods. For example, actions on slavery, forced labor, the employment of very young children, and collective bargaining rights might be considered as a good called "social moral consciousness." Each person in a jurisdiction covered by a given social system enjoys consumption benefits from "social moral consciousness," and one citizen's consumption does not preclude or diminish the consumption of another. Clearly, this is a public good. In the simplest version of Freeman's framework, the market determines the level of "social moral consciousness" that is produced and consumed, based on the costs of producing it and what consumers are willing to pay.

A basic lesson of neoclassical economic theory is that voluntary payments by consumers for a public good will lead to an inefficiently small output of that good. This is because individuals realize that they cannot be prevented from consuming the good if they do not pay for it. Policies that set a minimum level of core labor standards might be considered as a mechanism established to ensure a sufficient level of "social moral consciousness" production. When these standards cause prices to rise, the increase is no more than a tax that forces consumers to pay for what they would not pay voluntarily.

Whether labor standards are a public good could be examined empirically. Freeman suggested that one can derive the consumer demand for labor standards by asking consumers how much extra they would pay for a product labeled as produced under "good" labor standards. Building upon Freeman's example, a test of whether labor standards are a private or public good could be developed. One could draw a random sample of consumers and ask if they would support a certain level of a mandatory sales tax to finance higher labor standards. One could then take a second independent random sample of consumers who were given the choice between (and bought) a cheap product or a more expensive one, differing only in that it had been labeled as produced under good labor conditions. If the voluntary purchases of the more expensive product were substantially less than what would be expected from the survey of what consumers are willing to pay in taxes, labor standards could be presumed to be a public good.

Development of a "best approach" to defining and enforcing international labor standards continues to be important. The following three issues merit further research and discussion:

- The use of the World Trade Organization as an enforcement mechanism will require the development of outcome-based measures of effective compliance with a standard that can be applied to all World Trade Organization member countries. Can measures addressing the outcomes of standards be developed? Can they meet the necessary requirement of unanimous consent? How long will such a process take? What special arrangements or concessions might countries supporting the measures have to make to win the support of countries that initially do not favor them?
- What are the differences in labor standards between countries with similar political systems and political developments? How are these differences related to differences in culture and differences in the relative power of interest groups?
- Are trade sanctions a credible mechanism for enforcing improvements in labor standards? One approach to answering this question is to look at various unilateral policies aimed at linking trade and labor standards, such as the U.S. generalized system of preferences and the labor side agreement to the North American Free Trade Agreement. A second approach is to see whether other links already made in the World Trade Organization prove to be effective: for example, how effective are trade sanctions in enforcing the newly established link with intellectual property rights? Under either of these approaches, researchers will have to examine the effectiveness of sanctions where and when they have been used, and the usefulness of the link to international trade in threats ensuring compliance, even if the enforcement tool (trade sanctions) is never used.

Finally, researchers must address the issue of whether bad standards drive out good ones. This is an issue on which some additional theoretical research may still be needed. In particular, some game-theoretic approaches may prove to be very interesting. Whether they can be used to explain real world outcomes will be the test of their relevance to policymakers.

IN SUM, the symposium presented an opportunity to address the issues of why action on a link between globalization and labor standards might or might not be needed, what core labor standards might be considered in forging this link and where, how, and by whom standards might be monitored and enforced. The issues raised at the symposium may help to provide some structure to future discussions and offer some guidance toward developing a solid policy agenda.

Copies of the proceedings of the symposium, which contain an edited collection of speeches and papers, may be obtained from the authors at U.S. Department of Labor, Washington, DC. 20210. Telephone (202) 219-7610.

Self-serving ideologies

By and large, Americans apparently have eagerly, or with only minimum resistance, accepted self-service in retail stores. And they have accepted the shift to early hospital discharge and increased outpatient services that transform the home into a mini-hospital. Various ideologies may make self-service acceptable, ideologies about the right of capital to set employment levels and control the distribution of health services. For example, the widely held belief in the virtually absolute right of corporations to decide on the labor process makes job loss and job degrading acceptable to most Americans, justified by corporate demands for efficiency and corporate definitions of acceptable profit levels.

— Nona Y. Glazer
Women's Paid and Unpaid Labor: The Work Transfer in Health Care and Retailing (Philadelphia, Temple University Press, 1993), p. 207.