Globalization and Social Progress: The Role and Impact of International Labour Standards

by Werner Sengenberger

FRIEDRICH EBERT STIFTUNG

Global Trade Union Program

Globalization and Social Progress
The Role and Impact of International Labour Standards

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for the Friedrich-Ebert-Stiftung
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Foreword

Since the adoption of the Fundamental Declaration on Rights and Principles at Work in 1998, by the members of the International Labour Organization (ILO), the discussion about the application of international labour standards at national level, and their integration into global trade and financial regimes, has gained considerable momentum. But while it has obtained relevance at the political and academic level, reality in developing countries still lags far behind.

In particular, institutions of global governance like the World Trade Organization (WTO), and the International Financial Institutions (IFIs) still consider a number of internationally-agreed labour standards as having little or no role in their scope of operations. Such institutions have a strong focus on purely economic acitivities, like promoting trade liberalization or economic growth.

To analyze these issues, the Friedrich-Ebert-Stiftung had asked Dr. Werner Sengenberger, an economist who worked with the International Labour Organization for many years, to prepare a report on the role and impact of international labour standards on economic and social development, and their potential to link globalization with social progress. The report discusses the evidence as to whether the observance of these standards in national economies and international regimes is neutral to economic development, and the links between the application of generally agreed standards and competition, foreign investment, productivity, efficiciency, and growth.

The study, first published in December 2002, has gained considerable international interest and response. We are glad to present now a revised edition of the study.

We hope that this profound and detailed report will contribute to a more balanced and less ideological discussion about the need for monitoring international labour standards as a precondition for growth and social development. The executive summary of the study will be available in the main international languages.

On behalf of the Friedrich-Ebert-Stiftung, I would like to express my sincere gratitude and appreciation to Werner Sengenberger for his work and his efforts, and all those who commented on drafts of the report.

Bonn, September 2005

Erwin Schweisshelm
Friedrich-Ebert-Stiftung

List of Abbreviations

CLS	Core Labour Standards
CSR	Corporate Social Responsibility
DGB	German Trade Union Confederation
EPZ	Export Processing Zone
ETUC	European Trade Union Congress
EU	European Union
FDI	Foreign Direct Investment
FES	Friedrich-Ebert-Stiftung
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
GSP	Generalized System of (Trade) Preference
GUF	Global Trade Union Federation
GUN	Global Trade Union Network
ICT	Information and Communication Technologies
ICEM	International Federation of Chemical, Energy, Mine and General Workers' Union
ICFTU	International Confederation of Free Trade Unions
IFBWW	International Federation of Building and Wood Workers
IFI	International Financial Institutions
IFJ	International Union of Journalists
ILO	International Labour Organization
ILS	International Labour Standards
IMF	International Monetary Fund
IMF	International Metal Workers Federation
IOM	International Organization of Migration
ITF	International Transport Workers' Federation
ITGLWF	International Textile, Garment and Leather Workers' Federation
IUF	International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers's Association
LDC	Least Developed Country
NGO	Non-Governmental Organization
NLS	National Labour Standards
OECD	Organization for Economic Cooperation and Development
PRSP	Poverty Reduction Strategy Papers
PSI	Public Services International
R&D	Research and Development
SAP	Structural Adjustment Programme
TNC	Transnational Company
TUAC	Trade Union Advisory Committee to the OECD
UN	United Nations
UNI	Union Network International
UNDP	United Nations Development Programme
UNCTAD	United Nations Conference on Trade and Development
WB	World Bank

Executive Summary

1. International Labour Standards (ILS)

A comprehensive body of agreed ILS already exists…

Since the foundation of the International Labour Organization (ILO) in 1919, more than 180 Conventions and over 190 Recommendations have been adopted by the International Labour Conference. The 1998 ILO Declaration on Fundamental Principles and Rights at Work and Its Follow-up stipulates eight core Conventions which all ILO member States, by virtue of their membership and acceptance of the ILO Constitution, have agreed to respect, to promote, and to realize in good faith. They include standards concerning the freedom of association and the right to bargain collectively; the abolition of forced labour; equality of opportunity and treatment in employment and occupation; equal pay for men and women for work of equal value; minimum age for employment; and the elimination of the worst forms of child labour. They constitute some of the universally recognized human rights. Respect for them is thus a moral imperative. The other ILO Conventions cover substantive standards, also called social rights, with regard to minimum wages and wage payment; hours of work; holidays and periods of rest; the protection of workers with special needs, such as women during pregnancy and after childbirth, migrant workers, home workers, and indigenous and tribal populations; occupational safety and health; labour inspection; employment security; social security and social services; the settlement of labour disputes; full, productive and freely chosen employment; and employment services and human resource development.

In addition to the ILO instruments, there are other sources of globally applicable international agreements that cover norms on work and employment. They include the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, the UN Convention on the Elimination of All Forms of Discrimination against Women, and the UN Convention on the Rights of the Child.

…..but many ILS are not respected or not implemented

A large majority of ILO member countries have now ratified the core Conventions, whereas the average rate of ratification of substantive standards is much lower. Ratification, however, does not necessarily mean that the Convention is actually respected or implemented. This holds even for core Conventions. Among the worst violations of basic workers' rights are the flouting of trade union rights including the discrimination, harassment, political persecution and even assassination of trade unionists; widespread discrimination against women and ethnic minorities; the persistence of forced, compulsory and bonded labour; and extensive use of child labour. Social rights are frequently not realized, as indicated inter alia by high levels of unemployment and under-employment, low pay, non-payment of wages; low coverage of the global population by social protection, high rates of accidents and occupational diseases, and other decent work deficits.

The ILO as a voluntary organization has limited legal powers to enforce its instruments in member countries. Its major means are moral suasion and technical assistance to foster the adoption and implementation of ILS.

2. The Need for ILS: The Classic Rationale

Various motives have been invoked for mandating universal ILS. Among them is the consolidation of social peace; the promotion of social justice; the social and human objectives of economic development; and the consolidation of national labour legislation. A further rationale for setting standards relates to the prevention of what is variably called "unfair trade", social dumping, or "race-to-the-bottom", engendered by unregulated international competition that depresses wages and other labour conditions and cause hardship and privation to workers. To prevent this from happening, all countries competing in international markets would have to abide by the agreed international labour code. In the view of the ILO, the fundamental ILS involve no cost, and are thus fully applicable regardless of the state of development of a country. Substantive standards, on the other hand, may have cost implications, and therefore, have to be implemented progressively taking into account local economic circumstances. For example, while the ILO calls for the setting of minimum wages in member countries, be it by statute, decree or through collective agreement, it does not prescribe – as sometimes alleged – an unrealistic uniform minimum wage worldwide.

Setting and applying ILS amounts to an intervention into labour markets, with the objective of forestalling destructive, downward competition, reducing vulnerability and allowing workers to exercise countervailing power to upgrade labour conditions and share the fruits of higher productivity. From its early years onwards, the ILO has always insisted that economic growth alone does not suffice to ensure the improvement of the working and living conditions of the labour force. Also, labour markets do not function like other markets because "labour is not a commodity". These views have been emphatically contested by free market economists who hold that the level of wages and working conditions are determined by the level of a country's productivity, and that these conditions can only be improved through economic growth. Furthermore, orthodox economists maintain that any interference with the competitive working of the labour market would do harm because it would lead to sub-optimal allocation of resources, diminished efficiency and economic growth, unemployment and lower real wages.

3. ILS in the Context of Economic Globalization

The controversy about the value and impact of ILS has become more acute in the course of accelerating economic globalization during the last three decades. The opening of national markets to the international economy has intensified competition, and new information, communication and transportation technologies have made it easier, cheaper and faster to trade, and to move production across national and regional borders.

In view of the progressive globalization, it may be argued that the need to apply universal ILS has increased because the scope for undercutting standards has grown. This is not only because a larger number of countries competing have entered international markets and compete in the same product areas, but more so because – contrary to the prediction of economic convergence in liberalized markets – the vast inequalities in development and income levels have deepened both within and between countries. In the last three decades, barring a few countries, levels of economic growth have declined, average unemployment has risen, and the number of people living in extreme poverty has not diminished. In this situation, global competition and economic nationalism have increased, which has reinforced the need to take labour out of destructive competition, and at the same time made it more difficult to do so. Many countries have given in to downward wage pressures, they have made concessions on labour legislation or the enforcement of labour standards, and they have offered tax holidays to gain national advantages for trade and inward foreign investment.

The perceived pressure to relax social standards affects both developing and developed countries. Many of the former argue that they cannot afford standards until they have attained higher levels of development. They believe that if they proceed with standard implementation they will risk losing their comparative advantages relative to the high wage countries. Yet, ironically the rich countries came forward with similar arguments to slow down, or dilute, national labour standards: Competition from low labour cost countries does not permit them to advance or even maintain their labour and social standards. A nearly ubiquitous blockage of social progress stemming from parochial attitudes has emerged.

The remedy for the economic and social ills facing the global economy today must not be sought in the correction of "excessive" labour and social standards. Rather, the cure must come from a revision of misguided policies on globalization that indiscriminately press for market liberalization and rapid, wholesale privatization where in fact the legal, political and social institutions that are required to make markets function properly, have not been created. The opening of national economies has had adverse, and even disastrous, effects where such institutions are missing, and it has had favourable effects where they are in place.

International economic integration and inter-dependence has resurrected objections to ILS known from earlier periods of ILO history. One of them says that ILS are not suitable to the informal economy; or even worse, that the application of standards would encourage the growth of the informal economy. Another popular objection to the application of ILS holds that these standards are a product of Western values and that they are alien to countries with other values, traditions and cultures. In effect, the universality of ILS was questioned even though none of the ILO instruments could have been adopted without a two-thirds majority of member countries voting for them. Next to market fundamentalism, cultural relativism forms a major barrier to the advanvement of ILS. This applies even to core ILS.

None of the stated objections to the application of ILS stands up to scrutiny. While certain ILS may in fact cause higher production costs, at least initially, the dimensions of the cost increments are often blown out of proportion. As a rule, such costs are compensated by higher productivity, innovation and other improvements in economic performance, so that unit labour costs – the decisive parameter for competitiveness – do not effectively rise, but instead often decline with the pursuit of labour standards. Investment in human resources enhances the opportunity for product and process innovation, thus giving countries a greater competitive advantage. The informal economy is not the cause, but rather the effect of non-observance of standards. Countries in East and South East Asia which claim that their values are incompatible with materialist culture have in fact embraced capitalism and consumerist cultures in no lesser degree than countries in the Western hemisphere. The true reasons for rejecting ILS are rarely economic or cultural. They can be traced to the realm of politics. For example, trade union rights are often denied because trade unionists form part of the political opposition to authoritarian regimes.

4. The Benefits from ILS: A Wider Perspective

The body of the present report presents a wider concept of ILS and shows that all countries, regardless of their level of development, culture and tradition, can gain from the adoption and implementation of ILS. Instead of focusing largely on the cost of standards, and their presumed restrictions on labour market functioning and economic growth, the report emphasizes the dividends of ILS in economic, social and political terms. It shows that standards can not only – in accordance with the classic economic rationale

– prevent destructive competition in the labour market, but that they also promote constructive competition. They can elicit and encourage a "race to the top" among enterprises, and comprehensive and sustainable development of nations. While ILS, and particularly the core labour standards, are part of basic human rights, and therefore need no other justification, their advancement can still be promoted by a demonstration that the moral justification and the economic rationale for standards do not conflict. They actually converge.

ILS as international public goods

The starting point for a wider, positive view of ILS is to conceive of them as international public goods that can be consumed free of charge by anybody and that do harm to nobody. ILS are usually developed when a significant number of ILO member countries are confronted with the same type of labour issue or labour problem, and at the same time some countries have already carved out labour policies and practical measures that can resolve the problem. ILO's normative instruments set out goals and specify appropriate means of action to reach the goals. They are beneficial for countries' economic and social development, because they embody knowledge and practical experience from all over the world. For their adoption ILO standards need the approval of the governments, employers and workers that form the decision-making bodies of the ILO. The tripartite constituency ensures that the crafting of standards, and their subsequent exposure to practical tests and improvements through their application in member countries, accommodate various criteria and interests, including improved well-being for workers, economic feasibility and practicality.

The general benefit of such standards for countries is simply that they can access the experience of other countries which have successfully dealt with the problem or issue. In other words, ILS reflect the accumulated global wisdom on pervasive issues of labour utilization and labour conflicts. The international learning process underlying the setting, implementation and monitoring of ILS affords that these standards lead to superior and more efficient outcomes compared to a situation where each country would devise its labour code independently from that of other countries. It saves time and resources, a consideration which is totally absent from the narrow, cost-oriented discussion of ILS. Examples of the utility of know-how, advocay and the provision of services incorporated in ILO instruments include adjustment assistance for countries exposed to trade-related structural change, devising social security systems to protect workers from social risks, and experience about measures to be taken for countries in the fight against child labour.

Specific benefits of ILS

The application of ILS can generate important positive economic, social and political returns. The more standards aimed at worker participation, protection and promotion are combined, the greater are the positive effects.

- Minimum standards give rise to dynamic efficiency. Minimum wage fixing and other minimum terms of employment alter the competitive regime of enterprises. If the option to compete through sub-standard wages and poor working conditions is closed, efforts have to be made to compete in other, more constructive ways. Firms have to attain a level of productivity sufficient to meet the prescribed floor to pay and other conditions of work. In effect, minimum terms of employment and work provide a spur to employers to improve management, technology, products, processes, work organization, and worker skills and competence. Firms that are unable to reach the standard will be squeezed out of the market, and more efficient firms will take over their market share.
- Worker participation based on freedom of association, collective bargaining and social dialogue are ways and means of fostering coope-

ration and mutual trust, which in turn enhance economic performance at the micro and macro level of the economy. The effects are brought about in various ways: workers contribute knowledge and experience to improve managerial decision-making; the common search for compromise tends to increase the range of strategic alternatives for the solution of public policy problems, and often leads to finding superior policies; conflicting interests can be accommodated peacefully through consultation and negotiation; clandestine, uncontrollable, disruptive conflicts can be avoided; collective agreements can make business conditions predictable and accountable, allowing investment decisions to be taken on firm cognitive grounds; collective bargaining makes wage setting more transparent, thus avoiding discontent and the perception of injustices; collective bargaining can reconcile aspirations to social progress with the productive potential of enterprises and economic sectors; strong collective organization in the labour market and coordinated collective bargaining tend to contain, rather than cause, inflationary pressures, or accomplish this better than decentralized patterns of bargaining; tripartite consultation and negotiation at national level make it possible to stabilize macroeconomic conditions, which is an essential prerequisite for high levels of employment; they have also facilitated the transition from centrally planned to market economies.

- Standards of occupational health and safety, next to constituting a basic element of decent work and human security, are instrumental for the improvement of labour productitity. Investing in work safety usually yields high economic returns. For example, there is a very close statistical relationship between a country's occupational health and safety standards and its rank on the international scale of competitiveness. Estimates have shown that accidents at work and occupational diseases entail various kinds of significant economic losses to enterprises, and reduce economic growth by sizeable margins.
- Employment and income security can have various positive impacts: Secure workers are more willing to take risks, and also to pass on their expertise to other workers and to management; they are more prepared to cooperate in technological and organizational change. Social safeguards and labour market flexibility are not conflicting, but mutually supporting objectives. Protecting workers from job and income loss assumes even greater importance in open economies which are susceptible to greater competitive pressure, faster and more volatile structural change, and contagious external crises. In this situation, protecting workers from social risks and contingencies is the positive alternative to protectionism in the product market by way of import restrictions and subsidies to shield particular jobs or sectors. This is one reason why developing countries that seek to improve access to Northern markets should be as much interested in ILS as developed countries.
- The elimination of forced labour and child labour is not exclusively a moral imperative. It provides net economic advantages. Forced labour retards development because it keeps capital and labour in pre-modern activities that could not survive without it; child labour may in some instances secure the survival of families, but it does so at the very high price of reducing life expectancy and years of working life. It prevents education and skill formation, thus lowering labour productivity and hampering development in the long run. In addition, child labour increases labour supply and keeps wage levels from rising.
- Equal opportunities and equal treatment in employment and occupation avoids social conflict and entails higher economic growth. Discrimination amounts to the exclusion of workers from employment in general or from particular activities, thereby reducing human resource capacity. It implies the waste or un-

der-utilization of talent and labour market skills. Both discrimination and the failure to provide equal pay for work of equal value are demoralizing and de-motivating, and may cause overt or hidden conflict at the workplace.

- ILS can be instrumental in attaining a fair degree of wage and income equality, which is conducive to development, social cohesion and democracy. Wage differentials are generally smaller where trade unions influence wage structures and wage payment systems; social transfer systems, social safety nets and social services tend to diminish income disparities, strengthen aggregate demand, avoid or reduce poverty, and prevent political passivity or political upheaval.
- Policies to promote full, productive and freely chosen employment are central to any development effort. Large-scale labour surplus is a major impediment to implementing ILS. It tilts the power equation in the labour market drastically in favour of employers. It makes labour more pliable and easy to exploit. It makes it difficult, if not impossible, to raise wage levels, and there is little or no incentive to invest in labour to make it more productive. There is a serious risk of a vicious circle of low wages, poverty and high population growth. Massive joblessness is one of the crucial reasons for the expansion of the informal economy in many developing countries. Surplus labour may be caused or conditioned by the lack of labour standards. Child labour, prison labour, low real wages and insufficient levels or coverage of social security tend to increase the supply of labour, causing real wages to decline further, raising in turn poverty and child labour, and culminating in a self-perpetuating trap of surplus labour and low or absent labour standards. A package of expansionary macro-economic policies and active labour market policies to help match supply and demand, as well as social security measures and minimum wages are required to intercept the depressive forces, and to turn vicious spirals into virtuous spirals of development.

ILS: Both goals and means of development

ILS are part and parcel of development. In view of the stated positive economic, social and political effects of standards, they should be regarded as both ends and means of economic development. They are as much inputs as outputs of development. Contrary to widely held views countries need not reach advanced levels of development before they can commit themselves to improving labour standards. There is no sound basis for the argument that jobs need to be created first and good jobs second. This report shows that the quantity of employment need not be pitted against the quality of employment. Fighting unemployment should not be used as an excuse for doing away with reasonable conditions of work for those already employed. In a broad perspective, rights at work do not restrict freedom of action; on the contrary they widen the scope of freedom for the individual as well as the community. They provide alternatives for individual action and enlarge the policy options available to address labour problems.

5. Evidence for the Dividends of ILS

Recent findings from empirical research on the impact of ILS are largely consistent with the view that ILS generate positive outcomes for development. In particular, recent econometric studies by the OECD, ILO and academics concluded that standards are apt to enhance productivity, GDP growth, trade, foreign direct investment, and employment. This research investigated the links between the application of core labour standards and economic performance in a fairly large number of countries, including many developing countries. ILS reduce the adverse effects of opening national economies and ease the adjustment to market liberalization. Trade union strength was found to pose no obstacle to successful international economic integration. Countries with stronger civic rights, including freedom of association, collective bargaining and collective bargaining, and also countries with higher shares of wages in total income tend to have higher proportions of formal employment and lower proportions of informal employment, even controlling for GDP per capita.

Countries that do not respect core labour standards receive a very small share of global investment flows. In fact, the bulk of the worldwide volume of trade and of FDI has been located in the most developed countries that on average command high labour standards. However, there are exceptions to these general findings. Some emerging economies in South-East Asia that are on record for violations of basic worker rights have received important shares of FDI flows. While on the whole there is no evidence of a "race to the bottom", there are indications that this risk prevails in some regions and some sectors, especially in labour-intensive manufacturing industries. Further evidence for this interpretation comes from research into the criteria used for locating FDI. It turned out that the majority of investors rated the size and the growth of markets very highly; they also viewed the political and social stability of the host countries and the quality of the labour force as important, whereas the cost of labour was not among the high-ranking factors.

The results of some empirical studies that evaluated the impact of individual substantive standards are not entirely consistent. For example, the impact on employment of protection from the termination of employment has been found negative in Latin America, and insignificant in OECD countries. Studies of minimum wages have also shown partly positive and partly negative effects. The economic assessment of individual standards has to be taken with caution as the bigger picture of cross-standard effects can easily be missed.

Further research, notably at country, economic sector and enterprise level, is required to discern the impact of standards more precisely and to learn about causal relationships. Nevertheless, it is safe to say at this point that the results of the methodologically superior studies point to the net economic advantages to be gained from adherence to standards. Among the most compelling evidence is a study of the countries of Northern Europe. On almost all indicators they rank top or near the top in respect of the implementation of ILS and economic achievement. High rates of worker and employer organization, collective bargaining coverage, highly developed welfare states, high real wages and gender equality coexist with high average economic growth, high rates of employment, advanced technologies, world class competitiveness, low inflation, positive trade, fiscal and current account balances, and high levels of social and political stability. They are among the least protectionist countries worldwide.

6. What Hinders Faster Progress to Fully Implementing ILS?

In spite of the evidence pointing to salutary outcomes where ILS are in place, there are major barriers blocking the advancement of standards. They include lack of knowledge about the advantages of ILS; economic dogmatism; vested interests and prejudice on the part of the business community; individual or local opportunism undermining comprehensive development interests; and short-term concerns taking precedence over long-term policy goals. Many national governments and some organizations in the multilateral system tend to give priority in their policies to economic goals over social objectives; the international organizations have largely failed to coordinate these policies. Only very recently have the international financial institutions, among them the World Bank and the International Monetary Fund, come to endorse the core ILO Conventions. They still consider social standards more as a hindrance than a help to efficient labour markets and development in general. Finally, the decline of trade union membership in many countries and the suppression of unions in many developing countries have weakened pressure from the most important stakeholder in favour of ILS. A good part of the erosion of trade union power can be attributed to the effects of economic globalization. It has opened up new and better strategic options for capital, such as the relocation of production and services across national borders, but not to labour. Declining rates of growth, higher joblessness and the expanded informal economy in much of the developing world have also been detrimental to union strength.

7. What is Required for Fostering Global Compliance with ILS?

The identification of obstacles to global adherence to ILS provides clues for policies and measures to promote them more effectively. Neither the law nor economic growth is sufficient for their advancement. An enabling framework of institutions and actors is as indispensable as political pressure to ensure progress. The enabling environment should include the following factors:

- Greater and broader knowledge about the content, role and effects of ILS has to be generated in order to inform policy making and raise the general awareness of the population. This can be achieved through more and better research and advocacy. The positive impact of standards can be demonstrated by appropriate case material at the enterprise, sectoral and country level.
- ILS have to be made a political priority in international and national policy design. The majority of countries have committed themselves to this objective in international agreements and at various world summits, including the World Summit for Social Development in 1995 and the millenium development agenda. In practice, however, policies and action have not lived up to the commitment. New endeavours are required to work more credibly and forcefully towards meeting the international development goals. ILS must take a prominent place in global governance.
- In the multilateral system, greater coherence of policy and better coordination of action among the various agencies has to be achieved to support the promotion of ILS. The influential and financially potent international financial institutions, notably the World Bank Group and the International Monetary Fund, bear responsibility for promoting ILS. While they now endorse all core ILO Conventions, they have yet to demonstrate their support for these standards by making compliance with standards a condition for lending and procurement. Placing economic and social goals on an equal footing, and integrating the policies at the international level will have to be backed up by corresponding action in national governments.
- Trade unions as the single most important advocate of ILS must gain greater legal security and influence nationally and internationally. Freedom of association, the right to organize and the right to collective bargaining must receive recognition and support in countries where these rights are not, or not fully, respected. Organizations of workers and employers need to be more effectively involved in policy formulation and implementation, as for example in relation to poverty reduction strategies papers and internationally coordinated policies for the promotion of global growth and employment. Trade unions have widened their campaigns and activities at the global level, including lobbying of international organizations and negotiations with transnational companies. There are a rapidly rising number of international framework agreements between multinationals and gobal union federations which cover the joint monitoring of the implementation core ILS in the companies' production networks. The unions can extend their influence further by forming alliances and coordinating their actions with other NGOs that are active in the labour and social policy fields.
- The realization of ILS in many developing countries is hampered by a lack of adminis-

trative capacity, professional competence and financial resources. In part, this deficit results from misguided policies of structural adjustment, notably unconditional privatization, with the effect of unduly retrenching the public sector and making public sector wages uncompetitive. Building or rebuilding public administration and public services, and the education and training of government officials and social partners, is essential for implementing, monitoring and inspecting ILS. The financial obstacles to pursuing social policies in poor countries must be reduced, inter alia by a commitment from the rich world to the restructuring and relief of debt.

- ILS must be promoted by a system of material and institutional incentives for their observance. Negative sanctions, such as exclusion from trade and investment, should be the last resort in cases of continued, serious violations of fundamental worker rights. Positive incentives can be set by granting financial support and trade preferences to countries that respect labour standards – this is mainly being practiced by the U.S. and the European Union – and by providing advisory services and technical support for countries seeking improvement in their labour and social policies.
- The number and spectrum of actors that bear responsibility for advancing ILS has to be broadened. While national governments should not be relieved from their ultimate accountability for ensuring labour conditions in compliance with ILS, other actors must share responsibility. Initiatives have already been taken in this direction, including action by consumer groups and other civil society organizations, usually taking the form of sector-specific product labeling; and by companies through codes of conduct. Such action by the private sector can be extended to include more enterprises and to reach all contractors and suppliers in the value chain. While initiatives under the heading of "corporate social responsibility" have proliferated in recent years, it remains to be seen to what extent these are genuine commitments to the advancement of ILS, or merely tactics for better publicity or window-dressing. To ensure real impact self-responsible action of enterprises should be subjected to independent monitoring and verification. Consistency with ILO norms should be ensured. International agreements providing guidelines for company conduct and supervision have been set by the ILO, OECD and UN. Core ILS should be made a regular component of "ethical investments", including those drawn from pension funds.

In the final analysis, social progress in the age of globalization emanates from the motivation and mobilization of people all over the world based on greater awareness and better understanding of the need for common principles and rules. At present, the feeling predominates that globalization is controlled by a few and serves few. Yet, there is nothing intrinsic to globalization that makes this outcome inexorable or immutable. Globalization offers the means to be better informed about what happens in various corners of the world, including malpractices as well as good practices in the area of labour. Easy global networking available today can facilitate the organization of political action necessary to make universal labour standards a reality everywhere.

1. Introduction

This report focuses on the role that universal international labour standards (ILS) can play in promoting social progress in the context of economic globalization. It presents the case for and against ILS. It shows how they can contribute to economic, social and political development. It identifies the dividends that can be earned by adhering to standards, both for developed and developing countries. The report also examines what obstacles are holding back progress on the compliance with standards and discusses the institutional setting required to benefit fully from ILS.

It is important to consider the purpose and effects of applying ILS because not everybody is convinced that they are the right way to advance the working and living conditions of workers everywhere. Mainstream economists argue that market-led economic growth is the best, if not the only, way to ameliorate the lot of the working population. Others have softened their adversary stance on ILS and the international financial institutions have indicated their readiness for a dialogue. Still, there is a tendency to endorse and support some standards but not others. The universality and coherence of the international labour code is currently at stake. Ardent critics go further. They assert that the pursuit of ILS will be detrimental to the material well-being of the workers because they will stifle markets and impede economic growth. They will deprive developing countries of their natural comparative advantages.

Proponents of ILS argue that the fundamental (or core) ILS are human rights, and should be respected as such, regardless of whether they are economically beneficial. They need no additional justification. Yet, while the moral foundations of labour standards are largely unquestioned, the fact that many ILS are widely seen as a drag on efficiency, economic growth, employment and competitiveness, creates a major impediment to carrying ILS forward. Although the negative view on standards has been held for a long time, it has seen a strong revival in the context of intensified international competition and the increased inequality between countries following the liberalization of product, capital and financial markets in recent decades. Job losses are blamed on "excessive" labour costs and social spending. Companies call on governments to repeal social standards, and threaten to move abroad. Governments face a dilemma: How to control enterprises to avoid negative social impacts, without risking the outmigration of production and firms and lower economic growth? Fearing capital flight, many governments have chosen to give in to the pressures. They relaxed labour standards, reduced social expenditure and provided tax breaks on capital income. They forced other countries to follow suit. By 2001, more than 100 countries offered tax holidays to foreign investors, expecting to attract foreign capital and stimulate exports (Hansen 2001). The drawback for long-term development is obvious – it reduces the fiscal revenues required for public investment in the physical and social infrastructure and the strengthening of national institutions that are preconditions for the more constructive way to secure capital inflows. Furthermore, an eroding tax base reduces the opportunity for conducting redistributive policies and, in turn, diminishes domestic economic growth.

The perception of adverse economic effects from ILS discourages policy makers from advancing them vigorously. Therefore, it is essential to examine the received economics of standards, and to refute misconceptions. There are multiple reasons for the reluctance to abide by ILS. Among them are the unscrupulous pursuit of vested interests, short-sighted business strategies, anti-social ideologies and economic dogmas. All too often, it is argued that in the presence of global competition, there is no room for wage increases and improvements in working conditions, social security, etc. or, that such improvements are too expensive for poor countries. If that were so, why then should we proceed with economic globalization? Who is to benefit from it? Obviously, the existing patterns of globalization, and the preconceptions and policies driving them, need to be revised if international economic integration is to be a tool for social progress.

It is the basic premise of this report that ILS need to be part of a global set of rules. These will have to govern a development course that is beneficial to the majority of people. The chance that a generally accepted standard of practice will actually play that role depends on a proper understanding of the regulations, why they should be applied, what they may accomplish, and how they can be made to work. Economic growth is essential but it is not sufficient to ensure inclusive social progress, social justice and the eradication of poverty.

2. The Context of Globalization

The widely acknowledged elements of economic globalization comprise the liberalization of international trade, the expansion of foreign direct investment (FDI), the global organization of production, and the emergence of massive cross-border financial flows. This resulted in the increased integration of markets and intensified international competition. Globalization came about through the combined effect of two underlying forces: policy decisions to reduce national economic barriers (tariffs and non-tariff barriers), and the impact of new information, communication and transport technology (ITC).

World trade has expanded rapidly since the 1970s, and has grown significantly faster than production. Trade as a percentage of gross domestic product (GDP) increased from 28 per cent at the beginning of the 1970s to 58 per cent at the end of the 1990s. FDI started to accelerate during the 1980s, both absolutely and as a percentage of GDP. It reached a peak in the year 2000 when the value of FDI flows exceeded 50 per cent of global GDP. The subsequent decline in the volume of FDI came to a halt in 2004, and began to rebound. The composition of FDI has shifted towards services in all regions. By 2002, 60 per cent of the inward FDI stock, and 67 per cent of the outward FDI stock, related to services, while the share of manufacturing in FDI flows had declined to 34, respectively 29 per cent. Since the late 1980s there has been a global trend towards rapid integration of financial markets. Financial liberalization includes the removal of controls over the allocation of credit and the opening up of national capital accounts. New information and communication technology has made it easier and faster to transfer capital and shift goods across borders. The cost of transport and communications has delined substantially during the past 75 years: in 1970, the average cost of sea freight was 44 per cent and, in 2000, 32 per cent of 1930 expenditure; the figures for air transport were 24 per cent and 14 per cent respectively; and telecommunication costs were 14 per cent and 2 per cent respectively, of the 1930 level.

Transnational corporations (TNCs) serve as the main engines of economic globalization. They have come to dominate international trade, investment and technology. They are the principal drivers of cross-border value chains. The liberalization of product and capital markets together with advances in ITC has amplified the options to organize production in locations offshore from firms' home countries. Offshoring is done through the establishment of foreign affiliates (sometimes called "captive offshoring") or by outsourcing production or services to third party providers ("offshore outsourcing"), be it a local company or a foreign affiliate of another TNC. According to UNCTAD, the number of TNCs is estimated at some 65,000 parent firms with around 870,000 foreign affiliates and a plethora of inter-firm networks, spanning virtually all countries and economic activities. In 2001, foreign affiliates accounted for 54 million employees compared to 24 million in 1990. Three out of four

* Unless otherwise indicated, the statistical data presented in this chapter are taken from periodical reports of international organizations, particularly the *Human Development Reports* of UNDP, the *World Investment Reports* of UNCTAD, the *World Development Reports* of the World Bank, the *World Economic Outlook* of the International Monetary Fund, and the *World Employment Reports* and the *World Labour Reports* of the ILO.

TNCs have their origin in the United States, Japan or Europe. Except for one TNC from the Republic of Korea, the largest 100 TNCs have their headquarters located in OECD countries. The economic capacity of the largest multinationals exceeds that of many nation states. Among the largest 100 economic entities in the world are 51 private corporations and 49 nation states. The aggregate economic power of the 5 largest TNCs is greater than that of the 46 poorest countries.

The swiftly progressing integration of world markets is demonstrated by the following figures: Between 1985 and 2002, the nominal world gross domestic product increased 2.5 times, exports of goods and services increased 3.4 times, inflows of portfolio investment increased 5.3 times, and inflows of FDI increased 10.9 fold (Table 2.1). Cross-border financial capital movements have reached an enormous magnitude. Daily financial transactions by banks and currency traders amount to more than US$ 1.2 trillion (US$ 1.500 billion), mostly in the form of currency speculation. Economically, the world is more interconnected and interdependent than ever before.

A) Economic and Social Deficits in a Divided World

Standard economic wisdom tells us that economic globalization will boost economic growth and employment, and enrich every participating country. Net gains accrue from economic integration, even though within a country there may be winners and losers. With liberalized foreign trade and investment, funds will flow to the poor countries where capital is scarce, and hence, the return on investment will be higher than in the developed industrialized countries. Capital inflows may come in the form of loans or portfolio investment, supplementing domestic savings and loosening the financial constraint on national public budgets and on additional investment by local companies. Or they may take the form of foreign direct investment (FDI), which is expected to bring about greater efficiency as a result of more intense competition, trade specialization in accordance with local comparative advantages and the transfer of technology and superior management techniques. If a developed country that produces skill intensive products trades with a less developed country producing commodities with low skill content, both countries are said to benefit. According to the standard economic theory on trade – first developed by David Ricardo, and more recently elaborated in the Heckscher-Ohlin and the Stolper-Samuelson theorems – trade will entail factor cost equalization that will diminish the economic disparities between nations and eventually let them converge at the same level of income.

Today's reality falls far short of the promises of globalization. After three decades during which FDI and portfolio investment grew faster than trade, and trade grew faster than output, the economic and social outcome is mixed at best. On the positive side, countries in East and South East Asia have made a big leap forward in economic development. In twenty years, largely due to high economic growth in the emerging economies in South East Asia, China and India, the poverty rate in Asia has been cut by half and more than 350 million people have been lifted out of destitution. During the 1990s, according to World Bank figures, extreme poverty declined worldwide from 29 per cent to 23 per cent. However, the number of poor people worldwide remained almost the same. The industrial countries, thanks to their abundance of capital, political and market power and technological leadership, have also benefited from globalization.

Yet, the downside of global economic development weighs heavily. Many economic and social indicators show negative trends. They affect the working population both in the South and the North. Global GDP growth slowed from an average 5.3 per cent in the 1960s to 3.5 per cent in the 1970s, 3.1 per cent in the 1980s, and 2.3 per cent in the 1990s. For the world economy as a whole, per capita output increased by merely 33 per cent during the 1980s and 1990s, compared to a rate of 83 per cent in the 1960s and 1970s. The rate of productivity improvement declined everywhere except in some parts of Asia. The average global growth rate of productivity for the 1990s was no more than 1.1 per cent. Many countries in Sub-Saharan Africa, Latin America, the Middle East, and Eastern Europe and Central Asia saw economic decline or stagnation and increasing poverty.

Unemployment, underemployment and poverty

The employment situation remains deeply flawed. Global un- and underemployment has risen as the average rate of economic growth declined from the beginning of the 1970s. In the 1990s, the world labour force grew at an annual average rate of 1.7 per cent, compared with a world employment growth rate of only 1.4 per cent. As a result, global *unemployment* grew from 100 to 160 million in that decade. In 2003, the ILO estimated total unemployment to stand at 186 million, corresponding to and unemployment rate of 6.3 per cent. Almost half of the jobless workers are young people between 15 and 24 years of age. The global youth unemployment rate reached an all-time high of 14.4 per cent, a level more than double the overall unemployment rate. The OECD countries, which have the most reliable data on unemployment, saw a rise in joblessness from an average 3 per cent in the 1960s to 7.4 per cent in the 1990s. The average level of increase in the European Union was even sharper.

The rate of open unemployment reflects only part of the global employment deficit. It has limited applicability in many developing countries where self-employment accounts for a large part of total employment. Self-employment as a percentage of the non-agricultural labour force runs as high as 53 per cent in Sub-Saharan Africa, 43 per cent in South America, 55 per cent in the Caribbean, and 50 per cent in Southern Asia. In Pakistan, for example, where the proportion of employees in total employment was 36.4 per cent in 1999, the unemployment rate measured conventionally was 5.9 per cent, whereas the "employee-specific" unemployment rate stood at 14.7 per cent. For developing countries, a better indicator of labour surplus is under-employment, i.e. not having as much work as one wants to have. The ILO estimates that presently there about one billion people – approximately one-third of the global labour force – who are unemployed or underemployed.

The world is not only full of underemployed workers, it is also replete with *overworked* people. In many countries, hours of work are not only long but have been increasing. This is true even for the high-income countries. For example, the average American reported 83 working hours per year – or 4 per cent – more in 1999 than in 1980 (Olson, 1999). Mental health problems at the workplace, especially stress, are rising in industrialized countries (Gabriel and Liimatainen, 2000).

A large part of the world's population is poor. In the developing countries, the proportion of people living in poverty is about 40 per cent. *Absolute poverty* is generally defined as a level of income inadequate to meet the need for food and other essentials such as health, clothing, shelter and transport. In 2001, twenty-one per cent of the world's population, 1.1 billion people, lived on less than US $ 1.08 a day, the indicator most often used by the World Bank for measuring absolute income poverty (The Bank has been charged of underestimating poverty. For a critique of the methodology used, see Wade 2004). In 1987, the figure had stood at 28.6 per cent. The estimate for 2003 is 19.5 per cent. However, these figures are not so encouraging if the following facts are also considered: The actual number of extremely poor people dropped only slightly during the 1990s. Poverty reduction is slower than growth, which means that the world is becoming more and more unequal. Poverty reduction has not reached every country. In 2005, 54 countries are poorer than they were in 1990. The highest shares of poor people were recorded in South Asia (40.0 per cent) and Sub-Saharan Africa (46.3 per cent). These two regions together accounted for around 70 per cent of the population living on less than $ 1 a day. In eight African countries, more than one-half of the population subsisted in absolute poverty. Between 1987 and 1998, the share of poor people remained constant in Sub-Saharan Africa, rose slowly in Latin America, and more than tripled in Eastern Europe and Central Asia. The poverty rate fell in South Asia and East Asia. A total of 799 million people in developing countries and 41 million in developed and transition countries are undernourished. Life expectancy at birth in the least developed countries is under 50 years, compared to 77 years in developed countries.

Relative poverty is measured by the share of the population living on less than a certain percentage of national income or consumption. Taking the threshhold of one-third of the average national consumption for 1993, poverty ran as high as 32 per cent for all regions in 1998, and 37 per cent if China is excluded. The respective figures were 51.4 per cent for Latin America and the Caribbean, 40.2 per cent for South Asia and 50.5 per cent for Sub-Saharan Africa (Chen and Ravillon, 2000). Low labour income is one of the main causes of poverty. 550 million workers are counted as *working poor* (for the concept of working poverty, see Majid, 2001). They are unable to earn enough to lift themselves and their families over the most minimal poverty line of US $ 1 per person per day. Nearly half of the world's labour force earns less than US $ 2 per day.

Rising inequality

The most striking economic trend during the last two decades is increased economic divergence between regions and countries. Table 2.1 indicates that in the period between 1985 and 2002, average income measured in GDP, rose substantially in China and India and in the high-income countries, much less in middle-income countries and very little in low-income countries. Although people in the high income countries account for no more than 14 per cent of world population, their share of income grew to more than 80 per cent of total world income, while the share of low-income countries shrank from 4.5 to 2 per cent. China and India increased their share in the world volume of trade and capital flows, but the high-income countries retained the lion's share, and low-income and middle-income countries faced great losses resulting in a highly uneven regional distribution of trade and capital flows. Both FDI and portfolio investments remain concentrated in the OECD countries. The group of 50 least developed countries (LDCs) received no more than 1.25 per cent of the global inflows of FDI. To capture the full impact of trade on the relative economic fortune of a country, we need to also look at price changes, in addition to shifts in quantities. Between 1985 and 2002, the terms of trade, i.e. the relationship in the prices of imports and exports, have shifted clearly in favour of the high-income and middle-income countries and to the disadvantage of low-income countries (see World Bank development indicators, 2003).

Most of the inter-country trade and capital movements remain within regional boundaries, or between countries of similar levels of development. Thus, for example, imports and exports between European Union (EU) member countries account for an average of about 25 per cent of GDP – but only 8 per cent of GDP is traded outside the EU. In 2000, roughly 90 per cent of global gross FDI flows originated in the developed countries, and 70 per cent had developed countries as their destination. Just ten developed countries received 74 per cent of total FDI inflows in 1999, and only ten developing countries received 80 per cent of total FDI flows to the developing world. More than 40 per cent went to the United States. The U.S. as the largest investor country placed most of its money in the rich world. Of a total stock of 1.21 trillion

TABLE 2.1: World and regional income, exports and capital flows, 1985-2002

Indicator	US $ billion 1985	US $ billion 2002	Rate of increase 1985-2002	Percentage share 1985	Percentage share 2002
Gross domestic product					
China and India	559	1922	3.4 fold increase	4.4	6.0
Low-income countries, excl. India	579	635	1.1 fold increase	4.5	2.0
Middle-income countries, excl. China	2 234	3 703	1.7 fold increase	17.5	11.5
High-income countries	9 393	25 867	2.8 fold increase	73.6	80.5
World	12 765	32 127	2.5 fold increase	100.0	100.0
Exports of goods and services					
China and India	79	685	8.7 fold increase	3.4	8.7
Low-income countries, exc. India	83	215	2.6 fold increase	3.6	2.7
Middle income countries, excl. China	334	1 227	2.8 fold increase	18.7	15.6
High-income countries	1 719	5 733	3.3 fold increase	74.3	72.9
World	2 314	7860	3.4 fold increase	100.0	100.0
Inflows of FDI					
China and India	1.7	62.0	37 fold increase	2.9	9.8
Low-income countries, excl India	1.9	7.1	3.7 fold increase	3.3	1.1
Middle-income countries, Excl. China	9.7	79.1	8.1 fold increase	16.8	12.5
High income countries	44.7	484.3	10.8 fold increase	77.1	76.8
World	58	633	10.9 fold increase	100.0	100.0
Inflows of total portfolio investments					
China and India	2.3	49.8	22.0 fold increase	1.7	6.9
Low-income countries, excl. India	0.05	0.07	1.3 fold increase	0.04	0.009
Middle-income countries, excl. China	9.1	30.0	3.3 fold increase	6.7	4.2
High-income countries	123.9	639.9	5.2 fold increase	91.6	89.9
World	135.2	719.8	5.3 fold increase	100.0	100.0

Source: Gunter and van der Hoeven, 2004, p. 10.

US $ of outward FDI in 2000, 81 per cent went to high income countries, primarily Canada, Japan and Western Europe; and nearly all the rest was placed in middle-income countries such as Brazil, Mexico, Indonesia and Thailand. The poorest developing countries accounted for 1 per cent of America's total outward investment (The Economist, September 29, 2001). During the 1990s, developing countries gained a somewhat greater share of global FDI inflows but they appear still severely disadvantaged if this cross-border investment is measured in per capita terms. While the developing countries as a whole are net importers of capital, there have been cases of net export of capital from the South to the North. This has happened especially in Sub-Saharan Africa, where countries spend up to half of their total national budget for debt servicing.

In 2002, the total amount of FDI worldwide amounted to about US$ 7 trillion. Table 2.1 shows, that the volume of cross-country capital flows via portfolio investments has been larger than that of FDI. By value in 1999, some 90 per cent of all cross-border mergers and acquisitions (M&As), including most of the 109 mega deals with transaction values of more than $ 1 billion, were carried out in developed countries. These countries have received the highest shares of mergers and acquisitions in their GDP and have witnessed a parallel increase in FDI flows.

FDI flows are unevenly distributed within host countries. Usually, the most developed regions and the areas in and around the capital city receive the bulk of inward investment, while backward or depressed areas are mostly by-passed. This exacerbates existing regional disparities in development.

Declining shares of world trade, reduced net capital inflows, and erratic fluctuations in the world financial markets all contributed to the serious economic setbacks in Sub-Saharan Africa and Latin America during the past two decades. Despite swift liberalization of prices and markets, privatization, increasing trade and FDI, few of the transition countries in Central and Eastern Europe and Central Asia began to approach the levels of prosperity in Western Europe. Most of them have continued to fall behind Western income levels (UNECE, 2001, p. 49).

Table 2.2 illustrates the grotesque degree of *economic and social inequality* between countries at the turn of the 21st century. It shows the enormous gap in the average income between the richest and the poorest countries. The mean GDP per person in Luxembourg is 114 times higher than in Sierra Leone. In Luxembourg, just 0.3 per cent of the population lives on US$ 2 per person per day whereas in some African countries it is as much as 90 per cent. The share of working poor, i.e. people who are poor despite having a job, in low-income countries is as high as 75 per cent.

The income disparity between rich and poor countries has widened over time. In 1960, GDP per capita in the richest 20 countries was 18 times higher than in the poorest 20 countries. By 1995, this gap had widened to 37 times higher, signalling a sharp trend towards divergence. Long-term trends also show increasing discrepancy: The ratio of the richest 20 per cent to the poorest 20 per cent of humankind was 3 to1 in 1820, increasing to 11 to1 in 1913, to 30 to1 in 1970, and to 86 to1 in 1990. At that time the richest 20 per cent of world population had 86 per cent of the global wealth at their disposal (UNDP 1999). Contrary to the theory of globalization, the standard of living of people and countries has not converged, instead the gap has widened.

Table 2.2 also shows enormous income differentials *within* countries, indicated by the ratio of the richest 10 per cent to the poorest 10 per cent of the country's population, the percentage of citizens with less than 50 per cent of the median income, and the Gini-index which measures the degree of inequality in personal income distribution ranging from 0 to 1. Taking all countries for which reliable data is available, the average value of the Gini-index increased

TABLE 2.2: Prosperity, income inequality, and poverty in selected countries

Country	GDP per capita (PPP $ in 2001)	Income inequality: Gini index	Income inequality: Richest 10% poorest 10%	Income inequality: less 50 % of median	Poverty: less 1$ a day	Poverty: less 2 $ a day	Working poor
High income countries							
Luxembourg	53,780	30,8	7,7	3,9		0,3*	
United States	34,320	40,8	16,6	17,0		13,6*	
Denmark	29,000	24,7	8,1	9,2			
Germany	25,350	38,2	14,2	7,5		7,3*	
Sweden	24,180	25,0	5,9	6,6		6,3*	
United Kingdom	24,160	36,1	13,4	12,5		15,7*	
Middle income countries							
Czech Republic	14,720	25,4	5,2	4,9			
South Africa	11,290	59,3	65,1	11,5	35,8	12,6	
Poland	9,450	31,6	7,8				
Chile	9,190	57,5	20,7	18,4	4,2		
Russian Federation	7,100	48,7	20,3		7,0	25,1	
Brazil	7,360	59,1	65,8		9,9	25,3	5,1
Romania	5,830	28,2	7,2		2,8	27,5	
Peru	4,570	46,2	22,3		15,5	41,4	16,8
Ukraine	4,350	29,0	6,4		2,9	45,6	
China	4,020	40,3	12,7		18,5	53,7	19,1
Egypt	3,520	28,9	8,0		3,1	52,7	3,3
Low income countries							
Indonesia	2,940	31,7	7,8		7,7	55,3	15,7
Honduras	2,830	59,0	49,1		23,8	44,4	41.8
India	2,840	37,9	9,5		34,7	79,9	45,4
Bangladesh	1,610	33,6	6,8		29,1	77,8	30,0
Nepal	1,310	36,7	9,3		37,7	82,5	38,9
Kenya	980	44,5	15,6		26,5	62,3	27,3
Nigeria	850	50,6	24,9		70,2	90,8	72,4
Mali	810	60,5	26,2		72,8	90,5	75,1
Tanzania	520	38,2	10,8		19,9	59,7	20,5
Sierra Leone	470	62,9	87,2		57,0	74,5	56,1
OECD	23,363						
World	7,376						

Sources: UNDP, Human Development Report 2003; ILO Global Employment Trends, 2003; Majid 2001.
*Percentage of population below US$ 11 a day

from 0.40 to 0.48 during the 1990s (IMF 2000). Between 1960 and 2000, of 73 countries surveyed, income differentials increased in 48 countries covering 80 per cent of world population. The differentials remained the same in 16 countries and diminished in 9 countries (UNDP 2002, p. 20). Even China and India where, according to World Bank statistics, absolute poverty declined, saw a significant polarization of their personal incomes. While nearly 90 per cent of urban households in China reported income and consumption gains since the country's accession to the WTO, rural households sustained an average income loss of 0.7 per cent. The poorest rural households suffered a sharp 6 per cent decline in living standards (World Bank 2005b). In the industrialized world, wage and income dispersion was particularly pronounced in Anglo-Saxon countries (see Box 2.1).

Wage inequality has risen in the 1980s and 1990s, reversing a decline in many nations between the 1950s and the 1970s. Rising wage inequality is documented for two-thirds of the 77 countries with adequate data (Cornia 1998). In many African and Latin American countries, the share of wages in value added in manufacturing industries was lower in the 1990s than in the 1970s (van der Hoeven 2000). Disparities in pay for similar work across countries widened in exchange rate terms (Freeman and Oostendorp 1991). Income inequality between individuals has increased more sharply in recent decades than during the earlier part of the twentieth century (Bourgignon and Morrisson 1999). During the 1990s it worsened dramatically in many transition countries. In Russia, for example, the Gini-coefficient of per capita income jumped to 48.7 per cent, more than twice the level in 1989. In many countries, the real wages of industrial workers have stagnated or even declined, while the wage distribution has widened. In Latin America, for example, real wages are now 4 per cent less than in 1980, while minimum wages in real terms are 30 per cent less.

Due to a lack of employment opportunities, poverty, and large inter-country income differentials, as well as political harassment and persecution, many people look for work outside their home country. The ILO estimates the current global total number of *migrant workers* and family members to be about 120 million, 75 million more than in 1965. The number of people residing temporarily or permanently outside their country of citizenship is estimated at around 180 million by the International Organization of Migration (IOM). Between 1970 and 1990, the number of countries with sizeable worker emigration increased from 29 to 55 and the number of countries with significant immigration rose from 39 to 76. The evidence points to a probable worsening of migration pressures in many parts of the world (Stalker 2000). Many permanent immigrants and refugees – as well as migrant workers – seek remunerative activity, participate in the labour force, and face discrimination and xenophobia directed at foreigners in host countries.

Increased unemployment, underemployment and poverty are also mainly responsible for the expansion of the *informal economy* in many countries, especially in Africa and Latin America. Information on informal employment as a percentage of total employment is available for 42 countries. Out of these, 17 had more than half of their total employment in the informal sector and only four had less than 10 per cent in the informal sector. Countries with particularly high proportions of informal work were Peru (60.6 per cent), Brazil (43.4 per cent), Ethiopia (64.8 per cent), United Republic of Tanzania (85.3 per cent), India (57.0 per cent), and Nepal (86.5 per cent). Data for countries, for which time series are available, show that employment in the informal economy increased during the 1990s (ILO 2002b, p.12-14). The informal economy has grown rapidly in transition countries of Central and Eastern Europe and Central Asia. Measured as a percentage of GNP, the informal economy is actually larger than the

BOX 2.1: Real wage stagnation and rising inequality of income and employment in industrialized countries

In the industrialized world, particularly in the United Kingdom and the United States, wage inequality has risen during the last two decades. For example, in the United States, average real wages declined by 2.8 per cent during the 1980s, but for low skilled labour they fell by 16.9 per cent, whereas for the upper third of the labour force they rose by 1.1 per cent (John and Murphy 1995). At the end of the 1990s, the median real wage was substantially below the level in 1973 when the downturn began. In 1999, the average nominal wage increase of 3.6 per cent was considerably lower than it was during the similarly tight labour market in the 1960s and early 1970s (Mishel, Bernstein and Schmitt 2000; The Economist 2000). The average worker failed to share in the gains from economic growth during the last quarter of the century. This is drastically different from the previous 27 years (sometimes called the "golden age of capitalism"), during which the average wage increased by about 80 per cent in real terms. Over the last two decades, the distribution of household incomes in the U.S. has become much more unequal. The ratio between the incomes of the highest 5 per cent of households and the lowest 20 per cent rose from 11 : 1 to 19 : 1. (Schäfer 2002). The 13,000 richest families in America now have almost as much income as the 20 million poorest. And those 13,000 families have incomes 300 times that of the average family (Krugman 2002, p.65).

Income disparities have also increased in Continental Europe (Schulten 2001). In Germany, for example, the net share of wages in total income sank from 53 per cent in 1980 to 44 per cent in 2001, while the net profit rate rose from 25 per cent to 30 per cent. At the same time, the proportion of low wage earners has risen from 30 per cent in 1975 to 36 per cent at present, while the size of the middle income group has shrunk by 8 percentage points to 48 per cent. These trends, together with an increased tax burden for employees, led to reduced labour demand, lower savings rates and diminished public investment in the 1990s (Schäfer 2002). In addition, rising inequality in Europe showed up in the 1980s in higher unemployment disproportionately affecting the low skilled.

The increased wage differerentials and higher unemployment among the less skilled labour force in the industrialized countries have provoked researchers to investigate whether these heightened inequalities result from North-South trade, and whether they support the Stolper-Samuelson theorem that predicts trade-induced wage level equalization across countries. According to a study of the United States, trade accounted for 15 –20 per cent of the widened U. S. wage differentials (Cline 1997) Another study found that, as a result of trade expansion with developing countries, the demand for low skilled labour in the North declined by about 20 per cent during the 1880s. Goods imported by developed countries are more labour-intensive than those they export, so that there is a net loss of jobs even if there is no trade deficit (Wood 1994; Wood 1995). However, others have disputed the significance of the trade-wage-link or the trade-demand link by pointing to the small volume (2 per cent of GDP in the OECD countries) of trade between industrialized and developing countries. They view increased wage inequality as the result of changes in technology leading to rising demand for higher skills (Krugman 1995; Lee 1996). But countries using the same technology saw different degrees of increase in inequality, suggesting that institutional influences were at work as well. Shrinking real wages and greater wage disparities may have also been caused by rising unemployment and the weakening of trade unions in that period. For the U.S., it is estimated that the decline in unionization accounted for 20 per cent of the increase in the dispersion of male earnings (van der Hoeven 2000). Recently, the economist Paul Krugman attributed the vast rise in income inequality in the U.S. to a change of social norms in the country. The New Deal imposed norms of relative equality in pay and after tax-income that persisted for more than 30 years, creating a broad middle-class society. But those norms began to unravel in the 1970s, and have done so at an accelerating pace (Krugman 2002).

formal economy in Azerbaijan, Georgia and Ukraine, and almost as large as the formal economy in Armenia, Belarus, Moldova and Russia.

'Decent Work' Deficits

Various indicators signal substantial problems or shortcomings with regard to labour and social conditions, and non-compliance with ILS. Nowadays, the ILO calls them *"decent work deficits"* (See ILO 2001, p.7 ff). For example, no more than 20 per cent of the world's citizens are covered by any kind of social security, and 75 per cent of the unemployed receive no compensation whatsoever. In many low-income countries, formal protection for old age and invalidity, and for sickness and health, reaches only a tiny proportion of the people. A recent ILO report found that the overwhelming majority of people are in a state of economic insecurity. Nearly three-quarters of all workers live in countries with low levels of economic security and only 8 per cent in countries providing favourable economic security (ILO 2004b).

Forced labour is the antithesis of decent work and universally condemned. However, it is not a relic of a bygone era, but still exists today with a new and ugly face. At least 12.3 million people are victims of forced labour worldwide. Of these, 9.8 million are exploited by private agents (ILO 2005b). Traditional types of forced labour, such as chattel slavery and bonded labour, are still practised in some areas. The main forms of forced labour existing today include slavery and abductions, compulsory participation in public works projects, forced labour in agriculture and remote rural areas (coercive recruitment systems), forced labour in domestic services, bonded labour, and forced labour imposed by the military. The illiterate and poor are especially vulnerable to being trapped, through manipulations and exploitation, into forced labour situations. In the new context of global markets, other forms, such as trafficking, of human beings have emerged almost everywhere (ILO 2001c). According to an ILO estimate, the number of persons in forced labour as a result of trafficking is 2.45 million, many of them women and children bound for work in the sex industry (ILO 2005b).

In 2004, the ILO estimated that 246 million children aged 5-14 years were *child labourers*. One out of six children in the world today is involved in child labour, doing work that is damaging to his or her mental, physical and emotional development. 73 million working children are less than 10 years old. Table 2.3 shows the number and percentage distribution of child labour by the level of development and region in the year 2000. According to these figures, the Asia and Pacific region has by far the largest number of economically active children, while Sub-Saharan Africa has the highest share of child labour in the population. Contrary to popular opinion, child labour is not confined to developing or poor countries. There are 2.5 million working children in developed economies, and another 2.5 million in transition economies. Nearly three quarters of working children are trapped in the worst forms of child labour, including slavery, trafficking, debt bondage, sexual exploitation, armed conflict and hazardous work. In 2002, in front of the ILO, at least 5 governments of developed countries acknowledged the suspected existence of one or more of the worst forms of child labour in their country. Although the proportion of child labour varies with the level of per capita income, economic growth does not automatically lead to the disappearance of child labour. Inspite of restrictive child labour legislation adopted by many developing countries, figures on child labour have increased in the past few decades. In part, this may be due to a shift of child labour from informal home and family enterprises into more visible, formal wage employment (Gunter and van der Hoeven 2004). The informal economy harbours most child labour, but the incidence of working children is also widespread in agriculture, fishing, manufacturing, tourism, domestic service, and construction, mining and quarrying.

TABLE 2.3: Estimates of economically active children (aged 5-14) in 2000

Region	Number of economically active children (millions)	Percentage of world total	Percentage in total child population
Developed economies	2.5	1	2
Transition economies	2.4	1	4
Asia and Pacific	127.3	60	19
Latin America and the Caribbean	17.4	8	16
Sub-Saharan Africa	48	23	29
Middle East and North Africa	13.4	6	16
Total	211	–	16

Source: ILO 2002, p. 19.

Virtually everywhere in the world we witness gender inequality with respect to the quality of jobs and the level of earnings. Its degree, however, varies greatly between countries (See Table 2.4). A major part of gender inequality results from discrimination in employment and occupation. Unequal treatment based on race, caste, ethnic origin, skin colour, religion and and health and disability is pervasive.

Freedom of association is flouted in many parts of the world. For example, for the year 2003, the International Confederation of Free Trade Unions (ICFTU) listed cases of violation of trade union rights in 134 countries. Violations include the closing or ransacking of trade union offices and the confiscation of files by government agents, hindering strike action, and the discrimination, intimidation, harassment, political persecution, inprisonment, and even murder of trade unionists. In Latin America alone, no less than 206 trade unionists were assassinated in 2002 (ICFTU 2003). There are often obstacles to worker representation and collective bargaining in export processing zones (EPZs). In the large majority of countries, only a small fraction of the work force is covered by a collective labour contract.

The number of *occupational accidents* worldwide amounts to an annual average of 250 million. Every year, more than 2 million people die of work-related accidents or occupational diseases. In many developing countries, death rates among workers are five to six times those in industrialized countries. More than 160 million workers fall ill each year as a result of workplace hazards. The poorest and least protected – often women, children and migrants – are among the most affected.

Negative economic trends and deteriorating social conditions tend to reinforce each other. For example, the weakening of trade unionism in many countries had various consequences for working and living conditions of the labour force. A study for the OECD on inequality in Latin America concluded that political attacks on unions and democratic institutions account for most of the increased inequality of income in this region (Robinson 2001).

b) The Ambivalence of Globalization

A growing number of people see a connection between the bleak economic and social situation in the world, the persistent and partly deepening social divisions within and across countries, and the unprecedented cross-border flow of private capital, goods, and services known as economic globalization. This is paradoxical, because the increase in trade and capital flows is expected – notably by mainstream

TABLE 2.4: Gender disparities in selected countries: The share of women in employment and their share in earnings, 2002

Country	Female economic activity rate as % off male rate	Women in government at ministerial level (% of total)	Administrators + managers (% women)	Estimated ratio of female to male earned income
High development countries				
Sweden	89	55.0	31	0.83
Finland	87	44.4	28	0.70
Canada	83	24.3	34	0.63
United States	82	31.8	46	0.62
Japan	68	5.7	10	0.46
Argentina	48	7.3	26	0.37
Mexico	48	11.7	25	0.38
Medium development countries				
Russia	82	–	37	0.64
Venezuela	54	0.0	2.7	0.41
Saudi Arabia	29	–	1.0	0.21
China	86	5.1	–	0.66
Sri Lanka	56	–	4	0.57
Namibia	59	16.3	67	0.51
Low development countries				
Pakistan	44	–	9	0.33
Yemen	37	–	4	0.30
Tanzania	93	–	–	0.71
Sierra Leone	54	8.1	–	0.41

Source : UNDP, Human Development Report 2004, Indicators 25 and 27.

economics – to raise the level of productivity, GDP growth, employment, and real income. Obviously, liberalized trade has created new opportunities for some groups, notably business and consumers, and for some countries. At the same time, others have suffered. Among them are many workers who have lost their job. In many places, job creation has not matched job destruction. Feelings of employment insecurity and anxieties about future opportunities in the labour market have risen nearly everywhere, even in the United States during the long economic boom and period of low unemployment in the 1990s. Recent polls show that American workers have become more, not less, anxious about their jobs. There is increasing evidence that persistent worker insecurity is largely a function of rapid increases in the extent and frequency of capital mobility and the corporate restructuring that follows in its wake. More than half the firms surveyed in a U.S. study threatened to close the plant and move to another country when faced by trade union organizing drives. In some sectors, the figure rose to 68 per cent. The study also found that only a small number (5 per cent) of the plants did actually close and move – but perception becomes part of reality (Bronfenbrenner, 2000). Widespread feelings of employment insecurity may explain the existence of protectionist sentiments. A Wall Street Journal/NBC poll carried out in the U.S. in 2000 found that 58 per cent of the Americans surveyed believed that foreign trade reduced jobs and wages. According to a Business Week/Harris poll, when American citizens were asked about their views on trade, only 10 per cent chose "free trade", 50 per cent chose "fair trade" and 37 per cent chose "protectionist trade" (Weisbrot et al., 2000). Since the mid-1970s, there has been a steadily rising insecurity among workers and consumers in Europe, according to Eurobarometer.

Moreover, it has become obvious that the thrust of globalization has contributed to the extreme inequality in opportunities for different countries. Some nations have advanced, many have fallen behind. Botswana is the only one of the 48 least-developed countries (LDCs) that has moved to the group of middle-income countries. Many nations in the developing world are economically marginalized.

The downside of globalization is also apparent when looking at economic sectors. Production has been relocated from the first world to the third world, where it was supposed to have augmented opportunities for employment and income. Yet, the evidence on this point is ambiguous at best. Often, it destroyed existing jobs by crowding out domestic firms. It could also not be confirmed that export-led growth boosts employment in the export sector and displaces jobs in the importing sectors. In a recent UNCTAD econometric study of 18 developing countries, plus the Republic of Korea, an increase in export or import penetration had no discernable impact on manufacturing employment. The reason for the outcome was that the developing countries shifted to "modern", more capital-intensive technologies to compete in world markets, and against cheap imports, both of which are also displacing local labour intensive firms (Dessing 2002). Furthermore, there is evidence from a study of the engineering industry that as a result of relocation, labour's share in value added has declined. This share ranged from 60 to 80 per cent in the developed countries, and reached no more than 20 to 50 per cent in the developing countries (ILO 1997a; ILO 1998b).

In many economic sectors, the relocation of employment to the South entailed more hazardous working conditions. Examples are reports about the atrocious job conditions of seafearers working on vessels that sail under the flags of convenience of low wage countries. The competition from sub-standard shipowners has increased so strongly during the last decade that even those shipping companies that want to employ qualified crews cannot withstand the financial pressure coming from the employers of under-qualified cheap crews. Another case in point is the breaking-up of outdated ships, which shifted from European and North American ports to China and the Republic of Korea and later on to India, Pakistan and Bangladesh. In the latter countries, the dismantling of ships is done by hand by workers who have no alternatives but to accept the extremely dirty and dangerous work. Shipbreaking has become one of the world's most unregulated industries, leaving a swathe of debris, disability and death in its wake (see ILO 2000e).

Some observers expected that the deep economic divisions in the world will dissipate with the spread of modern information and communication technology (ICT). Such hopes were premature. The technological revolution has not been all-encompassing. Instead, a "digital gap" has emerged within and between countries (Castells 1999; ILO 2001b). The disparities between industrialized and developing countries in the availability of ICT products, access to the internet, and the inputs critical for further technological advancement are wide.

The liberalization of financial markets has created volatile financial flows and insecurity in many countries, and worsened employment problems and the risks to workers' welfare. Large-scale, short-term capital flows invited by premature removal of capital account controls triggered the financial crisis that hit the South East Asian countries of Korea, Thailand, Indonesia, Malaysia and Taiwan. The speculative attacks on these countries' currencies wiped out part of the earlier economic gains, but benefited Western banks (for a detailed discussion of the origins and effects of the Asian crisis, see Stiglitz 2002a, chapter 4). Other countries afflicted by major financial crises during the 1990s and at the beginning of the 21st century, included Russia, Mexico, Brazil and Argentina. Since the Bretton Woods system of closed capital accounts and fixed exchange rates broke down in 1973, the number of financial crises has escalated. There is mounting evidence of the connection between financial liberalization and financial crises. The IMF estimated that between 1980 and 1996, two thirds of its member countries experienced significant currency or banking sector crises (Lindgren et. al. 1996), one often leading to another, and producing contagion effects on neighbouring economies. Volatile exchange rates pose a threat to free trade because they can easily wipe out comparative cost advantages. They evoke undesirable competition between countries, instead of desirable competition between firms. The problem of fierce exchange rate fluctuations has failed to be resolved in the multilateral system.

The undelivered promises of globalization make it doubtful whether the current process of economic globalization can be sustained. While modern information and communication technology will surely advance further, there could well be a backlash to market liberalization unless the outcomes of the process can be altered to allow more citizens and countries to benefit from it. The deepening inequalities, inequities and insecurities entail the risk of social disintegration that can become social and political dynamite. In a survey, The Economist described the sentiments of the general public towards globalization: "…people are puzzled, anxious, and suspicious. This climate of opinion is bad for democracy and bad for economic development" (*The Economist,* September 29, 2001). Indeed, history tells us that uneven development threatens democracy and social cohesion. During the twentieth century, high unemployment and serious inequalities within European countries gave rise to extremism on both the left and the right of the political spectrum. Towards the end of that century, the middle classes in the Asian countries that were struck by unregulated financial flows and the resulting economic crisis lost faith in the global financial system. These people had been the backbone of democratic movements and economic reform. In the absence of greater social justice, new radicalization and new hard-to-control manifestations of political unrest may be on the horizon.

Despite the insecurity, inequality and indecency of work directly or indirectly associated with globalization, it would be a tragic error, however, to blame the *means* of economic globalization (transnational trade and capital movements) as such for the present economic and social ills. The principal source of the problem is the *misguided policies* that shape the process of globalization, or more precisely, the lack of its social control. Where increasing trade and FDI were accompanied by social protection and institutional support for necessary adjustments, outcomes have been largely positive. The increasing gulf between countries, and particularly the marginalization of the LDCs, stems from their lack of access to the international markets, from being by-passed by foreign investment flows, or from being subject to vastly unequal terms of trade and highly uneven investment flows. The increase in the share of developing countries in global exports results from the concentration of this growth in not more than thirteen countries, ten of which are in Asia and three in Latin America (Ghose 2000). The rich countries have set rather high tariffs for manufacturers and agricultural producers in developing countries. Subsidies for agriculture in the developed countries exceed the total GDP of Sub-Saharan countries. Subsidies for farmers in the United States and Europe alone have been estimated by the World Bank to run as high as US $ 300 billion per annum. They cause an annual welfare loss of US $ 19.8 billion for developing countries. Tariffs and subsidies together lead in developing countries to excessively high imports and great barriers to exports. There is neither "free trade" nor "fair trade".

It is important to note that damage caused by agricultural subsidies is not limited to farmers in the developing countries, but also undercuts the rights and food security in the export subsidizing developed countries. Subsidies generally go to large-scale factory farming and big agribusiness, whereas many small family farmers and cooperatives suffer displacement and indebtedness. Concentration and centralization of agricultural production is increasing. Over 50 per cent of US production comes from only 2 per cent of farms, while 9 per cent of production comes from 73 per cent of farms (IUF 2003).

Partly upon pressure from the international financial institutions, many of the poor countries have opened their markets quickly, only to see their domestic industries disappear. One of the striking examples is the destruction of the Zambian textile industry as a result of speedy import liberalization imposed as an IMF lending condition (see Box 2.2).

The Zambian textile industry is not the only one which has nearly disappeared as a result of the trade with second-hand clothes from industrialized countries. From the mid-1980s, Kenya's market for clothes has been flooded with second-hand imports, undercutting the prices for local products. Containers carrying 135 tons of used garments worth US$ 17,200 have been periodically unloaded in the port of Mombasa, and shipped to the Gikomba market near Nairobi for wholesale trade involving big profit margins. As a result, employment in the domestic textile and garments manufacturing sector diminished from 80,000 to 10,000 workers. In addition to industrial jobs, work from the Kenyan cotton plantations disappeared. Meanwhile, the import of cheap second-hand garments has been declared illegal in Egypt and South Africa (DGB/IG Metall 2001).

In practice, it is not always easy to distinguish between the effects of economic globalization and those of a basic switch in the economic policy paradigm towards what has become known as the "neo-liberal agenda" or the "Washington Consensus". The two developments have coincided during the last 30 years. To a large extent the adverse global trends sketched above are due much more to the new policy regime of unfettered, rapid liberalization and privatization, rather than to economic integration as such. The developing countries with the highest rates of GDP growth in the 1990s, including China, the Republic of Korea, Vietnam, Malaysia and India, were not the ones that strictly followed the free market and privatization doctrines. They have used the opportunities provided by the international market, but they have retained import controls, regulations and subsidies. China still has not liberalized its capital accounts. Also, the East Asian economies went beyond relying on "comparative advantages", starting to develop their endogenous industry potential. Activities of foreign TNCs were controlled in accordance with national policy goals, directed to the transfer and upgrading of technology and the setting of local content rules, to maximize technological and economic spillover to the domestic enterprises. The most developed industrialized countries, including the United States, the EU countries and Japan, gained their prosperity through mixed, extensively regulated economies. They have been selective, slow and cautious in opening their economies. They protected their infant industries. They restricted the entry of foreign investment. Why should the same be denied to the developing countries? What legitimizes the imposition of the Northern WTO agenda on investment on countries of the South that was characterized by two oberservers as "Do as We Say, Not as We Did" (Chang and Green 2003)?

BOX 2.2: The dumping ground: As Zambia courts Western markets, used goods arrive at a heavy price

Zambia once had a thriving clothing industry. But when government officials began opening the economy to foreign trade 10 years ago in exchange for loans from international donors, tons of cheap, second-hand clothing began to pour into the country, virtually duty free. Not especially efficient, Zambia's textile factories were overmatched by the wholesalers, who could deliver affordable, passable clothing without paying production and labour costs or the tariffs that once protected local manufacturers from foreign competition. So, Zambia's clothing industry all but vanished. Within eight years, about 30,000 jobs disappeared, replaced by a loose but crowded network of roadside and flea-market vendors beckoning shoppers to "rummage through the pile", or salaula in the language of Zambia's Bemba tribe. ...The expansion of global trade following the end of the Cold War has transformed Africa into a dumping ground for what the industrialized world no longer needs or wants, a deluge of second-hand clothes, used cars, old furnitures and tools and weapons.

....World Bank officials acknowledge that the collapse of Zambia's textile industry is an unintended and regrettable consequence of the free-market policies promoted by the organization. And since 1999, the Bank has been working with Zambia and other countries to integrate "poverty reduction strategies" with their traditional approach. "International trade is always evolving" said a World Bank spokesman, Raymond Toye. "And there are all kinds of constraints to doing business in Africa that maybe we haven't always accounted for"... "We have made the mistake of confusing the free market with development", said Fred M'membe, executive officer of The Post, Zambia's only independent daily newspaper. "I am not saying we should isolate ourselves from the world the way we once did, but we are not looking at how to develop our country. We are looking at how we can market our country to outsiders so that they can come develop it for us. We are getting back to the same colonial equation where, in the land of our birth, Africans own nothing, control nothing, run nothing. We are soon to be aliens in our own country".

Source: Excerpts from Jon Jeter "The Washington Post", April 22, 2002.

Many advocates as well as many opponents seem to believe that globalization is a natural or irresistible force that cannot be influenced. This belief totally underestimates the role of politics and policy choice. Globalization is not "just happening", nor is it moved by an invisible hand: "it is being made to happen by men and women with a lot of vested interests to protect and a lot of money at their command" (Danish Ministry of Foreign Affairs 1996, p.35). Political efforts have to be made not to bring the process to a halt, but to steer it towards a broadly acceptable outcome. We must learn to capture the economic and social opportunities provided by an open economy, and avoid or contain its adverse economic and social fallout. The process of globalization must be civilized and brought under democratic control. This is also the basic conclusion of the report of the World Commission on the Social Dimension of Globalization, published in 2004.

We need to be clear that the neo-liberal path is just one way, and not necessarily the best way, to shape economic integration and development. There are alternatives that do not consider globalization to be synonymous with the liberalization of markets. Other approaches do not therefore simply rely on removing barriers and controls, and dismantle the welfare state, but attempt to re-regulate the economy so as to accommodate the concerns of various stakeholders. It is gradually being realized in the multilateral system that making globalization beneficial for a majority of people requires a comprehensive and coherent policy back-up of trade, including the International Financial Institutions (IFIs), the World Trade Organization (WTO), the International Labour Organization (ILO) and other international actors. In 2002, WTO Director-General Supachai emphasized that "trade policies do not stand alone. Mutually supportive companion policies are also necessary". The World Bank has come to recognize that "behind-the-border" institutional and regulatory reforms, including conformity of economic opening with environmental and labour standards, are required to maximize the benefits of liberalization (World Bank, 2003). Economic and social policies and structures have to be balanced at the national and global levels; and economic and social development must be integrated, synchronized, and put on an equal footing.

Ignoring or denying the opportunities for social progress inherent in globalization would be short-sighted. We must not forget that the opening of once sheltered states and untapped markets has made many malpractices transparent. One of the salient effects of globalization has been that people no longer compare themselves only with fellow citizens, but with people in other countries as well. This is clearly noticeable in the field of labour. Awareness of the widespread use of child labour and forced labour, highly dangerous work, and the use of toxic substances at the workplace, for instance, has risen as the walls between countries came down. Knowledge about labour abuse is an essential prerequisite for dealing with it at the international level. The most deplorable labour conditions are normally not found in foreign investment enterprises, but in sheltered sectors of the domestic economy. Developing countries must not be cut off from the potential benefits of trade, nor must they miss the opportunity to have multinational companies transfer their best expertise and labour practices to their operations in those countries.

Globalization has to attain a "human face" (Kofi Annan). Accomplishing this switch requires a clear political will, changes in the prevailing paradigm of economic policy, and better governance. It also requires that policies and governance keep pace with international economic integration, which is hardly the case now. It is not surprising that, particularly in developing countries, we see more and more demands to slow down the economic integration process. The costs and benefits of globalization will have to be shared more equally. Often, workers are doubly victimized. They lose jobs and income, and on top of that they finance the bulk of adjustment assistance by providing an ever-increasing share of tax revenues while the tax burden of the multinational companies has been minimized, as an inducement to stay in the country. For example, between 1996 and 2003, the average rate of company taxes fell from 39.0 to 31.7 per cent in the EU-countries, and from 37.6 to 30.8 per cent in OECD countries (World Commission 2004). The share of labour incomes in total incomes has declined, and the proportion of profits and capital assets has increased virtually everywhere.

In view of such inequities it is no surprise that the alleged benefits of the prevailing globalization have been questioned in the streets, and even in some boardrooms. Hundreds of thousands of people, among them many trade unionists, have demonstrated against the globalization policies, as for example at the WTO Ministerial Meeting in Seattle in 1999, and at various meetings of the International Monetary Fund, the World Bank, the G-8 Group and EU Summits. An increasing number of critics and opponents of globalization meet annually in the Brazilian city of Porto Alegre to express their discontent with misguided policies and the unbalanced management of the global economy.

The first steps towards a policy shift have been taken. In a number of world summits in the course of the 1990s, operational targets were set for the development agenda to be achieved by 2015. They are now called Millenium Development Goals. They include the reduction by one-half of extreme poverty and hunger by 2015; gender equality and the empowerment of women; general access to primary education and health services; the reduction of child mortality; the improvement of maternal health; the fight against HIV/AIDS and other diseases; environmental sustainability, and the development of global partnership for development. Given the severity of the economic and social ills outlined above, and the slow progress in policy reforms, it is doubtful, however, whether these targets can be realized. To cut extreme poverty by one-half by 2015, the number of poor people would have to come down to 658 million. If present trends will not change, the number to be expected will be 968 million (Oxford Analytica, 27 January, 2005).

To some up this chapter, globalization has much progressed during the past decades. Its economic and social impact so far has not been satisfactory for the majority of people and countries. "The current process of globalization is generating unbalanced outcomes, both between and within countries. Wealth is being created, but too many people are not sharing in its benefits. They also have no voice in shaping the process" (World Commission on the Social Dimension of Globalization 2004, p.x).

3. International Labour Standards: A Contested Terrain

What can ILS contribute to improving the lot of workers worldwide? How can they help to attain the goals of the international development agenda? What role can they play as part of a framework of global rules designed to steer the process of globalization in a more acceptable direction?

These questions will be treated in this and the next chapter. In the following sections we outline the main controversies about the role, reach and impact of ILS. In particular, we present and assess the case for, and the case against, standard setting. The controversies revolve around the following issues:

I) *The economic impact of ILS*. In contrast to the advocates of ILS who stress the need to apply internationally agreed rules for the improvement of the working and living conditions of workers, mainstream economists hold that labour conditions improve "naturally" with and through economic growth. They believe that intervening in national labour markets by setting ILS is ineffective, or even counterproductive.

II) *The universality of ILS*. The ILO claims universal validity of its normative instruments for all workers and economic sectors worldwide. This postulate has been challenged on the grounds that ILS are impracticable for parts of the labour force and for less developed countries (as a whole or segments of them), and for countries with particular cultures and traditions.

a) What are International Labour Standards?

The term "labour standard" has two distinct meanings. This has led to misunderstanding and confusion. The first meaning refers to the actual terms and conditions of employment, work and welfare of workers in a particular location and point in time. It describes "what is" the situation of the labour force, normally by using statistics that indicate the national average level of education and vocational skills, wages, hours of work, occupational health and safety, social security, and so on. We will refer to these as "labour conditions". The second connotation of the term "labour standard" is normative or prescriptive. Labour standards stipulate "what should be" the terms and conditions of work. They specify the basic worker rights of freedom of association, collective bargaining, freedom from forced and compulsory labour, freedom from child labour, and freedom from discrimination in employment and occupation. They also stipulate social standards, also called economic and social rights, such as the norms on employment and training; termination of employment; occupational safety and health; minimum wages; maximum hours per day or week; minimum rest periods, paid holidays, maternity leave, protection of workers with special needs, such as migrant workers and home workers; social security; and rules for conflict resolution. Normative rules are set at both international level and at national level. Henceforth, they are called "international labour standards" (ILS) and "national labour standards" (NLS) respectively.

ILS are laid down in ILO *Conventions* which create international obligations for States that ratify them, and ILO *Recommendations* which provide guidelines for government action. So far, more than 180 Conventions and more than 190 Recommendations have been adopted by the International Labour Conference of the ILO (a revision and consolidation is currently in process). Together, these instruments form the "international labour code". The eight core ILO

Conventions are enshrined in the 1998 ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up. It states that all ILO members have, by virtue of their membership in the ILO and acceptance of the ILO Constitution, accepted the obligation to respect, to promote and to realize, in good faith the fundamental rights contained in the these Conventions. Their main objectives, and the number of countries that have ratified them, are listed in Table 3.1.

By May 2005, the total number of ratifications of ILO Conventions by the 175 member States of the organization amounted to 7290, and the number of ratifications of fundamental Conventions stood at 1236.

In addition to the ILO instruments, the sources of international labour law include other international agreements, such as the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights of the United Nations. The first Covenant prohibits slavery, servitude, forced labour, and discrimination; the second Covenant prohibits gender discrimination, protects the right to work and choice of employment, and the right to just conditions of work (including fair wages sufficient to sustain a decent living), equal pay, safe and healthy working conditions, rest periods, leisure, limits on working hours, paid vacation, the right to join trade unions and to strike, the right to technical and vocational guidance and worker training, and the right to an adequate standard of living. The UN Convention on the Elimination of All Forms of Discrimination Against Women obliges states to abolish employment discrimination against women, and to ensure safe and healthy working conditions and maternity leave with pay. The Convention on the Rights of the Child obliges national authorities to protect children from injury, abuse or exploitation.

b) Conflicting Views on the Economic Effects of International Labour Standards

Although few people object to improved working and living conditions for the labour force, it has been questioned whether this could or should be achieved through ILS. For a long time, it has been a contentious issue whether international standards would help or harm the working population. In the following the case for and the case against ILS is presented.

"International competition requires international labour market regulation"

From the early days of the ILO, and even before, it was claimed that by a kind of "inhuman dumping", unregulated international competition could depress labour conditions and create hardships for workers. Bad standards could drive out good standards. By denying workers the rights necessary to improve their conditions competition becomes "unfair". The remedy would be international action for the application of agreed universal minimum labour standards in order to create "fair" competition. For example, the suppression of trade unions, employment discrimination or poor safety and health standards do not qualify as legitimate policies in international competition.

To effectively prevent depressive forces in the labour market, there has to be a common rule, consisting of a minimum floor to wages and other employment conditions, a ceiling on working hours, and "enabling" basic worker rights that make it possible to set and monitor rules and regulations. The coverage of labour standards will have to be co-extensive with the size of the labour, product and capital markets. The norms have to apply to all actual or potential suppliers and demanders in order to prevent the undercutting of the standard, and the spillover of sub-standard labour conditions from one country to another. They have to induce producers to make sure that the social costs of adjustment to any sort of trade-related restruc-

TABLE 3.1: Fundamental (core) ILO Conventions and Number of Ratifications

Convention No.	Title and Aim of Convention	Ratifications (January 2005)
No. 29	**Forced Labour Convention (1930)** Requires the suppression of forced or compulsory labour in all its forms. Certain exceptions are permitted, such as military service, convict labour properly supervised, and emergencies such as wars, fires and earthquakes.	161
No. 87	**Freedom of Association and Protection of the Right to Organize Convention (1948)** Establishes the right of all workers and employers to form and join organizations of their own choosing without prior authorization, and lays down a series of guarantees for the free functioning of organizations without interference by public authorities.	142
No. 98	**Right to Organize and Collective Bargaining Convention (1949)** Provides for protection against anti-union discrimination, for protection of workers' and employers' organizations against acts of interference by each other, and for measures to promote collective bargaining.	154
No. 100	**Equal Remuneration Convention (1951)** Calls for equal pay and benefits for men and women for work of equal value.	161
No. 105	**Abolition of Forced Labour Convention (1957)** Prohibits the use of any form of forced or compulsory labour as a means of political coercion or education, punishment for the expression of political or ideological views, workforce mobilization, labour discipline, punishment for participation in strikes, or discrimination.	160
No. 111	**Discrimination (Employment and Occupation) Convention (1958)** Calls for a national policy to eliminate discrimination in access to employment, training and working conditions, on grounds of race, colour, sex, religion, political opinion, national extraction or social origin, and to promote equality of opportunity and treatment.	160
No. 138	**Minimum Age Convention (1973)** Aims at the abolition of child labour, stipulating that the minimum age for admission to employment shall not be less than the age of completion of compulsory schooling.	135
No. 182	**Worst Forms of Child Labour Convention (1999)** Calls for immediate and effective measures to prohibit and eliminate the worst forms of child labour, including all forms of slavery, the use of child labour for prostitution, pornography, illicit activities, and work harmful to the health, safety and morals of children.	150

turing are not externalized, but handled "at the source", i.e. incurred by the producer at the point where the cost arises. Moreover, the norms have to be binding and enforceable. Economists recognize these requirements when they variably refer to the "free rider problem", "collective action problem", or "beggar-thy-neighbour competition". They are also apparent to any trade unionist that is involved in collective bargaining over the terms of labour, and wants the labour contract to be effective. Moreover, the requirements are familiar to employers who wish to see the collective labour agreement provide certainty and accountability of labour costs for themselves and their competitors. The requirements occupy a central place in the philosophy of the ILO. The Covenant of the League of Nations, which inaugurated the ILO, stipulates in Article 23(a) that "fair and humane conditions of labour should be applied, both at home and in individual countries to which their commercial and industrial relations extend". The ILO Constitution (Preamble) states that "poverty anywhere constitutes a danger for prosperity everywhere"; and "...the failure of any nation to adopt humane conditions of labour is an obstacle in the way of other nations which desire to improve the conditions in their own countries".

Implicit in the notion of fair competition is the idea of upward global harmonization, resulting in the convergence of standards of work and living at the highest level. That can be accomplished by having countries with lower standards progressing faster than countries with higher standards. Higher standards in a country must not be accomplished at the expense of lowering standards in another country, or lower international standards. Article 19 (8) of the ILO Constitution explicitily states that "in no case shall ILO standards be deemed to affect any law, award, customs or agreement which ensures more favourable conditions". Upward harmonization rules out beggar-thy-neighbour strategies, and a "race-to-the-bottom", meaning a pervasive, continuous, potentially endless process of degradation of labour conditions as a result of competition between high-standard and low-standard countries.

There is a long history to the argument that social progress requires that all competitors obey the same rules. Already in the 18th century, Jacques Necker, the Finance Minister of the French king Louis XVI, believed that Sunday working could not be unilaterally abolished in France, but required parallel action on the part of other European trading countries. The vast expansion of trade and foreign investment prior to World War I sharpened the awareness of the potential harm that liberalized trade can inflict on production workers.There were a number of cases in Europe where the use of poisonous substances harmful to workers' health (e.g. white phosphorus for match manufacture) allowed producers to have lower production costs and gain market shares at the expense of countries where toxic substances were not permitted. To prevent such "unfair" advantages countries needed to agree to rule out the use of such materials. From the very inception of the ILO, the link between labour standards and international market competition played an important role as a rationale for standard-setting policy. Other important motives for mandating standards have been their contribution to the consolidation of peace; social justice; the social and human objectives of economic development; and the consolidation of national labour legislation (Valticos 1979, pp. 20-36). But in the final analysis the controversy has centred on the effect of ILS on international competition.

The spectre of a depression of labour conditions and, as a consequence, the need for international labour market regulation, has escalated during the second wave of globalization that began in the 1970s. First, compared to the earlier expansion of trade and cross-border investment before World War I, many more countries became competitors in the international economy, representing an extremely large dispersion of income levels, wages and labour costs, and working conditions, and resulting in intensified cost and "systems" competition. With easy access to modern technology, countries now increasingly compete in the same product markets. Second, in addition to the expansion of trade, capital and financial markets were liberalized engendering a surge of foreign direct investment and cross-border financial transactions, including a wave of currency speculation. The threats posed by such liberalization for employment and incomes is threefold: products made by cheap labour penetrate the markets of the rich countries; low wages and poor social standards undermine efforts by trade unions in high wage countries to improve terms and conditions of work; and low standards provide an incentive for enterprises in the high wage countries to resort to relocation and outsourcing of production and services.

There is no generally agreed definition of such terms as "unfair trade" and "social dumping" and the incidence of these practices is subject to controversy. The General Agreement on Tariffs and Trade (GATT), which deals with anti-dumping and counterveiling duties, does not define these terms. Apart from goods made by prison labour regulated in Article XX (e), no rules were drafted for social dumping and it is not an accepted trade policy concept. According to Article VI of the GATT, dumping occurs when a product is sold to another country at less than the "normal value" (usually the price of the product in the domestic market of the exporting country), and such dumped exports cause injury to the domestic industry of the importing country. "Normal value" is defined inter alia as "reasonable costs of production". Labour costs are not explicitly mentioned in Article VI of GATT. Nevertheless, as labour is indispensible for production, one could argue that "reasonable labour costs" are those that result from conditions under which workers can command "reasonable value" for the labour they perform. This – one could argue furthermore – will normally be the case if the use of labour is in conformity with agreed labour standards. Hence, "social dumping" could be viewed as commerce of goods produced by violating ILS. In fact, even though there may not be differential pricing for the product sold in the domestic and the foreign market, the terms unfair trade and social dumping are often used in this sense in the labour policy debate.

A broader notion of social dumping covers the frequent practice of pay levels not commensurate to productivity levels so that unit costs of labour are artificially low, or lower than they were if ILS were respected. Widespread means to keep labour costs down include: setting statutory minimum wages at a very low level; avoiding minimum wages altogether; restricting the freedom of trade union action and collective bargaining; using forced labour; and keeping expenditure on work safety, social protection and social services at a low level. Sometimes, unfair competition affecting labour conditions is understood even more broadly when, for example, a country is charged with keeping the external value of its currency low to improve its export performance, or obtaining cost advantages by granting export subsidies to domestic producers. The effects of subsidized and dumped products on the importing market can be the same.

It should be stressed, however, that low labour costs do not automatically constitute unfair competition or social dumping. Nor should subcontracting or outsourcing of production as such be considered unfair. These practices may imply a legitimate comparative advantage on the part of the country with lower costs, provided that they do not result from the failure to comply with the rules and regulations set by national law and the international labour code. Today, nearly all countries in the world – among them the important trading economies – are members of the ILO. By virtue of this membership they have agreed to respect the core ILS. Hence, from this perspective, there is no moral or legal base for indulging in socially unfair trade. Whether violations of universal labour standards justifies the blocking of exports, or whether social injuries through trade should be prevented or cushioned by using measures of trade adjustment assistance including active labour market and social protection policies, is another question (see Chapter 5).

"Improvement of labour conditions is determined by economic growth"

Mainstream economics is at variance with the idea of international labour market regulation. Classic economic doctrine held that international action to raise labour conditions would be futile, and even damaging. It would strike against the "law of economics". The lever for raising each country to the highest level of prosperity would be unconditional and unrestricted economic competition, both within and between countries. Hence, the economic policy prescription was exactly the opposite of that of the ILO, which held that labour should be taken out of competition. In addition, classic economic doctrine argued that the conditions of work and life would depend on the real income of each country: Even allowing for variations in the sharing of the product, hours of work will inexorably be long, wages low, and the conditions of work burdensome if the total real income of the country is low in relation to the number of inhabitants; and the opposite conditions will prevail when the economic effort of the country is more effective. Labour conditions could not be "artificially" lifted beyond what economic growth permitted. Here again, an apparent disagreement existed with the ILO. From the days of Albert Thomas, the first Director-General, the Organization maintained that the rise of labour conditions would not simply come about in the wake of economic progress, but required a pro-active approach based on legal rights and international agreement.

Being confronted with persistent assertions that ILO action would run counter to the accepted economic wisdom, in 1927 the Organization invited Herbert Feis, an American economist, to give his "impartial" views on the economic desirability of ILS. Professor Feis concluded that the conflict between the tenets of classic economic dogma and the rationale for ILS could be resolved (Feis 1927). He maintained that seeking the 'greatest comparative advantage' in trade would result in international specialization, which in turn increases the real income of all peoples. However, he also emphasized that the benefits of trade would largely accrue to consumers [in the form of lower commodity prices and access to a greater variety of goods and services.WS], while the effects on producers, especially workers, may be destructive. The classic economic model assumed that workers and capital displaced by the relocation of production could quickly change their occupation, quit an industry where foreign competitors were able to undersell, and enter another industry with a greater comparative advantage. Both capital and labour would soon be put to new use. Yet, in reality this would rarely be the case. Many of the industries subject to international competition operate on an immense scale, with enormous fixed investments. Their workers can find alternative employment only with great difficulty and when the economy is in a state of high industrial activity and expansion. Hence, shifts in international competition may in fact produce unemployment and a serious depression of labour conditions, below the standards supportable by the productivity of some or all of these countries. These effects may be of considerable duration, and may indirectly compromise the whole industrial situation in the country. Once the labour conditions in a country are poor, they tend to perpetuate themselves. International agreements on labour standards may prevent the depression of labour conditions. But this may cause economic loss if it hinders certain basic changes in the conditions of competition between countries from working themselves out, in which case the changes may produce higher prices. Also, they may make it more difficult for the countries where conditions are poorest to advance industrially. Finally, the welfare of particular groups of workers and capitalists in industries in particular countries may be adversely affected by the lack of freedom to revise the standards downwards so as to meet either temporary or permanent changes in their competitive situation.

Feis went on to say that the gains from ILS may or may not outweigh the losses, depending on three factors: firstly, on the chances of increasing industrial effectiveness through cooperation and common effort within a country; secondly on the fair distribution of the product between capital and labour; and thirdly on the willingness of some countries to improve labour conditions. The absence of such a will may act as a drag upon other countries' efforts at improvement.

The early controversy over ILS is clearly illustrated with regard to the reduction of working time. Before World War I, the shortening of – the often excessively long – hours of work was almost universally declared impracticable.Then, at the first International Labour Conference in Washington D.C. in 1919, an agreement was reached to limit the daily working hours to 8, and the weekly working hours to 48. This agreement became the first ILO Convention. But, as we know from the writings of Albert Thomas, soon after that conference a backlash set in, dampening the chances for ratification and implementation of this Convention. There was fear of lost production and of a consumer boycott in protest against standard-induced high product prices, which deterred national authorities from putting the norm swiftly into practice (Thomas 1921, p.11).

Since the 1920s the political and economic environment has changed enormously and the arguments for and against standards have been modified. Nevertheless, the basic issues remain. We still witness an opposition between:

- those – primarily trade unionists and non-orthodox economists, but also some sections of the business community – who point to the threat of social dumping and a race to the bottom, and call for measures to ensure compliance with international labour law, thus keeping defectors from gaining an unfair competitive advantage;
- those – primarily mainstream economists and politicians adhering to the neo-liberal agenda – who argue that more or less strictly determining economic fundamentals leave no room for economically unwarranted action. For them, improvement in the terms of employment and working conditions would be endogenously determined by the pace of economic growth; it could not be generated by international agreement. The firm, the sector, or the country that acts in violation of the economic logic will not see real improvements in labour conditions. Or worse, it will be punished by lower levels of employment, labour income and welfare. Given the adverse impact of ILS on efficiency and growth, this would make it more difficult for poverty-stricken developing countries to catch up with the economically advanced countries in the North.

Both schools make the explicit or implicit assumption that the observance of ILS will raise the cost of labour temporarily or permanently. But while the neo-liberals believe that this cost would not be offset by benefits accrueing from mandated labour standards, the protagonists of standards claim that the benefits outweigh the costs.

It may be instructive to quote a few contemporary mainstream economists. In a public lecture given at the ILO in 1996, Jeffrey Sachs, then Director of the Harvard Institute for International Development and a prominent adviser to many governments in Latin America and Eastern Europe, stated that:

"the greatest damage to growth is in across-the-board labour standards, that dictate either minimum standards or minimum conditions for higher and fairer wages or, worse still, provide for the extension of wages across the economy" (Sachs 1996, p. 14).

As a policy prescription for economic globalization Sachs held that:

"...we must look for better tax systems, or zero tax systems and other mechanisms, but not to … imposing minimum conditions of work or even institutional strategies for collective bargaining on developing countries. In my opinion, the cost of such conditions and strategies could be quite substantial for the developing countries, and bring modest, if any, gains to the advanced countries" (Sachs 1996, p. 13).

Contemporary trade economists have maintained that economic development, and along with it the welfare of workers, will best be served by a liberal trade regime (e.g., Srinivasan, 1990; Bhagwati; 1994). In this perspective, developing countries can attract foreign and local investment by eschewing ILS, especially in labour-intensive export sectors. Some economists have alleged that the enforcement of ILS, and trade-linked standards in particular, could become a form of disguised protectionism on the part of the advanced industrialized nations, robbing developing countries of their comparative advantages of low labour costs. (see e.g. Bhagwati and Hudec 1999; Brown 2000; and Singh and Zammit 2000). This view has been echoed by the governments of many developing countries.

According to Ajit Singh and Ann Zammit (2000), it is not wickedness or perversity of governments if ILS are not implemented in third world countries: there may be good reasons, related to economic circumstances and particular economic structures, notably the large informal economy, for failing to observe related compulsory labour standards. The authors insist that low wages do not give the South an unfair competitive edge over business in the North. Hence, trade with developing countries is not the main source of the troubles afflicting large numbers of workers in the North. In support of these statements, reference is made to wage growth faster than productivity growth in the newly industrializing countries in South East Asia which in the view of the authors was made possible because of the absence of trade unions. Moreover, the industrial countries' surplus in manufacturing trade with developing countries shows that workers in the North do not suffer from trade. If there is slippage in labour conditions, be it in the North or the South, this is to be attributed to free trade, free capital mobility, and labour market flexibility within nations.The proper response would be faster economic growth and structural change, giving due attention to policy measures to reduce poverty and inequality, including labour market policies (Singh and Zammit 2000).

There is no doubt that economic growth is favourable for improved labour conditions, but it is no guarantee. It is a necessary, but not a sufficient condition. As Feis said, it depends on the distribution of the product between labour and capital. Growth is not distribution-neutral. The increased inequality in both the functional income distribution, i.e. the share of total income that goes to labour, and in the personal income distribution, in recent decades shows that workers may be disadvantaged. Certainly, it cannot be denied that wage levels depend on the level of national productivity, and that the latter serves as the transmitting economic mechanism for improved national labour conditions. Recent empirical studies have found that between 80 per cent and 90 per cent of cross-country variation of national compensation can be explained by differences in labour productivity (Rodrik 1999a; Flanagan 2002). Nevertheless, there have been countries, such as Mexico or Turkey, where wages have grown with a lag, or have fallen much behind productivity growth. Contrary to what is said by Singh and Zammit above, this is also the case for export oriented countries in Asia (ILO 2005, p. 90). It is clear that in the long run average wages cannot be raised above the rate of productivity improvement without causing serious negative consequences, such as cost-push inflation. But this is not the whole story. The question is what determines the improvement of productivity – the main factor behind economic growth. Has this anything to do with labour standards, national or international ones? If there is a positive effect of standards, both core standards and substantive standards, on national economic performance – as shown in Chapter 4 below – then labour standards are not only the output of growth, but also an input to growth. In fact, ILS may be even more important for the developing world, where the main overall reason for poverty is low productivity of economic activities. Neglecting this link, i.e. assuming that causation runs only from economic growth to labour conditions and not both ways (= circluar causation), is perhaps the greatest weakness in the standard economic case against the application of ILS.

"ILS distort the labour market"

In his assessment of the classic economic dogma, Feis recognized that ILS were needed to contain the harm that competition may inflict on workers, and that the distribution of income gains influences the acceptance of industrial change. In contrast, the neo-classical formulation of economic theory leaves no doubt that unrestricted competition, unfettered market forces, and a purely market-determined income distribution necessarily create the best economic results, including employment and work. ILS would distort the market mechanism, and prevent it from delivering optimal outcomes.

Assuming perfect competition and perfect information, the neo-classical labour market model asserts that the free operation of the forces of supply and demand lead to an equilibrium state, an optimal allocation of productive resources. The free operation of supply and demand also entails a fair distribution of the economic receipts in line with the productive contribution of each factor of production, and each individual worker's marginal productivity. Thus, wage differentials reflect variations between workers in skill and effort and hence differences in their value contribution. For Alfred Marshall, the free market establishes the "true standardization" of work and wages (Marshall, 1982 p.558). Competition forces firms to be "good" employers, paying full attention to the efficiency aspects of the workplace, from working conditions to work organization to the involvement of workers in decision making.

Not "leaving things at perfect liberty", however, produces "false" standardization of work and wages (Marshall, ibid). Trade unions, collective bargaining, minimum wages, the welfare state, etc. are seen as representing monopolies, cartels and other restrictions on competition, thereby creating distortions in the labour market, and institutional sclerosis in the economy as a whole. They add to production costs by raising the level of wages above the market clearing equilibrium wage, impede efficiency and restrict flexibility for adjustment, seek rent from advantaged insider positions (trade union members); crowd out the less fortunate outsiders (non-organized workers), thereby increasing inequality; deterring investment, constraining economic growth, and impairing or slowing down urgently required market adjustments to external shocks. The outcome of "false" labour standards, the free market economists argue, is a waste of resources owing to misallocations caused by distortion in the wage structure and losses resulting from induced unemployment (for a summary of the neo-classical criticism of standards, see Freeman 1992, and Wilkinson 1995). The theory underpins the case against statutory support for trade unions, collectively negotiated or legally binding terms and conditions of employment and the provision of social welfare. According to Gary Fields, egalitarian policies are regarded as particularly counter-productive in developing countries where in view of large labour surpluses any job under any conditions is held to be better than no job. This view implies that developing countries cannot simultaneously strive for more employment and better jobs (Fields 1990).

The orthodox view according to which ILS are a hindrance rather than a help for social progress has received new impetus during the last two or three decades when international competition intensified in the wake of mass privatization and the liberalization of product and capital markets. Regulated labour markets and "excessively" generous welfare arrangements are considered obstacles for a country trying to attract foreign direct investment. National governments that act in ways that do not please the markets, e.g. by imposing high taxes or social charges, are inexorably penalized by declining capital inflows, shrinking output, higher unemployment and welfare losses.

It has not escaped the neo-classical economists that the unfettered market often does not produce the optimal outcome as claimed by the model. There have been "complications" and "anomalies", such as the persistence of very low levels of pay even in periods of labour scarcity, persistent unemployment even when aggregate demand for labour is high, and persistent poverty despite economic growth. It has also been observed that boring, dirty, risky and unsafe jobs are paid poorly whereas clean, safe, and interesting jobs are well paid, a phenomenon that runs counter to what is predicted by the theory of compensating wage differentials.

Inconsistencies between theory and reality have aroused different reactions from the economic orthodoxy. Some have interpreted them as imperfections and have made various kinds of adjustment to bring the theory into line with the perceived reality. Examples are the theory of human capital that abandons the assumption of homogeneity of labour; the theory of efficiency wages which concedes that better paid workers are more productive; and the concept of hysteresis, which seeks to explain why unemployment once in place perpetuates itself, thus abandoning the idea of self-correcting and self-equilibrating market forces. When the conditions of perfect competition and perfect information removed from the neo-classical model, or when dynamics are introduced, the model loses much of its deterministic and predictive qualities. For example, the effect of minimum wage fixing on employment is no longer clearly negative. If one relaxes the assumption of perfect competition among workers and employers, or if one considers that introducing or raising the minimum wage can affect household labour supply and aggregate demand, the impact of the minimum wage on employment cannot be predicted. The loss of rigour and predictive capacity may be the reason why many economists tend to hang on to the pure model.

Other economists have reacted by arguing that anomalies only occur because policy reforms have not gone far enough to deregulate the labour market. A recent example is the deepening regional employment disparity in Poland. Neo-classical economists blame the minimum wage for this and call for abandoning or lowering it, even though it accounts for not more than 45 per cent of the average wage and it is still clearly below the wage of unskilled workers, even in the most depressed voivodships (Rutkowski and Przybyla 2001).

A third group of free market economists have not even bothered to explain what others regard as inconsistencies. For them, dismal employment and working conditions are not a sign of market failure. Instead, they should be seen as the outcome of economic rationality. For example, unemployment is interpreted as the result of a rational choice of workers who prefer leisure to work. It is voluntary, not involuntary as one might think.

The controversy about the economic impact of ILS might not have to be taken seriously, had it been of a purely academic nature. Yet, it has had far-reaching practical implications. Orthodox economic dogma has exerted an enormous influence on policy formulation and action. Generations of students of economics and business administration were taught the economic dogma. Many of them became employers, politicians or government officials. Also, national policy makers have been advised, e.g. by the international financial institutions, to accept the inevitability of the economic logic, and abstain from protective labour regulation. Reforms of labour law to strip the labour market of "excessive" and harmful regulation were made a condition for international credit and other assistance (see Chapter 5 for details).

"ILS are too costly"

In theory and in practice, the view that ILS are economically harmful because they raise the cost of production and squeeze firms out of the market has posed one of the greatest obstacles to advancing standards. The argument is popular both among mainstream economists and large sections of the business community. It has several variants: For some, any policy that adds to costs is damaging. Others maintain that while there may also be gains from the observance of ILS, the costs of applying ILS exceed the benefits. In the last two decades, the cost argument has gained currency in developing countries. Their natural competitive advantage in the world economy is their supply of abundant, unprotected labour at low cost, and this should not be taken away by forcing on them the standards of the developed countries. A rise in the cost of exports – on which developing countries crucially depend – as a result of the introduction of ILS would lead to a lower rate of growth of exports in both the short and the medium term, worsening the balance of payments (Singh and Zammit 2000, p. 33). Generally speaking, until developing countries reach a higher level of economic development, it would be premature for them to adhere to ILS. Mass unemployment, underemployment and poverty demand policy priorities other than quality jobs and good working conditions. In this perspective, labour standards are not seen as part of development but as something alien to it. Many normative prescriptions of the ILO are viewed as a luxury which the poor countries cannot afford. Curiously enough, the same argument has been used in the rich industrialized countries to warn against further improvements in labour standards. Calls have been made to sacrifice certain existing standards. In view of fierce international cost competition, the high social expenditure associated with standards is not affordable, or it will inevitably lead to lower growth rates and job loss.

A response to these charges will have to point out, first of all, that there are indeed national labour standards (NLS) that appear to create undue burdens for employers or the government. In most instances, however, these national norms exceed what is prescribed by ILS, or what constitutes international practice. For example, the *Termination of Employment* Act in Sri Lanka provides workers with more than 20 years of service a compensation of 60 months salary in case of dismissal. This rate is said to result in extra labour costs much higher than those of the country's competitors (ILO 2001a). Another example is the *Regulation of Wages and Terms of Employment Act* of 1992 in Tanzania which provides for 28 annual days of leave with pay at the expense of the employer. This is far in excess of the annual paid holiday entitlement of at least three weeks stipulated in ILO Convention No.132. Compliance with this provision was said to jeopardize the viability of micro enterprises, and therefore could not be respected by the employers (Vargha 1992).

But it would be misleading to argue that labour norms generally cause inadmissibly high costs. In the case of the Tanzanian micro-enterprises, it was hinted that the costs could have been absorbed by better work organization and an improved production process. Working hours could have been reduced and the weekly rest respected, without additional cost, if the organization of production was re-adjusted. The cost of safety equipment could have been offset by lower medical expenses. Other standards, such as the minimum wage, could apparently be observed by smallholders (Vargha, 1992). Where small and micro enterprises genuinely cannot afford to observe certain labour standards, such as safety equipment, there remains the possibility of public measures, e.g. tax deductions on the investment to decrease costs to employers.

Secondly, it may be questioned whether employers who abide by an international labour norm, such as the eight-hour day, a minimum weekly rest period, or a work safety standard, are in fact handicapped even if their competitors do not observe that rule. The same applies to a country that goes ahead with implementing a presumed costly standard without being sure whether other countries will follow suit. Could it not be that shorter working hours and regular rest periods lead to higher productivity, because fewer mistakes are made by the workers, and fewer accidents occur because they are less fatigued? There are numerous examples of this happening. Improved standards may be self-financing as the benefits exceed the cost of a standard. This is why far-sighted employers who have gone ahead with implementing better work standards have rarely regretted it. There are reports about Finnish employers who found it profitable to reduce weekly hours by going from a five-day working week to a four-day week without reducing pay, simply because worker productivity increased more than proportionately. The decisive economic parameter for cost competitiveness is not labour cost, but unit labour cost, i.e. the ratio of labour cost to productivity.

Thirdly, it cannot be assumed that the absence of standards, or non-compliance with them, is costless. For example, employers may face excessive litigation costs arising from the dismissal of workers which they could avoid if they respected the provisions of prevention and reasonable resolution of conflicts laid down in ILO Convention No. 158 on Termination of Employment.

Fourth, in the economic literature, reference to the costs of applying standards relates almost exclusively to the cost for employers or governments. Rarely is the cost of non-compliance for workers taken into consideration. For example, protection from dismissal, particularly apparent in the case of collective dismissal for economic reasons, is a market intervention justified by the desire to minimize the cost of dismissal for the employee. Comprehensive cost accounting would have to pay attention to this cost, including the loss of job and income, and other forms of material and immaterial suffering, because it has implications for individual as well as national economic performance.

Fifth, it should not be assumed that the cost of applying labour standards is inevitably borne by the employer. In fact, there is evidence that the cost of many mandated benefits is ultimately shifted to workers in the form of lower wages. In this case total labour costs, and hence international competitiveness, are not affected by the benefits.

Sixth, it is often asserted that the costs of applying ILO standards in developing countries are prohibitively high. Again, this is not generally true. For example, an ILO feasibility study on the introduction of an unemployment insurance scheme in Thailand showed that this required only moderate expenditure. It was estimated that the contribution rates for a scheme that pays benefits for six months at a level equal to 50 per cent of previous earnings would be 2.5 per cent of payroll in the first year of operation, but would fall steadily thereafter to 0.6 per cent by the seventh year. This rate allowed for the accumulation of a reserve equivalent to one year's expenditure on benefits (ILO 1998a). It has also been demonstrated that, contrary to the tenet of economic theory, there are widely varying levels of spending on social security in relation to GDP in countries with similar levels of development. Countries such as Jordan, Marocco, Namibia, Botswana and Thailand have had comparatively high public spending on social security, and have at the same time experienced favourable economic growth. There are both rich and poor countries willing to accept that a larger part of their income should be redistributed to cover social contingencies. In fact, there are both high-income and low-income countries that – in accordance with ILO Convention No. 102 – have succeeded in paying benefits in the order of between 40 and 50 per cent of the previous income in case of sickness, unemployment, old age, maternity, invalidity and survival. Expenditure on social protection is not merely a question of economic capacity, but also one of social values, political priority and governance. Substantial and well-allocated social spending has been found to diminish poverty rates, even without a change in economic performance (ILO 2002c). ILO's SAFEWORK programme has found out that occupational health and safety levels can be significantly improved by relatively inexpensive means. Most accidents happen because of neglect of very simple safety rules and precautions such as keeping emergency exits clear in factories, or maintaining tools and equipment in good order, or providing regular safety instruction for the staff.

If the asserted cost implications of ILS are frequently exaggerated, or if the benefits offset or exceed the cost of higher labour standards, why then is business reluctant to put them into practice? There are various reasons: One is living up to standards takes an extra effort on the part of the employer. Another reason is that the costs associated with the implementation of labour standards are mostly direct, easily visible and measurable, immediate, localized; and they appear immediately on the balance sheet of firms; whereas many benefits have the opposite features: they are indirect, intangible, more difficult or impossible to measure, delayed, and extending beyond the firm. So, the costs of introducing or upgrading standards may be exaggerated and the benefits of higher standards in terms of efficiency and innovation tend to be underestimated. Consider the case presented in Box 3.1:

This experience is in no way unique. It happens virtually everywhere over and over again. It demonstrates, furthermore, that the reluctance to adopt standards is not specific to developing countries with limited means for social spending, but can be found in the prosperous world as well.

What can happen is that the implementation of a standard demands a significant start-up cost from employers. For instance, the installation of safety equipment at the workplace may mean that employers face a temporary competitive disadvantage until they reap the benefits from the investment. Such benefits can come in the form of lower accident rates, better worker morale, less absenteeism, and higher labour productivity. The economic function of universal ILS is precisely to overcome this handicap by inducing competing employers to follow suit, thereby harmonizing the social terms of competition. Harmonization will reduce the distributional effects of improved occupational safety, thus removing an obstacle to its dissemination. It implies that, contrary to what economic or-

BOX 3.1: Overestimation of the cost of reducing a dangerous substance

In 1974, the US Occupational Safety and Health Administration (OSHA) proposed tightening the standard concerning the exposure of workers to vinyl chloride … from 500 parts per million of air to 1 part per million. The head of the largest manufacturer of the substance argued that the revised standard could not be obtained at this time or in the future. Industry estimated that two million jobs would be lost and that the cost to the US economy would be $65 billion because vinyl chloride could no longer be produced and industries using it would be unable to find a substitute. Yet, after the standard was introduced, manufacturers quickly developed new technology for controlling vinyl chloride and recovering residues for reprocessing. The industry was soon in compliance with the standard and, by 1976, production rose to record heights. New plants were opened, no workers were laid off and total cost of the transition was about one two-hundredth of what had been predicted (Witt 1979).

thodoxy maintains, ILS are not a barrier to the advancement of labour conditions but serve as a lubricant. Similar efficiency-enhancing effects of harmonization are known in product markets. During the 1990s, when fuel efficiency became an important factor in the international competitiveness of automobiles, a number of European car makers called for governments to establish national, or even international, standards on fuel consumption. That would have allowed the innovative producers to incur the high development costs for new engines without facing undue competitive disadvantage from those who resisted the innovation.

To give another example of the cost implications of ILS: Respect for freedom of association can lead to the formation or strengthening of trade unions, and increased collective bargaining power of workers may entail higher wages. Naturally, this poses a competitive challenge, but it is not necessarily a negative one menacing the profitability of the firm or the competitive position of a national economy. Higher pay can spur worker efforts, it can attract better qualified and more motivated labour, thus offsetting the extra cost by extra productivity. If granted on a large scale it can increase domestic demand by raising mass purchasing power. Henry Ford was one of the few employers who at the beginning of the 20th century understood the demand-side effects of rising wage levels. He argued that a pay rate of five dollars per day, which was much in excess of the going wage rate at the time, would be good for his company because it would allow more of his workers to buy his automobiles.

c) The Issue of Universality

The second big issue in the pursuit of ILS is whether they are in fact universally valid and applicable, as claimed by the ILO. Is it meaningful to talk about universal standards in a world of great diversity in terms of level of development, structure of employment, culture, social institutions and financial and administrative resources? Or are they relevant, as often alleged, only for a small group of advanced, industrialized countries? Furthermore, are ILS appropriate to all workers, or only to wage workers, or a section of wage workers, e.g. those working in the formal sector? Are they limited to workers who have an employment contract, which is not the case for the majority of workers in the majority of developing countries?

From the outset, the ILO has been aware of, and indeed has taken into consideration, the reality of greatly varying national geographic, economic, and other conditions of development. Article 19 of the ILO Constitution states explicitly: “In framing any Convention or Recommendation of general application, the Conference shall have due regard to those countries in which climatic conditions, the imperfect development of industrial organization, or other special circumstances make the industrial conditions substantially different and shall suggest modifications, if any, which it considers may be required to meet the case of such countries”. Special provisions for slower implementation have been made. Already in the Hours of Work Convention of 1919, a deviant regime of application was permitted to Japan and what was then British India, and it was ruled that the Convention should not apply to China, Persia or Siam. In the latter countries the limitation of hours of work was to be reconsidered at an unspecified later date. More generally speaking, it is a basic characteristic of ILO Conventions that they stipulate minimum standards and do not prescribe economically unrealistic levels of provision.

It has been proposed to distinguish between ‘development-dependent’ and ‘development-independent’ ILS in order to take account of the different capability of countries to ratify and implement the international norms. Core labour standards are normally considered to be independent from the average level of productivity or income, whereas substantive standards, such as hours of work, holidays, social security or safety at work, would have to be seen as contingent on development.

While ILS must not overlook local diversity of economic and social conditions, there must be limits to deviations from the norm across countries and over time. Otherwise, standards cease to be standards. The ILO has resisted the temptation to adopt the idea of setting differential standards for different countries. It has never endorsed or recommended regional standards, upholding the principle of universal ILS. But it has allowed countries to be exempt from the immediate application of a standard, as the example of ILO Convention No.1 shows, and it tolerates the ratification of parts of Conventions. The ILO permits flexibility to member states with regard to the implementation of ILS, so as to take account of the socio-economic and cultural peculiarities of the states. For example, Convention No. 111 of 1958 requires ratifying countries to declare and pursue a national policy designed to promote equality of opportunity in respect of employment and occupation, with a view to eliminating any discrimination. However, it leaves the national authorities free to choose methods "appropriate to national conditions and practice" (see Articles 2 and 3 of the Convention). There can be no flexibility, however, when an infraction of an ILO standard is observed. The ILO also offers technical assistance to help countries to implement the standards.

The stage at which countries ratify an ILO Convention has differed. Some countries waited until their local labour conditions were equal or close to those aimed at in the Convention, thus making ratification more or less a symbolic act. Others ratified early and have sought support in bridging the gap between the norm and the reality. Whether one or the other method is applied does not matter, as the political will and efforts to fulfil the objectives of the standard are what counts.

In view of the varying strategies used to adopt and implement ILS, it is not surprising that empirical studies have not been very conclusive on the effects of ratification of ILO Conventions. Rodrik (1999a) found inter alia that next to productivity, the number of ratifications of ILO Conventions and unionization had a significant influence of wages. In a second test, political rights more than civil liberties had a strong, statistically significant causal effect on wages. Flanagan, in a more recent study, found little evidence of a statistical nexus between ratification and actual working conditions (Flanagan 2002).

There is no reason to believe that any country could not strive to reduce the volume of bad jobs and poor working conditions. There is, moreover, a widespread misconception that ILS can be given effect only through legislative action. While it is true that standards do establish legal rules and that no social policy can be effective unless it is based on the rule of law, ILO standards do not necessarily require the adoption of specific, formal legislation at the national level. Often, they simply provide guidelines, which States are invited to follow in pursuit of an objective which may never be fully attained as such (Valticos 1996). For this reason, and for the reason mentioned previously, one should be cautious about taking the ratification of ILO Conventions as an indicator of the actual observance of standards at national level.

The aim of substantive standards such as minimum wages and social security provisions is to reach universality through equivalence, not uniformity. The policy implication of equivalence is to coordinate international policy making, rather than equalizing the actual terms of employment, at least in the short run. Contrary to what is frequently understood or repeatedly asserted, ILO Conventions concerning minimum wage setting do not aim at establishing the same minimum wage worldwide. Rather, they stipulate that member countries should introduce a minimum wage, recognizing that its level must take into account local economic circumstances. In view of the vast difference in per capita GDP, it cannot be the same in Sweden and India. The question, though, is whether there can be an internationally agreed formula to calculate the minimum in each case. Hence, for substantive standards, universality resides in the process of standard setting and implementation, not necessarily in the same result, and it refers to the goals associated with standards, rather than every means for attaining the goals.

In the following sections, we discuss the two main contemporary issues that confront the principle of universality of ILS. They concern the informal economy and cultural relativism in relation to labour standards.

"ILS are not effective in the informal economy"

Thirty years ago, in connection with an employment project in Kenya, the ILO first used the term "informal sector" to describe the activities of the working poor that were not recognized, recorded, protected or regulated by the public authorities (ILO 1972). The preferred term now is "informal economy", because the workers and enterprises in question do not fall within any one economic sector, but cut across many sectors. In 1991, the International Labour Conference discussed the "dilemma" of the informal economy: Should the ILO and its constituents promote the informal economy as a provider of employment and incomes or seek to extend regulation and social protection to it and thereby possibly reduce its capacity to provide jobs and incomes to an ever-expanding labour force? Workers in this economy, including wage-workers and own-account workers, frequently face a precarious working environment. Workplaces are undefined, working conditions are unsafe and unhealthy, skill levels and productivity are low, incomes are low and irregular, working hours are long, and access to information, markets, finance, training and technology is often lacking. Economic dependency and vulnerability are widespread.

It has been widely argued that ILS are not applicable to the informal economy, and also that the ILO approach to ILS would focus on workers in the organized sectors. To quote an expert from India: "The situation ...is quite paradoxical: the standards are relevant and suitable mainly for the formal sector, where compliance is easier and mostly already in practice; they are not relevant and suitable and more difficult to apply in the informal sector where they are most needed...It does not mean that standard setting has lost its utility. It only points to the need for evolving minimum standards that are easier to implement for employment in the informal sector" (Papola 1994, p.181). Similar arguments have been made by Singh and Zammit (2000), Gosh (2003) and Srinivasan (2004).

Others critics go farther. They charge ILS, especially substantive standards such as employment and income protection, minimum wages, safety at work measures, maternity protection, etc. with leading to, or enlarging the informal economy, which is not recognized or protected under the legal and regulatory frameworks. They also claim that ILS encourage underground labour practices by employers. In a World Bank report on Latin America, for example, it was argued that the extent of informal employment in that region is partly determined by "labour policies that overlooked the role of wages and working conditions as incentives and market signals, reducing the number of formal jobs and encouraging the development of the informal sector" (World Bank, 1996). In labour surplus economies, the introduction of "expensive" labour regulations is said to inevitably lead to the rise of the informal economy. In addition, they encourage governments to increase piecemeal informalization and the segmentation of domestic labour markets. Pushing for the adoption of a "panoply of imported labour standards" will not guarantee their observance. Therefore, alternative policies must be sought that effectively take into account the specific conditions of less developed labour surplus economies (Portes 1994).

The charges levelled against ILS are to be taken seriously, not at least because the informal economy has not proved to be a transient or residual phenomenon as many development theorists, and also the ILO, had assumed for some time. In fact, in many Third World countries, the informal economy has increased rather than declined during recent decades. The bulk of new employment in developing and transition economies has been in the informal economy (ILO 2002a). Informal activities have also expanded in the industrialized market countries, although from a much lower level. Alejandro Portes describes how, under strong pressure from international finance agencies, Latin American countries vied with each other to liberalize taxes and relax labour standards to attract foreign capital (Portes 1994). The traditional informal economy consisted of survival activities such as shoe shining, street vending, garbage collecting and other small-scale self-employment at the margins of the urban economy. Today, however, a new type of informal enterprise subordinate to formal firms through various sub-contracting arrangements has emerged, which helps to supply the high income market. Such enterprises produce not only for the domestic market, but increasingly for export. The drive towards increasing exports has led state enforcement agencies to turn a blind eye to systematic violations of existing labour codes by exporting firms. Often, there is no formal removal of existing worker protection, but a pattern of selective omission, causing a proliferation of informal enterprises. Employers no longer give workers a formal contract but rather contract with them informally as own-account workers. In addition, special production zones for export processing have been created in which taxation and labour controls are relaxed in order to attract foreign firms.

In 2002, the International Labour Conference dealt again with the informal economy. Many delegates recognized that the ILO has moved closer to a broad and in-depth understanding of its nature. The Conference concluded that there is a variety of reasons for informal work and that the barriers to entry into the economic mainstream directly or indirectly constrain employment creation in the formal economy. These barriers include the lack of good governance, the lack of adequate jobs in the formal economy, increasing unemployment, under-employment and poverty, high income inequality and the absence or ineffective implementation of appropriate legislation and social protection, as well as inadequate policies of national governments, such as restrictive registration laws and high taxes (ILO 2002a). The structural adjustment programmes advocated by the international financial institutions, especially overshooting macro-economic stabilization, had their share in increasing informal activities (van der Hoeven, 2000). To attribute informalization to employment protection legislation is disingenious, because it has occurred also, and has continued to spread, where employment protection regulation does not exist, or has not been applied, or has been relaxed. This would suggest that in order to combat the spread of informal work it is necessary to reduce surplus labour through macro-economic policy, and at the same time reduce poverty through productivity growth and income redistribution. In this way, newly industrialized countries in South East Asia have reduced the share of informal activities. The Conference made it clear that informalization resulted not from the application of ILS, but rather from the failure to enact and apply labour standards. It therefore urged the ILO constituents to develop laws, policies and institutions that would implement ILS.

In reply to critics of the ILO approach it has to be emphasized, firstly, that it is not true that ILS are established only for workers in the formal sector, or for workers in a dependent employment status. Rather, they refer to all workers. There is also a question whether all own-account workers in the informal economy can be regarded as being truly “independent”. In fact, as was the case in the “putting-out” system prior to industrialization in Europe, many own-account workers in the informal economy depend on an employer for the inputs, equipment, work location and sale of the final products (ILO 1999). In many instances, former employees of firms have been requested to work on their own in order for the firm to save taxes and the cost of social insurance. They remain "quasi-employees", particularly if they work for a single contractor. Secondly, many ILO Conventions, such as the Minimum Wage Fixing Convention No. 133, explicitly or implicitly provide for the implementation of standards in a way that is appropriate to local circumstances, including the inequalities between the formal and the informal economy. Thirdly, a number of ILO standards focus on various categories of workers prevalent in the informal economy. An example is the adoption of a Convention and Recommendation on home-workers. Finally, many ILO instruments call for tripartite consultation and cooperation at national and sectoral level. This may be seen as a safeguard to ensure that narrow interests, such as those of the organized workers in the formal sector, do not dominate general economic and social interests. The very rationale of labour law is to ensure a greater balance of power in the labour market and provide protection and a voice to the weakest groups in the labour force, which includes informal economy workers.

A recent empirical study based on 14 countries in Latin America in the 1990s found a clear cyclical pattern for the share of informal employment. It acted as a buffer for formal employment in large firms, resulting in robust pro-cyclical employment in the formal private sector and robust counter-cyclical employment in small firms and self-employment. Countries with stronger civic rights, including freedom of association, collective bargaining and civil liberties, and also countries with higher wage shares tended to have higher proportions of formal employment and lower shares of informal employment, even controlling for GDP per capita. This finding is contrary to the proposition that higher labour standards in the formal economy lead to increased informalization. The authors concluded that increasing the share of formal employment required both the strengthening of civic rights and growth-promoting macro-economic policy (Galli and Kucera 2002). The findings of this study confirm the findings of earlier empirical analysis that political liberties, which almost always go hand in hand with the freedom of unions to organize, are associated with less dualism in labour markets and a larger formal economy (World Bank 1995)

Rising shares of informal activities may also originate in greater inequality of wages and incomes within as well as between countries. This could imply that instead of ILS posing problems for convergence within and between national economies, the causation runs the other way, namely intra- and inter-nationally divergent development creating obstacles for the application of ILS. Large disparities in wages may act as incentives for subcontracting and outsourcing to the low wage countries, and – as happened in Latin America and elsewhere – if the government relaxes local labour regulation to attract foreign investment, labour conditions will suffer.

"ILS are incompatible with local culture"

The universalism of ILS has also been challenged on cultural grounds. It has been argued that ILS are the product of European-centred culture and traditions, the offspring of the Judean-Christian system of values and beliefs, or an expression of the protestant ethic. ILS are said to be inconsistent with, if not alien to, countries with other cultures, traditions and religions and, therefore, they should not be imposed on them, or be permitted to "pollute" them. Some critics have gone so far as to call ILS a form of cultural imperialism. Thomas Donahue put the argument in these terms: "It is rich and powerful nations imposing their cultural standards on nations that are poor and weak. It does not recognize that what can be appropriate in one culture can be irrelevant or dangerous in another". He went on to state that "one must resist the temptation to dismiss this argument on ad hominem grounds. We usually hear it from the élites of nations where worker exploitation is most flagrant, or from their allies in multinational corporations" (Donahue 1994, p.200).

Opposition to ILS based on the claim of cultural peculiarism exists most of all in Asia (Li 1996). It shows up strongly in relation to ILS that prescribe freedom of association and freedom from discrimination. Sometimes, religious dogmas are used as justification or excuse for non-conformity with core ILS. Reference to such dogmas has served as a pretext for maintaining certain power positions of self-serving individuals or groups. Others have rejected such use of religion as inappropriate. For example, Shirin Ebadi, the Iranian woman lawyer who received the Nobel Peace Prize in 2003, rejected emphatically the notion that Islam is incompatible with human rights. In her view, there may be different ways of implementing them, but the interpretations of human rights must be the same everywhere. It cannot be one that is self-serving. Similarly, Hoda Elsadda, an Egyptian scholar and women's rights activist, has argued that the socio-economic status of women in the Arab world is not due to Islamic tradition as such, but to various social and political obstacles that have not yet been overcome in Western societies either. This view is supported by the fact that employment patterns vary substantially between Muslim Arab countries. For example, while women are excluded from having access to the judiciary in Egypt and Saudi Arabia, other Arab countries, including Syria, Marocco, Tunesia, Algeria and Sudan, have had women judges for more than three decades (Elsadda 2004, p. 48). More generally, one can observe an analogy between ILO's fundamental principles and rights at work and relevant texts in the Islamic tradition, and also the Cairo Declaration (Shaheed 2004). Moreover, it has been shown that there is convergence between core ILS and the ethics and spiritual traditions of the other leading religions (Peccoud 2004).

Another sort of cultural criticism of ILS is aimed at the Western search for material affluence. A former ILO official published a book entitled "Poverty – the Wealth of Peoples" (Tévoédjrè 1977). Partly inspired by Gandhi's ideas of civilization, appalled by the results of Western recipes for development in Africa, and also remembering the exuberant life style of Western colonialists in that region, he made the point that poverty had to be distinguished from destitution. While the latter is deplorable the former is not. Poverty does not preclude morality and even happiness. Simple life styles are at the heart of individual and social development. Western life styles based on pecuniary abundance and excess, and the desire for unnecessary material goods, poison society and solidarity, and contribute to mental impoverishment and loss of meaning in life. Industrialization, urbanization, fast economic growth and the infernal search for employment are signs of social destruction.

Remember the popular song of Porgy and Bess (George Gershwin 1935):

"Oh! I got plenty o' nuttin
An' nuttin's plenty for me
I got no car, not no mule, got no misery"

One may have sympathy with the simple, non-materialist life style. One may also agree that there are individual and social problems worse than poverty. Confucius made the point that worse than poverty is insecurity. Indeed, there is a difference between poverty and misery. The question is, however, whether in view of the appeal that Western consumption patterns and life styles have for most people, and the media power that propagates consumerism worldwide, it is conceivable for a democratic country to insulate itself from the increasingly globalized information and communications networks which make it possible for people to compare their working and living conditions. There is also inconsistency of rhetoric and action. We have seen that in East Asia where governments have rejected human rights on grounds of 'separate Asian values', leaders have no qualm about embracing capitalist markets and consumerist culture (Li 1996).

Recently, a new scepticism about Western-type modernization based on secularization, science, industrialization and democratic participation has emerged, both in the South and the North. For instance, it was pointed out that the development concepts of the World Bank in Africa failed because they ignored the indigenous cultural prerequisites of development (Diawara 2000, p. 101).

It is important to examine and assess the validity of such views. They appear to be justified in some ways, but not in others. Cultures differ widely, and these differences are to be respected. Any messianic fervour of spreading Western cultural patterns and life styles is to be avoided. One may certainly question Western prescriptions for development that expected to attain optimal results from a rapid shift of resources from agriculture to industry, and from moving people from rural areas to urban areas (see, for example the development model by Lewis in 1954). Moreover, one may doubt the wisdom of the World Bank where it recommended to African countries the speedy introduction of a private market economy and rapid integration into the world economy through trade and FDI before building up a local legal, commercial and social infrastructure. Pushing ahead with import liberalization without ensuring the establishment of proper market institutions tends to be counterproductive, in the labour market as well as in commodity and financial markets.

On the other hand, objections to universal ILS on grounds of cultural diversity appear unacceptable where it involves the denial of basic worker rights, inequitable income distribution and risk of personal injury in the workplace. For example, can anybody seriously believe that a worker in Ghana, Bangladesh or El Salvador is less keen than a Swiss or US worker to avoid the loss of limb or life in work accidents, and that all the technical knowledge and experience of the ILO based on relevant Conventions on occupational safety and health should be brought to bear, regardless of the cultures, customs, religion and level of income of a country? It is not the objective of ILS to improve the incomes and the quality of work for the sake of material affluence. Rather, ILS are aimed at promoting social justice and eliminating injustice. It makes a difference if everybody in society is poor because of insufficient means of wealth creation; or if those means are there but because of poor governance they are not used to progress to prosperity; or there is wealth created but the national product is very unevenly distributed; or wealth is created at the expense of undue hardships and severe sacrifices for people. There is no excuse for making greater profits or generating faster economic growth by locking doors of assembly plants from the outside, so that the lives of workers are risked in fires; or letting people work in plantations heavily polluted by sickness provoking pesticides; or sending workers into accident prone coal mines.

The aims of ILS are not culturally specific, nor should they be confused with particular life styles. After all, ILO Conventions and Recommendations are adopted by the International Labour Conference, an assembly of delegates from all over the world and a majority of them from developing countries. The universalism of ILS, and the common values underlying them, is reflected in the fact that governments have been anxious about the shame they face when they violate ILO norms.

Child labour, to take another illustration, has been justified both with reference to local culture and tradition, and pressing poverty in family households, which makes the work of children an economic necessity. While it is undeniable that child labour may add to family income it also tends to perpetuate poverty by destroying the productive capacity of the working children and by preventing the education that could make them more productive as adults. Often, child labour does not really augment household income. It merely replaces adult labour by child labour. Frequently, child labour is given preference because children are more pliable and docile and make fewer demands than adults. The argument of cultural relativism tends to hide the fact that a large labour surplus in developing countries makes it easy to play one worker or worker group against another. Finally, child labour has been vindicated by arguing that only children can do the work, or that they can do it better than adults. An example is carpet making. ILO research destroyed the myth that only children can weave small-knotted carpets. For a long time governments in Southern Asian countries denied the existence of child labour, or saw it as an inexorable fact of economic life. Gradually, they realized that it may hold back economic progress.

Decent work deficits are clearly visible in the South as well as the North. It would be fatal if the notion of a "clash of civilizations" (Samuel Huntington) concealed the common objectives of countries to redress these deficits. Besides, economic competition today is as harsh, and even more intense, between the countries of the South, as it is between the South and the North. With respect to ILS, the ultimate conflict is not between countries with disparate cultural backgrounds. It is between free market economists and other fundamentalists on one side, and those who claim and pursue universal principles and rights on the other.

4. International Labour Standards and Development

The previous chapter described the controversy over ILS, and discussed the main arguments for and against the adoption of standards. One tenet is that in view of fierce global competition in the wake of liberalized markets, universal ILS are needed to prevent a "race to the bottom". This will happen if unfair labour practices undermine existing national labour standards and prevent the further improvement of working conditions. Countries keep labour costs artificially low and avoid or relax protective labour legislation to improve export performance and court FDI. The opposing argument holds that ILS will artificially raise the cost of labour beyond the market equilibrium, thereby harming the workers' situation by reducing growth and employment. Labour conditions are largely and inescapably fixed by national income levels. They can only be improved through economic growth, not through external intervention in national labour markets. A third popular argument holds that the applicability of ILS is limited to the developed industrialized countries where they reflect the system of values and where the bulk of the labour force works in the formal sector. ILS would be inappropriate in countries with different cultures and large informal economies.

In the final analysis, all of these arguments are based on negative premises. They assume either that, universal standards are undesirable, impracticable, not beneficial or premature, or that international labour law has to be imposed on countries, if necessary with sanctions for the defectors, in order to ensure ubiquitous observation. A key assumption in these theorems is the view that ILS raise costs of production thereby impairing competitiveness, taking the natural comparative advantages away, or overextending a country's resource capacity. We have refuted, or at least qualified, these viewpoints. In many instances, the cost arguments are blown out of proportion. The cost of ILS amounts to a fraction of the cost of violent conflicts that have beset many of the poorest countries. The cost of labour standards such as social security or occupational safety is ultimately carried by the workers in the form of reduced earnings. Also, the cost argument holds only in a static, not in a dynamic, analysis where the initial cost of standards should be seen as an investment which pays off by higher productivity and other returns such as social and political stability, which in turn yield secondary economic benefits. This implies that in an objective sense countries are not "forced" to lower their standards in order to export and attract foreign investment, even if they have to compete with countries that have poor standards. Nevertheless, there can be the prejudiced, subjective belief on the part of actors that with ILS they face competitive advantages. As we shall argue, such prejudice can be overcome through social policy dialogue that transmits experiences both of beneficial effects of standards and the negative consequences of not applying them, among firms, sectors, nations and generations.

The objective of the present chapter is to further elaborate on the nature, purpose and benefits of ILS. A more comprehensive understanding of the role and impact of standards based on a political economy approach will do more justice to them. It is in the spirit of the Preamble to the ILO Constitution that says that universal peace can be established only if it is based upon social justice. The broader approach to ILS leaves behind the narrow confines of the logic of costs, and it also overcomes biases underlying much of the controversy over ILS. It is placed in a conceptual framework of development. It starts from the premise that treatment of workers in accordance with ILS is key to growth, development and the fight against poverty. Hence, the pivotal question is how ILS can be instrumental to make labour resources productive for the common good.

a) Why International Labour Standards Are Needed

Peculiarities of labour and the labour market

To understand the origins and objectives of labour standards it is necessary to recognize the peculiar nature of labour and the labour market. Economic orthodoxy treats labour like any other commercial good, and the labour market is subject to the same principles and laws of supply and demand that govern any other market. By contrast, the heterodox, institutional economic paradigm takes a fundamentally different view. In its Declaration of Philadelphia of 1944, ILO stated that "labour is not a commodity". It follows that the labour market is a peculiar market. It does not function like the market for potatoes, steel or computers. One economic rationale for this view is that the quid-pro-quo of exchange under a work contract is uncertain. Employers who hire a worker usually know the price of labour services but do not know exactly what they will get for it. Labour is not a ready-made product but a "productive potential", which is linked to a human being who has individual and social needs. The worker will have to be motivated, whereas "steel does not care whether there is good lighting, and does not worry whether there are toilets or flowers in the room. Steel does not have to be motivated to produce an output" (Stiglitz 2001). A worker will be more or less productive, cooperative and innovative depending on how he or she is treated: whether the wage is seen as fair in relation to the demands of the job; whether pay is enough to make a living, or whether a second or third job is needed to get enough income in which case the effort on the first job is most probably reduced; whether the worker gets equal pay for work of equal value; whether or not wages are actually paid for work done and whether payment is delayed or not; whether the worker suffers discrimination when it comes to finding a job, receiving training, and getting promoted; whether the job is safe or unsafe; whether employment is secure; whether complaints and grievances can be voiced, and whether in case of a dispute there is legal protection available and a trade union to provide support; whether this trade union is free and independent or not; whether the working hours are normal or excessively long; whether the worker receives induction and skills training; whether the employment provides opportunities for occupational advancement; etc. In short, what the worker delivers is contingent on the terms of employment, the working conditions, the work environment, collective representation, due process, etc. Performance depends on what the ILO has come to call "decency" of work, something that is unknown in commodity markets. The employment contract is not merely concerned with allocative efficiency (which is the main concern of neo-classical economic theory), but also with productive efficiency, which hinges on equity and social justice. This, at least, is the case in a 'free' labour market. The alternative way of getting the worker to perform is force, be it forced labour, the force of fear (of loss of job and income), or the force of hunger.

A second peculiarity of the labour market is the basic asymmetry of power between workers and employers, and the high risks of marginalization and exclusion. In the absence of labour law and social protection workers are in an endemically weak position because they have no alternative way to make a living other than employment; and they have to sell their labour services under any condition and at any price. In comparison, employers normally dispose of a wider repertoire of resources and means of action. They are usually better endowed with capital and they command alternatives when it comes to employment. They can replace one worker by another, subcontract the work to another firm, install labour saving equipment to diminish the need for workers, or put their capital to other uses. To balance this inequality of power in the employment relationship, intervention in the labour market is required to turn up bargaining power on the worker's side, either through public protective provisions, or a system of collective organization and collective bargaining. But even with such correction of the imbalances of labour market power, it is nevertheless common that workers remain in a disadvantaged position. As Stiglitz put it: "It is far easier for an employer to replace recalcitrant workers than for employees to "replace" a recalcitrant employer, especially when unemployment is high" (Stiglitz 2001).

The power equation tends to be even more tilted in favour of the employer when the economy is opened up to international markets. More options emerge, such as the possibility of relocating production and services abroad. The option of international migration is, of course, also available to at least some workers but it often comes at the high price of disrupted social relations. Normally, capital is more mobile than labour.

Strangely enough, the notion of giving the worker more autonomy for action in the labour market and making the employment relationship more equal is hardly ever taken up by orthodox economics. It might be expected that a neo-liberal mind would welcome the idea of greater symmetry of power in the employment relationship because liberals emphasize the importance of the free will of contractors and the autonomy of actors for building genuine market relations.

Vulnerability and dependency is extreme where workers are uneducated, poor, landless, or debt-bonded, and where they have no access to credit and savings facilities. Vulnerability is also not confined to wage workers in a dependent relationship with an employer. It extends to many independent workers, e.g. own-account workers, who are in an asymmetrical contractual relationship with a contractor. It extends to employers, especially those in small and micro-firms, who are subcontractors of other firms that can more or less dictate the terms of the business relationship. Finally, vulnerability is an intrinsic feature of particular groups of workers including those with special needs, such as women, youth, the disabled and migrants. Without special protection and promotion they are likely to be disadvantaged, and sometimes excluded from employment.

The key functions of ILS

To remedy the structural deficiencies of the labour market highlighted above, labour standards are designed to serve the following three functions (Sengenberger 1994):

Participation: ILS provide for freedom of association of workers and employers; the right to collective bargaining; tripartite consultation at the national level; and participation and cooperation at the level of the undertaking;

Protection: ILS protect workers from the abuse of power by employers or the state, and also from destructive competition by other workers. They prohibit the work of children, forced and compulsory labour and discrimination in employment and occupation; they set maximum hours of work, minimum periods of rest, minimum holidays with pay, and minimum leave in case of maternity. They provide special protection for women, youth, night workers, home workers, migrant labour and indigenous and tribal people and for special occupational groups such as seafarers, dockworkers, fishermen, and plantation workers; they stipulate the fixing of minimum wages; they call for timely payment of wages; they protect worker claims in case of employer insolvency; they provide protection against accidents and occupational diseases, and worker protection in case of sickness, invalidity, termination of employment, unemployment and old age.

Promotion: ILS stipulate policies for full, productive and freely chosen employment, human resource development through vocational education and training and vocational guidance, vocational rehabilitation and employment of disabled persons, public employment services and fee-charging employment agencies, care and other welfare facilities, labour statistics, labour inspection and labour administration.

By setting a minimum floor or a ceiling for the use of labour, and thus preventing under-payment and over-use of labour, exploitation and 'sweating', ILS can forestall downward *destructive competition* in the labour market. At the same time, standards can promote *constructive competition,* meaning competition among employers on the basis of good and efficient labour practices ("the race to the top"). Constructive competition is facilitated by setting requirements to trustfully cooperate, jointly examine grievances, peacefully settle disputes, and by requesting policies and measures to fully develop and use labour resources, including worker groups that are vulnerable or have special needs.

Standards of participation, protection and promotion are mutually reinforcing. Observing one type of standard facilitates the implementation of other standards. Where countries have implemented all three types of standards, they have achieved favourable social and economic results. The Northern European countries are a good illustration (Box 4.1). The interaction of standards holds also in a negative sense. So, for example, where trade unions are weak, collective bargaining coverage and minimum wages tend to be low and social security provisions absent or meagre. It also happens that in the absence of trade unions and collective bargaining, there is over-regulation by the government. Lacking social security is usually associated with high inequality in the labour market and often with high poverty rates, which in turn makes it difficult to attain many labour and social standards. Another illustration can be taken from the field of migration. It has been learned that a lack of application and enforcement of labour standards, in countries of destination as well as origin, leaves room for exploitation of migrants and, ultimately, forced labour. Tolerance of restrictions on freedom of movement, long working hours, poor or non-existent health and safety protections, non-payment of wages, substandard housing, etc. all contribute to expanding a market for irregular migrants who have no choice but to labour in conditions intolerable and unacceptable for legal employment.

ILS as international public goods

Many people regard regulations associated with ILS as a straightjacket for enterprises and the economy as a whole. Such a view neglects the origin of standard setting. Instead, labour standards may be viewed as an institutional mechanism to mediate between the narrow interests of firms and the wider interests of the economy and society as a whole; between the interests of labour and capital; between the interests of the present and future generations of workers; and finally between the interests of different countries. Standards are the product of endeavours to accommodate these conflicting interests.

Standards are not created without a need. In the ILO, standard-setting starts with the perception and recognition of a labour problem, which is urgent and pervasive enough in terms of the number of countries afflicted to be put on the agenda of the relevant tripartite ILO legislative bodies. After extensive discussion of the origin, nature and possible remedies of the perceived problem it may be decided to work towards a normative ILO instrument, i.e. either a Convention or Recommendation. If the instrument is finally adopted by a two-thirds majority of the International Labour Conference, it is then referred to the national legislative authorities for ratification. Subsequent application in the ILO member countries, and the monitoring of this application through committees of experts, usually further improves understanding of the issue and how best to deal with it. If a country fails to live up to an ILO Convention, its

BOX 4.1: Combining standards of participation, protection and promotion: High-performance economies in Northern Europe

An ILO study found that Denmark and the other Nordic countries have effectively implemented nearly all ILS and that their economic and social performance is superior to all other countries. They rank at the top or near the top among the industrialized countries on virtually any social and economic indicator. They have the highest level of collective organization (trade unions, employers, and collective bargaining coverage), sound industrial relations and social dialogue, the highest minimum wages relative to average wages, the least wage and income inequality, the highest level of income protection, and the largest amount of spending on active labour market policy. Their superior economic and social performance is also reflected in the highest rate of labour force participation, top employment-to-population ratios and labour market activity rates for both men and women, gender equality, low un- and underemployment, low poverty, high growth rates of hourly labour productivity, high GDP growth, high real wages, low inflation, positive trade and current account balances, fiscal stability, advanced penetration of information and communication technologies, and low rates of crime, corruption and other social pathologies (Egger and Sengenberger, ed. 2002). Recent ILO research confirmed that among 90 countries studied, Sweden, Finland, Norway and Denmark are the best performers on economic security, measured by a composite index that covers labour market security, employment protection and job security, and security of skills, work, representation and income. With the exception of Canada, all of the top 15 countries were European (ILO, 2004b).

Contrary to predictions in the beginning of the 1990s, the social welfare state in the North of Europe has not collapsed, but has shown remarkable resilience. High tax rates to finance the labour standards and the welfare state have not done harm to the economy. The development success of Northern Europe is also reflected in high rankings on UNDP's human development index (HDI). In the latest ranking of a total of 173 countries, and the 53 countries with a high human development index, all the Northern European countries are found in the top range of the high index group: Norway ranks first worldwide, Sweden second, Iceland comes at number 7, Finland is number 10 and Denmark number 14 (UNDP 2002).

practices will be subject to a review, which normally produces recommendations on ways to overcome the problems underlying the violation.

The procedure of standard-setting clearly indicates that ILS are international communicative devices for mutual trans-national learning and problem-solving. ILS usually promulgate a general goal and set out the means and instruments to attain that goal, frequently derived from the synthesized experience of countries that have been exposed to the problem and have found a cure, or at least a way to cope with it. Information gathering prior to setting the ILO norm, its subsequent probing in the country context, and the feedback to the ILO ensure that ILS provide a repository of international knowledge about how to treat labour issues. They embody the accumulated international wisdom on the use of labour, incorporating experience gained from both good and bad working arrangements. They serve as a roadmap for newly emerging economies that are confronted with the labour effects of trade. The tripartite composition (employers, workers and governments) of the ILO legislative organs and monitoring bodies ensure that in designing the standards due consideration is given to practicability, manageability and cost effectiveness. Representation in these organs from all over the world makes it possible to pay attention to the diversity of local situations, institutions and needs. The procedures do not necessarily yield the same results in every country, yet they provide for universality in the process of standard setting and implementation.

ILS can be seen as international public goods. They are the product of extended learning opportunities at the international level, containing information, knowledge and practical experience that are made available through the ILO. It is standard economic wisdom that in the absence of government regulation, public goods are not produced, or not produced at an optimal rate. Public goods are available to all, their consumption by one party does not preclude their use by another party, and they are provided free of charge. The World Bank Report on *Attacking Poverty* concluded: "Many of the challenges facing poor countries have solutions that involve the production of international public goods" (World Bank, 2000).

As international public goods ILS add value to national labour standards (NLS). They are a source of inspiration for national action (Valticos 1979). For example, the prescription of ILO Convention No.1 (1919), and ILO Convention No. 47 (1945), of maximum normal hours of work during the day and the week originated in several countries' experience with overly long working time that exhausted the capacity of labourers so that their productivity declined, and they were even forced to early retirement. Excessively long hours damage both the individual and the community, which may have to support the invalid worker. A general norm limiting the hours spent at work may, therefore, be seen as a useful guide to workers and employers who may be tempted, or forced by unfettered interworker competition, to overextend their working capacity while young, with serious consequences later on. Nowadays, there are reports about young software engineers who don't want restrictions on the duration and scheduling of working time. Just like the libertarian economist, they view the absence of any regulation as a kind of freedom – the *freedom from rules*. Labour standards, such as the limitation of working time, provide another sort of freedom – the enabling freedom to maintain working ability throughout working life. Therefore, ILS should not be regarded as antithetical to freedom, nor should they be seen as "anti-market" instruments.

Another example of transnational institutional learning in the ILO context is the fight against child labour, and the elimination of the worst forms of child labour aimed at in ILO Conventions No. 138 of 1973 and Convention No. 182 of 1999. The collection, documentation and dissemination of information and experience, and the technical cooperation assistance provided as part of the ILO's International Programme for the Elimination of Child Labour, extend and enrich the readiness, means, and capabilities of local actors to redress the problem. It makes it more likely that the problem will be recognized instead of concealed, it furthers the conviction that something can be done, and it provides advice and model practices to combat child labour.

ILS embody the wisdom that short-run gains in labour practices may come at the expense of serious long-term hazards or constraints on development. A recent ILO survey on the economic impact of child labour illustrates this point. It was found that in the short run, child labour increases household income by an average 20 per cent, which may be significant for the probability of survival; in the long run, however, child labour perpetuates household poverty because it slows down long-term economic growth and social development as a result of reduced human capital formation (Galli 2001).

A third example of transnational learning concerns social security. In a traditional society, systems of interpersonal support in case of sickness, invalidity, joblessness, and old age were based on kinship. The extended family covering two or three generations, or an even wider group of consanguinity, provided mutual support. Typically, the young worked for the livelihood of the elderly. In the course of industrialization the wider family ties tend to weaken or even collapse with the advent of the small, nuclear family. As a result, kinship-based social protection tends to become dysfunctional, and the need for new, state organized systems of social security arises. In recent decades, many countries, especially emerging economies, have gone through this transformation. Their governments have studied international experience in organizing broader, public or collective systems of social protection. International organizations have provided assistance and the ILO Conventions on social security have served as basic guidelines for reform efforts in this field.

ILS also add value because they are tools to resolve international conflicts of interest. They concern action in one country whose effects spill over to other countries in a negative way. Examples of such negative social externalities, or leakages, include the "classic" cases of keeping wages and other labour costs artificially low to gain advantages over competing countries, or the use of toxic, cheap materials that could price a competitor using non-hazardous, but more expensive inputs out of the market. Trade unions usually call this "unfair practices" and "unfair trade". If because of cross-border trade and investment the nature of the labour problem is international, the remedy has to be international as well. In this respect, labour standards parallel the function environmental standards. A country that finds its air filled with carbon dioxide blowing in from other lands, or its rivers polluted from toxic emissions upstream in another country, will have to seek an international agreement if the issue is to be settled peacefully. Similar cross-national pollution, or leakage, occurs in the labour field. With the second wave of globalization in the second half of the 20th century, the scope for cross-national leakage, or "social pollution", has enormously increased. It can either be handled in a remedial fashion when damage has occurred, or better in an anticipatory and preventive fashion through an internationally accepted and applied labour or social standard. For whatever reason, the principle of standards sometimes appears to be more accepted in the ecological than in the labour field. One simple reason may be that environmental pollution tends to affect all people, rich and poor, the powerful as well as the powerless, more or less equally, whereas the effects of social pollution tend to be concentrated on the weaker groups in society.

In conclusion, ILS are a tool to shield countries from negative social spillovers, or "negative externalities". They prevent policies and action that have adverse knock-on effects on competitors, within or across countries. But ILS also provide positive spillovers insofar as – within the setting of the ILO or other international institutions – a process of mutual international learning leads to the spread of useful experience and the dissemination of good labour practices. The two functions of standards combine to promote a process of international convergence of working and living conditions in an upward direction, i.e. in the direction of countries with the higher standards.

b) Economic, Social and Political Dividends

In the following sections, we discuss in greater detail the major economic, social and political gains that can be derived from adopting and observing various kinds of ILS.

Unleashing productive forces

Next to raising the level of employment, the need to make work more productive is one of the greatest challenges of the present day. Unproductive work is a major barrier to growth, most of all in the developing world where the working poor account for an average of 30 per cent of the population. Yet, even in advanced industrialized countries, there is room for significant productivity improvement. In a recent report by the British Proudfoot Consulting Company in 9 countries, including Austria, Australia, France, Germany, Hungary, South Africa, Spain, the UK, and the US, it was shown that between 38 per cent and 43 per cent of the total working time was lost as a result of poor management. Among the major deficiencies were inadequate management planning and control, inadequate supervision, and ineffective communication.

ILS may be seen as a mechanism and instrument for enhancing productive efficiency. Their economic function is helping to establish the legal and institutional framework for human resource development, to ensure equity and justice in the work process, as well as a measure of certainty and predictability, in order to elicit the productive potential of both workers and employers. Standards help to avoid the over-use as well as under-utilization of working capacity and the exploitation of weak individuals and groups in the labour market.

The salutary impact of ILS on productivity is increasingly being recognized. In 2000, OECD published the results of a survey of empirical studies on the impact of all core ILS for 75 developed and less developed countries. It was found that countries which strengthen their core labour standards can increase economic efficiency by raising skill levels in the workforce and by creating an environment that encourages higher productivity and innovation (OECD 2000).

ILS provide an impetus to firms to promote competence and the efficient use of resources. Without an effective floor to pay and other terms of employment, there can be underbidding of wages leading to low pay and downward spiralling of remuneration. The need for a floor on the terms of employment has long been acknowledged. In connection with a debate on the lack of minimum wages in Britain and the introduction of the Trade Boards Bill in the British House of Commons in 1909, Winston Churchill famously remarked, "…the good employer is undercut by the bad, and the bad employer by the worse". In the absence of a minimum wage which may be set by statute or collective agreement, technologically and managerially backward firms can easily survive, and this prevents more efficient and more advanced firms from expanding their share of the market. Conversely, where minimum pay standards are set, downward flexibility is blocked. Firms that are unable or unwilling to meet the standard will be squeezed out of the market. Firms have to seek competitive advantages in other, more constructive and inventive ways, i.e. in labour conditions, which are above the minimum standard. Minimum wages enhance efficiency by putting pressure on employers to improve management, technology, products and process, and by inducing them to make better use of their workers by improved human resource policies. So, the economic effect of a floor set by minimum wages is twofold. It takes destructive competition out of the labour market, and it shifts competition on to the product market and product quality. Minimum wage setting may be seen as a spur to "dynamic efficiency", far superior to the "static efficiency" of the conventional theory. It is odd to see that market fundamentalists who normally praise the virtues of the market and the competition that goes with it, argue against a device such as the minimum wage which reinforces market competition in favour of the productive enterprise that takes over business and jobs from poor performers in the market. It is equally strange to notice that the same people who ordinarily argue the case against protection turn "protectionist" when they defend the persistence of low productivity jobs.

Mainstream economists object to minimum wages, especially if they are not set at a rather low level, on grounds of negative knock-on effects on growth and employment. It has also been pointed out that high levels of minimum wages relative to the average wages may lead to evasion of minimum wage payment (World Bank 2005, p. 144). In an empirical study on the impact of statutory minimum wages, it was concluded that concerns about harmful effects are largely unfounded. Minimum wages could not be made responsible for diminishing employment and unemployment (Card and Krueger 1995). As a result of inefficient firms being squeezed out of the market, certain jobs may disappear. But this does not imply a decline in the overall level of employment, as demand shifts to the more efficient firms. The problem of a shortage of productive jobs cannot be resolved by low wages but will have to be cured by effective aggregate demand and appropriate labour market policies. In fact, minimum wages can strengthen labour demand and hence employment by redistributing income to the poor who consume a high proportion of their income (Wilkinson 1995). In addition, higher employment and lower unemployment lead to savings in social welfare spending and generate additional tax revenues that can be used as a further spur to growth.

A study using data in 30 developing countries, mainly in Africa and Latin America, revealed that raising the minimum wage contributes to poverty alleviation without any significant negative effect on the level of employment. There was also no evidence that the ratio between the minimum wage and the average wage would affect the size of the informal economy in Latin America. The finding supports the view that in this region, wage rigidity in the form of a wage floor is not the main reason for the large volume of informal employment (Saget 2000).

Productivity is further enhanced if the setting of minimum terms of employment and working conditions that suppresses destructive competition is complemented with measures designed to promote constructive competition. Among the important measures are vocational training and job design aimed at making full use of the skills available in the workforce, and raising the skill content of jobs. Skills specific to the firm often accrue automatically in the work process, whereas the formation of generic skills that are portable across firms usually requires regulation. In its absence employers are hesitant to meet the cost of training because of fear of losing the return on investment.

In a production system characterized by a deep division of labour, productivity depends very much on the degree of cooperation among workers, and between workers and management. This cooperation, in turn, hinges on the degree to which workers feel secure in their employment. Workers who constantly compete with co-workers for the job, or who feel threatened by redundancy, will not be inclined to share their knowledge and skills with others, for fear that this would undermine their own competitive position. On the contrary, workers who are protected by security provisions against loss of job and loss of income will be more likely to be fully productive and to cooperate in labour saving innovation.

Cooperation within and between firms is key to efficiency and growth. In institutional economics it is now well established that cooperation has to be built on trust which usually requires stable relations, including stable employment relations. Cooperation will not come about in a purely competitive market regime, in which actors strictly pursue self-interest and make individual “rational choices”.

The presence or absence of cooperation in production, especially cooperation among workers, cooperation between workers and management, and cooperation among firms, can explain why we see greatly varying economic outcomes, even with the same amount of inputs to production and use of the same technology. Productivity is more than a question of “allocative efficiency”, meaning optimal factor combination in accordance with relative prices. The standard economic model tends to view production in a rather mechanical way. As in a meat grinder, capital, labour and materials are put in at one end and the resulting transformed product emerges at the other end. Little attention is paid to what is happening during the transformation of the resource inputs. The actual work process remains a black box.

Often, it transpires that standard economics is blind to the social foundations of productivity and innovation. Consider the following anecdote: Starting in 2001, Chinese workers dismantled a complete closed-down steel rolling mill in Dortmund, Germany and shipped it almost half way round the world to China where it was reassembled in 2004. Experts judged the transplant to be economically non-sensical, believing that building a new, modern plant would have been much more efficient. The Chinese, however, were convinced that the operation was worth the effort. Their economic logic referred to the enormous gains of practical knowledge and operating experience on running the mill that accrued as a by-product of the joint dismantling of the plant by Chinese workers and German workers who had operated the mill for many years. The rapid re-launch and smooth operation of the mill in its new location seemed to support their logic.

In sum, labour standards are instrumental in stimulating productivity in two ways: they provide disincentives for poor performance, and incentives and institutional requirements for productivity enhancement. One of the most important incentives is cooperation.

Gains from collective organization, sound industrial relations and social dialogue

It is advantageous for the use of labour and the governance of the labour market if these are subject to worker participation, social dialogue and collective agreement between trade unions and employer organizations. Worker participation is a fundamental right and an important dimension of democracy at the workplace. At the same time it is a mechanism for enhancing productivity, innovation, enterprise performance, and competitiveness. Consultation and negotiation can accommodate conflicting interests and economic and social concerns in civilized and socially and economically constructive ways. Labour history has repeatedly shown that, where there are no recognized formal channels for conflict resolution based on law or agreement, workers tend to resort to informal, clandestine, often disruptive and uncontrollable action to express their discontent at perceived injustices.

Collective agreements fix the terms of employment and the conditions of work, thus making busines conditions predictable and accountable. Employers know their labour costs at least for the duration of the labour contract and, equally important, they know the terms of all competitors covered by the agreement. All this provides certainty, which is essential for making sound investment decisions. Social peace is an invaluable asset to production and investment. Worker participation may improve the quality of managerial decision making; it tends to elicit the intelligence and creativity of more people to find the best solution for adjustment or innovation problems; if workers have a say in the organization of work and in setting the terms of employment, this makes it more likely that the terms of the agreement will be respected and implemented. Collective bargaining makes the wage setting process more transparent, for the parties directly concerned, but also for a wider public. What is often regarded as a costly, outdated ritual of negotiation is conducive to reaching a compromise based on a thorough assessment of economic and social circumstances. When it comes to setting an adequate "living wage", negotiation between workers and employers is normally the optimal procedure for deciding on this wage. It has the benefit of people deciding for themselves what is fair and reasonable. "Collective bargaining is the best available means of reconciling aspirations of social progress with productive potential. It is an extremely flexible process which can take into account widely differing conditions between and within countries" (Pursey 1995). This holds especially for multi-level bargaining structures – involving the national, sectoral and enterprise level – where agreements can be fitted to the specific issues and and economic context prevailing at each level of bargaining.

In its 1995 report on Workers in an Integrating World, the World Bank points out that where there is no collective organization of the labour market in developing countries, government regulation tends to be excessive. "In the absence of free trade unions and collective bargaining many governments feel obliged to reach out to formal sector workers through labour regulation and special privileges. This is particularly true when the government needs the political support of strong urban groups in order to remain in power. One result is that labour market distortions are particularly severe in many countries that repressed unions" (World Bank 1995).

Experience in various regions points to favourable results for economic and social development reached through collective bargaining. We have already mentioned that the Nordic European countries with the highest trade union density and the highest collective bargaining coverage rank top on nearly every indicator of economic performance. In a 1996 survey of empirical studies in developed and developing countries, it was found that the economic impact of the application of freedom of association and collective bargaining rights was positive. On average, GDP increased at 3.8 per cent per year before improvements in these standards, and 4.3 per cent after the improvement. At the same time, the effect of the standards was small, compared to the impact of other factors, such as technology, raw material prices and terms of trade (OECD 1996).

Evidence of improved economic development after the introduction of collective bargaining is also available from case studies in developing countries (see Box 4.2).

There is ample evidence of favourable economic outcomes from national-level and subnational tripartite social dialogue. In many cases, tripartite social concertation has resulted in pacts of macro-economic stability, employment and competitiveness. For example, in countries such as Bulgaria, Czech Republic, Hungary, Poland and the Slovak Republic, tripartite consultation and negotiation helped to achieve a peaceful transition to a market economy system and political pluralism. It proved to be a key instrument for reconciling divergent interests between workers, employers and the government in adopting labour legislation, setting labour market and social protection policies, preventing or resolving strikes and mass protests and attaining macro-economic stabilization (Kyloh 1995). Very favourable outcomes of tripartite national social dialogue are reported from Barbados (see Box 4.3). National social dialogue in Austria, Denmark, Ireland, and Netherlands succeeded in generating economic recovery and reaching low levels of unemployment. Instead of labour market deregulation, new regulations and social security policy reform negotiated between the social partners and the government paved the way to an increase in

BOX 4.2: Improved worker status and competitiveness in the fruit-growing industry of Brazil

A striking example of a positive-sum process and outcome, both for workers and employers, emerged during the 1990s in the Petrolina-Juazeiro (PJ) region of poverty-stricken Northeast Brazil, which has been transformed by successful efforts of exports of high-quality fruit to Europe and the United States. The workers' unions in the JP case gained a formal commitment from growers to a permanent process of collective bargaining, formal labour contracts paying – after the first accord – minimum wages plus 10 per cent, and committing to observe child labour and health-and-safety clauses (Daminani 2002). The PJ model spread to another fruit-growing and exporting area in the Northeast – melons in the state of Rio Grande do Norte – a development that without the PJ example would probably not have happened on its own, let alone without conflict. The PJ story involved significant gains for workers, as well as increasing the competitiveness of growers in the international market.

The PJ case shows also that unproductive conflict between capital and labour can be overcome in Latin America where reforms of labour legislation have often been stalemated at the national level, partly because of the lack of sustained institutions of conflict management at that level (Tendler 2002).

adjustment capacity and the revival of employment (Auer 2000). In Finland, workers' and employers' organizations and the government attribute the countries outstanding economic successes during the last decade to comprehensive social dialoguing in a tripartite framework (Box 4.4).

Collective bargaining and social dialogue require independent actors. Thus, freedom of association and non-interference in the policies and internal affairs of the organizations of workers and employers, or from any other party, are absolutely essential preconditions.

The role and impact of trade unions are largely different from the adverse effects attributed to them by orthodox economists. In their view, trade unions tend to 'hold up' the rest of the economy, reduce labour market and product market competition, and interfere in other ways with the efficiency of the economy. They are charged with pushing wage rates above the competitive level and compressing wage differentials, thus preventing the labour market from clearing. In reality, collective bargaining may have just the opposite effect of market distortion. It may improve the market clearing and adjustment process. In a trustful and sustainable relationship between workers and employers, neither party uses its full market power in an opportunistic way. Both tend to exercise market restraint. Worker organizations rarely push up wages to the point that a tight labour market in a boom period would allow them to. In a business slump employers may not cut wages or downsize staff as far as they could. Such behaviour is neither a sign of market imperfection nor benevolence but good economics using the advantages of collective action and mutual trust.

Strong collective organization in the labour market tends to contain, rather than cause, inflationary pressures. Cost–push inflation from wage settlements is much more likely to occur under decentralized bargaining than under centralized or coordinated bargaining structures (Traxler and Kittel 1997). In the presence of fragmented bargaining, each bargaining group's wage increase is, in effect, every other bargaining group's price increase. Even if each separate group is successful in inflation-proofing its pay in the short term, the longer-term effect is an offsetting general increases of prices. On the other hand, if any group individually forgoes its wage increase in the interest of controlling inflation, it will merely benefit all the groups at the expense of the real wages of its members. This can be avoided only if the wage bargaining is coordinated centrally (Wilkinson 2000, p. 667). An ILO study supports this reasoning. It found that in countries with a low degree of coordination, consumer price inflation was over 250 per cent in 1990-98, whereas in countries with a moderate degree of coordination average inflation was around 25 per cent, and in countries with a high degree of coordination average inflation was below 5 per cent (ILO 2000).

BOX 4.3: A success story from the Caribbean: National social dialogue in Barbados

In Barbados, social concertation between the government and the national confederations of employers and trade unions led to the conclusion of "social protocols" in the course of the 1990s, aimed at economic stabilization, wage restraint, productivity enhancement and building sustainable social and economic partnership. The results were impressive. Not only was the economic decline of the 1980s reversed, but the country was put on a path of economic growth of an average four per cent for eight consecutive years after 1993. Unemployment diminished from 21.9 per cent in 1994 to 9.8 per cent in 1998; inflation dropped sharply arriving at an annual average of less than three per cent since 1995; real industrial wages rose steadily since 1996 as a result of productivity increase; and the number and scale of working days lost declined significantly (Fashoyin 2001).

BOX 4.4: Finland's extraordinary innovation capacity: The impact of social dialogue

In Finland, tripartite dialogue between the government, the employers' organizations and the trade unions is practised in relation to a wide range of labour and social policy matters, and beyond it in important areas of economic policy. The three parties, and also international observers, agree that this dialogue has produced sizeable benefits in favour of the country's overall economic, social and political development, and its high standing in the international community. For example, trade unions and the employers' association have reached agreement with the government to establish so-called buffer funds used for stabilizing incomes and expenditures in the national social insurance system through the business cycle. It helps the country to avoid fiscal deficits in periods of recession. In another domain, workers and employers are part of the national committee that stipulates guidelines for educational policies and draws up curricula and standards for exams. They have a voice in industrial policy, inter alia by being members in the National Sciences and Technology Council. Their ability to play an effective role in national policy formulation is enhanced by rates of membership in the order of 90 per cent and by very large collective bargaining coverage.

Tripartite consultations in Finland have allowed broad use to be made of the national potential for innovation and modernization of the economy in a way that maintains social cohesion. Finland has been a world pioneer of information and communication technologies. In the 1990s, it achieved the highest annual rates of productivity improvement among industrialized countries. According to an evaluation of OECD member countries in 2003, its pupils have the highest reading and mathematical proficiency. In 2002 and 2003, Finland's economy was rated the world's most competitive by the World Employment Forum.

Trade unions and their action must not be seen exclusively in a narrow economic perspective. Where freedom of association is ensured, and trade unions are free and representative, they are not merely a crucial element of economic democracy, but can also be instrumental in establishing and stabilizing political democracy. By developing countervailing power trade unions can prevent or check cronyism. In this way they contribute to good governance. An empirical cross-country study using data from the period 1985-94 showed that freedom of association is correlated with reduced corruption, measured by the international transparency corruption index. Evidence was also found of a positive statistical relationship between labour standards, democracy and political freedom (Palley 2000). In turn, democracy is positively associated with higher wages (Rodrik 1999). Freedom contributes to economic development, and development in turn confers freedom by relaxing economic constraints and burdens. The conceptual link between the two was most convincingly developed in Amartya Sen's notion of "development as freedom" (Sen 1999). How strong exactly the relative effects of democracy, political freedoms and freedom of association on wages and income distribution are, is still being investigated. Qualifying Rodrik's study, Palley found that labour standards exerted a stronger direct influence compared to democracy. He concluded that democratic countries may indeed pay higher wages, but the effect of democracy works indirectly through the application of labour standards (Palley 2000).

It cannot be denied that there have been worker organizations and worker groups which have used their bargaining power in opportunistic ways. The temptation for this is high where relatively strong bargaining power of worker groups can be derived from the non-substitutability of their skills or perishable products. There have also been so-called "restrictive practices", "featherbedding", and the like. Such practices have their origin mostly not in trade union strength, but in the weakness or insecurity of trade unions, as was well explained by the British Royal Commission on Trade Unions and Employers' Associations (see Great Britain 1968), or in inter-union competition and rivalry. The economic orthodoxy tends to generalize from such practices to make a principal case against unions as organizations that misuse their monopoly power for rent seeking and market distortion. In most instances, where union monopoly power exists it is exceeded by the monopsony power of employers. Moreover, union monopoly power has greatly diminished in recent decades as a result of intensified product market competition in open economies. Finally, the idea that there could be an absence of power in labour markets is devious. What is realistic is to balance power relations rather than eradicate them.

To pursue their goals trade unions have variously pursued "inclusive" and "exclusive" strategies. They have relied on the "broad front" or the "strong point" to gain improvements in wages and working conditions. At varying degrees, they have looked after the low-income groups, the low-skilled, the disadvantaged, and the unemployed. Some have limited their action to collective bargaining while others have taken part in a national social dialogue with government, employers and sometimes other groups in pursuit of broad economic and social concerns. It has also been found that unified organization and coordinated collective action of unions lead to better economic outcomes than inter-union competition and rivalry (Aidt and Tzannatos 2002).

On the whole, the contribution of unions to development is more acknowledged today. The World Bank, for example, which had often judged unions from a narrow economic perspective that stressed their adverse monopolistic behaviour, eventually arrived at a more holistic, balanced view of the role and impact of trade unions. Its 1995 World Development Report states: "Free trade unions are the cornerstone of any effective system of industrial relations that seeks to balance the need for enterprises with the aspirations of workers for high wages and better working conditions"; and "Trade union activities can be conducive to higher efficiency and productivity. Unions provide their members with important services. At the plant level, unions provide workers with a collective voice. By balancing the power relationship between workers and management, unions limit employer behaviour that is arbitrary, exploitative, or retaliatory. By establishing grievance and arbitration procedures, unions reduce turnover and promote stability in the workforce – conditions which, when combined with an overall improvement in industrial relations, enhance workers' productivity" (World Bank 1995).

Another source of productivity improvement: Safety at work

Occupational safety and health of workers is part and parcel of human security. At the same time, safe and healthy work is of enormous economic significance: its absence entails heavy costs to employees, employers and society at large. Regulation for the prevention of accidents and occupational diseases is, therefore, profitable for enterprises and the economy as a whole. It has the effect that the cost of safety and health standards are internalized to firms, instead of being shifted to workers or the public.

ILO estimates that across the globe there are some 270 million occupational accidents and some 160 million occupational diseases each year. At the extreme, work can kill. The annual number of work-related fatalities is about 2.2 million. Most likely, this figure underestimates the true extent of fatalities at work. No country in the world records and compensates all work-related accidents and diseases. Statistical information is scant in developing countries where, due to more labour intensive production, the share of exposed workers is larger, temperatures and other climatic conditions more demanding, knowledge and awareness of hazards and consequently prevention levels lower, communicable diseases at work (malaria, hepatitis, viral and bacterial infections) considerably more prevalent, and informal economy working populations larger that are practically outside any protection measures. Work-related deaths are mainly caused by cancer from the use of asbestos, carcinogenic chemicals and dusts, radioactive materials, and diesel exhaust, and cardiovascular and circulatory diseases. Accident fatality rates differ greatly by region, ranging from 21 deaths per 100,000 workers in Sub-Saharan Africa and some parts of Asia to 4 deaths in advanced developed countries.

The ILO has estimated that 4 per cent of world GDP is lost due to accidents and occupational diseases. This calculation takes only a fraction of the total economic burden into account. The biggest single reason for economic losses is musculo-sceletal disorders, such as lower back pain, that causes relatively long absences from work. Comprehensive and detailed cost estimates of work-related accidents, injuries and illnesses exist for the United Kingdom. In 1996, the costs for individual workers were estimated at US$ 8 billion, to employers at US$ 5-10 billion, and the economy to US$ 6.4-15.5 billion. Visible costs items include medical care and rehabilitation, disability pensions, property damage, loss of raw materials, police and fire services, and costs for benefit administration. Invisible or indirect costs include loss of working capacity and employability, loss of wages and fringe benefits, loss of production, work place disruption, workforce retraining, re-staffing, absenteeism, loss of markets and loss of goodwill of the firm.

The enormous human and economic loss from work-related accidents and diseases suggests that it is worth investing more in preventative measures. ILO's strategy on occupational safety and health involve the application of relevant ILO Conventions, standard enforcement, research, development of indicators and guidelines, development of inspection systems, information and advisory services, advocacy through training, promotion and partnerships, and technical cooperation. Occupational health and safety standards do improve work safety. This is indicated by vastly differing rates of incidence of accident fatalities between countries with similar economic structures. An ILO study revealed that transition countries in Central and Eastern Europe have fatality rates twice as high as the average EU country and three times more than the Nordic European countries.

Investment into safety at work pays off at the individual, enterprise and societal level. Recent studies by the World Economic Forum and the Lausanne Institute of Management IMD have shown that there is a very strong, positive correlation between company outlays for safety and health of the workforce and business performance, and also between work safety standards and their ranking of countries on an international competitiveness index. Evidence from Australia shows that companies with a superior functioning of occupational safety and health management performed considerably better than average companies listed on the Australian stock exchange over a period of eight years. In the words of a work safety expert, the positive effects of company safety and health programmes on productivity come about this way: "If you think of a business as a closed black box with labour and materials going in on one side and finished products coming out the other side, then what you must do when you focus on safety and health is open up the box and look closely at what goes on inside – examine every component and every connection. When you do this, you find not only safety and health hazards, but you also discover inefficiencies and bottlenecks in the system that reduce productivity. You discover exactly where materials are wasted or product defects arise that affect quality. So, productivity and quality improvements are virtually automatic by-products of the safety improvement process" (Hoskin 2000). One may add that joint labour-management processes are usually very effective to optimize the search for health hazards and inefficiencies, and also in finding the best solutions for their elimination.

Social protection enhances labour market flexibility and adjustment capacity

ILO instruments provide worker protection in case of termination of employment, and income protection in case of loss of employment, unemployment, sickness, disability, maternity, and old age. Employment protection and income protection are essential ingredients of the flexibility required for labour market functioning. At the same time, flexibility for adjustment is needed to produce the economic means for financing security provisions. Hence, security and flexibility depend on each other.

Social protection assumes even greater importance when a national economy opens up to international markets, and is therefore exposed to greater risks of volatility (e.g. through contagion to economic crises anywhere in the world), and also to the more rapid changes of demand associated with global markets. Unless workers are reasonably shielded from the negative impact of change, they will be unlikely to accept it and cooperate in its implementation. Positively stated, a secure worker is more willing to take risks and cooperate in change. Therefore, protective labour standards are not an impediment to sustained openness, but one of its most important prerequisites. The first wave of globalization ended abruptly for most countries in Europe during the 1920s because the national governments knew no other ways than protectionist measures in the commodity markets to shield their countries from the adverse impact of trade. It was only after social protection was built up within their welfare states that the social risks of openness, such as mass emigration and protectionism, could be contained. Hence, social protection should be considered as the positive alternative to protectionism in the form of tariffs, quotas and other import restrictions in the product market. From this perspective, the charge against ILS as a protectionist device appears untenable. “The claim for multilateral, negotiated agreements on labour standards should be seen as the natural and inevitable corollary of free trade policy. If this point is grasped, the debate between ‘free trade’ and ‘fair trade’ theorists will dissolve and the debate about ‘labour standards in a global economy’ will proceed on its own merits” (Langille 1995)

There is little hard evidence for the charge that employment and income protection produce adverse labour market effects. In an assessment of studies (including one by the International Monetary Fund) that blamed the increased unemployment in the industrialized countries on so-called labour market rigidities it was concluded that this research was methodologically problematic, and the results contradictory and inconclusive. “It is certainly not the sort of evidence that governments should use for making public policy” (Baker et.al. 2004, p.159). One of the most comprehensive empirical studies so far was carried out in industrialized countries (OECD 1999). It estimated the impact of employment security provisions, measured by the degree of restriction of dismissals, notification requirements and severance pay, on labour market performance in member countries. Contrary to theoretical expectations, and also to earlier insistence by the OECD itself on the damaging consequences of employment protection legislation (OECD 1994), it found that protective measures had no or little significant effects on the level of employment and overall unemployment. On the other hand, stricter employment protection increased the number of stable jobs and self-employment, and slightly reduced labour turnover. This latter finding may be rated positively, if one keeps in mind that more stable employment makes it more likely that employers will invest in worker skills. A recent OECD report that revisited the merits of employment protection legislation resulted in a positive appraisal of employment protection: “The social value of a job may be higher than its private value….A job may thus become unproductive for an employer, while still generating some resources for society. Therefore, without government intervention, there would be too many layoffs compared to what would be socially and economically desirable" (OECD 2004).

The effect of increased tenure was also found in a recent study of job security provisions in Latin America. However, it was also concluded that job security regulation in this region reduced aggregate employment, and had adverse impacts on the employment of youth and marginal groups, thereby contributing to inequality in the labour market (Heckman and Pagés-Serra 2001). The findings of this study need to be interpreted with caution. One should keep in mind that security in Latin American labour markets rests almost entirely on protection from dismissal. Very few countries offer unemployment insurance or unemployment assistance. This may explain the inequality in protection, that is not the fault of protection as such, but which results from insufficient coverage of the labour force. The policy implication then should not be to remove social protection. Evidently, the dismantling of employment protection in Argentina in the 1990s did not stop the demise of the labour market. Rather, the policy prescription should be to complement employment security with income security in order to arrive at a more balanced and more effective total package of social protection.

Contrary to the view of mainstream economists, the protection of employment and income is not a drag on flexibility and employment, but a means to foster effective labour market adjustment to quantitative and qualitative changes in labour demand. Labour market flexibility does not necessarily have to derive from hiring and firing ('numerical flexibility'). To a large degree, firms can adjust to changing demand and job requirements through 'functional flexibility', including skill training or retraining, internal redeployment, reorganization of work, or the search for new products and processes. Such internal readjustment allows the enterprise to keep the 'human capital' embodied in the experienced incumbent labour force. Unfortunately, the standard economic wisdom has almost totally neglected the significant adaptation of workers and jobs that accrues from continuous small organizational and personnel changes within enterprises and establishments. These adaptations make up the bulk of the total volume of labour market adjustment. As a rule, they happen without a change of wage grade, employer, occupation or industrial classification, thus escaping the analyst who relies solely on available statistics. Micro adjustments would not be feasible without stability and continuity in the employment relation. If the wage had to be renegotiated each time a worker is temporarily assigned to another job or replaces a sick colleague, the transaction cost of such a practice would be prohibitive.

It may be much more profitable to invest in a stable, continuous workforce than in a casual, transient one, simply because returns on the investment are much greater. In fact, contrary to popular belief, long-term employment relationship stability as measured by average employment tenure did not decline in OECD countries during the 1990s. Job stability has even increased in most countries, including the United States, which is often portrayed as the eldorado of numerical flexibility (Auer and Cazes, 2000). There are also macro-benefits from policies to stabilize jobs and employment patterns, and from social transfers. They lead to consumption smoothing, the stabilization of aggregate demand through various stages of the business cycle, and the maintenance of social peace. So, there is a wider loop in the economics of social protection, which is not captured by looking merely at the local effects of protection.

Social protection is vital for proper labour market functioning in yet another sense. In the absence of unemployment insurance, workers who lose their jobs are usually forced to take the next job available no matter whether this corresponds to their occupation, skill level, pay, or their place of residence. So, they find a new job quickly where they live, or they have to move, or they drop out of the labour market. Benefits permit the jobless to have some time for job search and, therefore, a better chance of finding suitable employment. Benefits may save the transaction costs of learning new skills, and the cost of moving to another location. They may create a better match between supply and demand. In other words, social security provides a moratorium on the immediate need for the worker to take any job under any conditions. This relief was hailed as a significant step towards civilizing the labour market (Polanyi 1944). It means progress compared to the days of Adam Smith and Karl Marx, both of whom depicted the labour market as a totally elastic supply of labour, i.e. an unlimited number of workers competing with each other, with the result that this would inevitably reduce labour income to the subsistence minimum. Social security intercepts the depressive mechanism of the labour market. It redresses the imbalance of power in the labour market and provides an element of freedom and autonomy for the worker.

Market fundamentalists are obsessed by "rigidities" in the labour market in the form of rules and regulations encoded in labour law or collective contracts. They call for 'deregulation' to eliminate what they see as inflexibilities. However, it is not at all clear whether a labour market without public or collective private intervention provides more flexibility. Experience tells us that where agreed rules and regulations for protection are absent, we either see the emergence of defensive or restrictive practices (such as jurisdiction, demarcation and other devices called 'job control'), or management practices which tend to generate rigidities in the use of labour. Crozier showed that the rules which inhibited managerial flexibility were those that management had itself created (Crozier 1963). Often, seniority rules or rules of employment protection written into collective agreements emerged through the codification of rules that had already existed in the form of managerial practice. The point is that there is no labour market without rules. What differs, is the origin and the reach of the rules, and whether they are unilaterally imposed or agreed upon.

Social protection holds other important benefits. It can stimulate savings, and sustain aggregate demand through more equal income distribution and the stabilization of mass purchasing power through the business cycle. It reduces the poverty level. It contributes to social peace, social cohesion and political stability. A study estimating the poverty reducing effect of social transfers other than pensions in 13 European Union countries concluded that the transfers reduced the poverty rate on average from 26 per cent to 17 per cent (Eurostat 2001).

Wage and income equality and economic growth

As pointed out in Chapter 2, with few exceptions wage and income inequality within and between countries has risen during recent decades. In some countries it has increased dramatically. In neo-classical theory economic inequality is a normal and natural phenomenon. It is considered to be necessary for the functioning of markets. Wage differentials, and their change, are the key mechanism for clearing labour markets; differing earnings and wealth are viewed as the result of differing marginal contributions to output; and the incentive for trade depends on disparate comparative and competitive disadvantages across countries. No matter how much wages and incomes differ there is usually no consideration of equity simply because it is assumed that the market outcome is both efficient and just. "Political" interference with this mechanism, such as through externally set standards, would only make things worse, in terms of both productive efficiency and social justice.

Large social inequalities, within and between countries, are more the outcome of unequal power than economic necessity. In reality, the unfettered "free market" works by economic strength. The richer agent with the most reserves imposes his will on the weaker. The law of the strongest rules in trade. Thus, the rich-poor gap increases as the strong get stronger.

"As the rich get richer, they can buy a lot besides goods and services. Money buys political influence; used cleverly, it also buys intellectual influence" (Krugman 2002). Thus, leaving distributional outcomes to the the play of market forces produces ever greater inequality in wages, earnings, incomes and taxes, simply because the existing differentials in the resource endowment of individuals and groups, including land, money, education, power and rights, will give the well equipped advantages over the less well equipped.

Conventional economic wisdom about inequality can be questioned also on empirical grounds. A recent survey of empirical research found no robust, statistically significant relationship between income inequality and economic growth (Kucera 2002). On the other hand, van der Hoeven has shown how the income distribution intervenes in the relationship between economic growth on poverty reduction: "With a per capita growth rate of 2 per cent, ...a country with high inequality (Gini-coefficient of 0.6) reduces its part of the population living below poverty from 64 per cent to 60 per cent. However, a country with low inequality (Gini-coefficient of 0.3) reduces the share of the poor from 40 per cent to 33 per cent. Thus, when inequality is low, … growth will reduce poverty faster than when inequality is high (van der Hoeven 2000b, p. 17).

Links between economic growth and the income distribution may also be revealed if one takes a broader, political economy point of view. Wage and income differentials affect social cohesion. For the U.S., it has been observed that the declining relative wages at the lower end of the wage spectrum prevented entry of Latinos and other immigrant groups into the American middle class, and that depressive wage competition between the newer and the older immigrants put the more recently arrived groups at risk from xenophobia and political extremism (Purdy 2002). Similar observations can be made in Europe. In conclusion, equality is not merely instrumental for greater economic efficiency, but also for successful social integration and the related political stability.

The disparate views about equality in various strands of economic theory can be traced to the role of social power, which in the neoclassical perspective is dysfunctional for markets, but which in reality is endemic to any market relationship. It is not feasible to eradicate power relations, only to change them. Power positions explain why boring, dirty and dangerous work is often poorly paid, whereas good jobs earn high wages. It also explains why managers frequently succeed in receiving exorbitantly high earnings and fringe benefits regardless of whether they make the company succeed or fail.

In order to make the distribution of income and employment more equitable, the power relations in the labour market need to be balanced through collective organization (enabled by freedom of association and the right to collective bargaining), and also through providing social security and other income transfers. A good part of the existing inequality can be attributed to the absence or weakness of trade unions. Conversely, where trade unions are strong and where there is large collective bargaining coverage, wage and income inequality will be less, regardless of supply-demand relations in the labour market. In many countries, unions have fought to reach and maintain "solidarity wages" that minimize differentials between workers and worker groups. In a cross-country study, the correlation between income equality and coordination in collective bargaining has been found to be positive (significant at the 1 per cent level). Countries with a high degree of coordination had an average Gini coefficient slightly below 30 per cent, while countries with a low degree of coordination had an average Gini index of over 45 (ILO 2000e). Consistent with this finding a recent World Bank survey concluded that "Union density is associated with a compression of wage distribution and a reduction of earnings inequality [...] Finally, as for union density, high bargaining coverage is associated with a reduction in earnings inequality" (Aidt and Tzannatos 2001). On average, developing countries have much higher levels of inequality than developed countries, and inequality appears to be increasing in many developing countries (Betcherman 2002). Given these findings it is only logical that the World Bank, in its World Development Report entitled Attacking Poverty, states that successful poverty reduction requires empowering the poor, participatory democracy, alliances between the poor and the non-poor, and strong civil society organizations, of which trade unions are an important dimension (World Bank 2001).

In developing countries, there is a need to turn workers crowding into the lower end of labour markets into non-competing groups. This can be done by raising the level of minimum social wages; creating new institutional safeguards for people working under flexible market relations; and facilitating equal opportunities for access to and mobility within labour markets. The three measures together correspond to an absolute floor in terms of social wages, safety nets and opportunities for all in the global economy. Public social spending to provide minimum entitlements including elementary education, primary health care, shelter, civic amenities and a safe environment will have to set a "reserve price" below which labour cannot be sold, regardless of supply-side pressure. Some regions in the developing world, such as the Indian state of Kerala, have succeeded in moving in this direction and have attained significant increases in real earnings for the rural population (Jose 2002).

Equality of income and wealth is intrinsically linked to democracy, social norms and social cohesion. It is conducive to forming a large middle class in society, which is the backbone of democratic rule and political stability. Mass income levels sufficient to make a decent living free people from the worries of daily subsistence and survival, and allow them to take part in political life. Large disparities in income and wealth, on the other hand, tend to cause political instability, either through social upheavals or political apathy and passivity, which in turn hinder economic growth. Actual or presumed political instability is a major deterrent to inward investment. Finally, large wage and income differentials are normally associated with low rates of savings and domestic investment. Many developing countries would benefit from reducing inequalities because they could help to strengthen their domestic economies. They would make higher savings and investment possible, thereby diminishing dependency from foreign capital.

Equality of treatment and social inclusion: Good for business and economic growth

One of the largest untapped potentials for stepping up the rate of economic growth is to provide equal opportunity and treatment in employment and occupation by eliminating discrimination (in accordance with ILO Convention No. 111) and by ensuring equal pay for work of equal value (ILO Convention No. 100). A study by the World Bank revealed that in the period 1960-1992, equal education and vocational training for women and men and the absence of discrimination in employment and occupation would have yielded a 50 per cent higher per-capita economic growth in South Asia, and a more than 100 per cent higher growth rate in Sub-Saharan Africa. More generally, it was found in the study that in developing countries, better access of women to education, vocational skills, land, and credit results in improved labour market outcomes and higher productivity growth (World Bank 2000). The source of higher economic growth in a regime of equal opportunity is obvious. It allows the fuller and better use of available talents, knowledge, skills, and experience, and increases the effort that workers are willing to make when they feel equitably treated. Furthermore, better access of particular groups, such as women or disabled workers, to the labour market increases the rates of employment, that next to productivity is a key determinant of GDP growth.

Discrimination in employment or occupation is defined in ILO's Convention No. 111 of 1958. According to Article 1, "discrimination" includes:

(a) *any distinction, exclusion or preference made on the basis of race, colour, sex, religion, political opinion, national extraction or social origin, which has the effect of nullifying or impairing equality of opportunity or treatment in employment or occupation;*

(b) *such other distinction, exclusion or preference which has the effect of nullifying or impairing equality of opportunity or treatment as may be determined by the Member concerned after consultation with respresentative employer' and workers' organizations, where such exist, and with other appropriate bodies.*

The "opportunity" for discriminating against workers has increased enormously with their migration. As stated in Chapter 2, the pressure of migration is most likely to continue in the foreseeable future. Today, worldwide, almost evey nation is a country of origin, transit, or destination for migrants. Many are all three. Almost every country has become, or is becoming, multicultural, multi-ethnic, multi-racial, multi-lingual and multi-religious. The potential for discrimination on the basis of sex rises with the increased labour force participation of women; and on the basis of age, because of the ageing population. If this is so, the volume and cost of exclusion or inferior treatment of workers by nationality, sex, gender, race, ethnicity, religion, language, age, etc. is growing.

Yet, there is also the opportunity of accepting and making the best use of workforce diversity. Good management can validate differences amongst employees to the benefit of the company. In fact, experience shows a diverse workforce is good for business. It leads to demonstrably greater efficiency. A company that employs side-by-side young and old workers, and integrates natives and foreigners, or workers from different cultural backgrounds, would seem to be seeking new ideas, new customers, better staff motivation and greater social legitimacy. New customers for a company's products can be gained if different nationalities in the workforce make it easier to achieve access to new markets by meeting the taste preferences of more consumers in more countries. "Embracing diversity not only widens and enriches the talent pool available to a business, but it offers the opportunity to expand corporate horizons through the acquisition of new ways of thinking and seeing the world", writes Sir John Bond, Chairman of HSBC, the world's third largest bank (Financial Times, 21 February, 2005). A firm that does manage to draw benefits from the different capabilities of junior and senior workers will be more innovative and competitive than one that clings to invidious stereotypes. Racial diversity in the workforce has also been associated with improved group performance and innovation, provided that there is proper communication between the different workers or managers. Where such communication is deficient, group conflict has been encountered. For example, where remuneration is based on performance of the work group, communication problems, due to language or other differences can lead to lower pay, at least temporarily. But communication problems can be resolved. This means that the proper conditions for drawing advantages from racially mixed work teams, as compared to homogeneous teams, have to be created. Whether or not there is a business case for having a diverse workforce, and whether or not the commercial logic and the moral case for preventing discrimination agree, is largely a question of management. However, it has to be added that labour standards, such as equal opportunity and treament, are not only in place to satisfy business, but are also created to benefit the national economy. If there are no bottom-line benefits for business of including racial minorities or disabled people in employment, there may still be benefits to society from their inclusion. Regulation can help to promote the macro-economic case of workforce diversity. In Europe, for example, employers come under mounting pressure to sign up to the diversity agenda. From 2006, two directives of the European Commission will mean that all member countries of the EU will have no fewer than six strands to their anti-discrimination laws: sex, race, disability, sexual orientation, religion or belief, and age.

Making economic openness socially acceptable and sustainable

International trade and cross-border capital flows are an important instrument of development. However, as shown in Chapter 2, by no means do they produce desirable outcomes automatically, or for everybody. Whether trade and international production networks promote or obstruct domestic development, or result in convergence or divergence between national economies, is an open question. FDI is not necessarily beneficial to growth, employment and working conditions, and the reduction of poverty. Its economic and social outcomes depend on the policies and practices of the investors, and the policy regime of the host country. These policies affect the motive for foreign investment, and the position of a country in FDI-generated international production channels: Whether the cross-border capital flow is geared to mergers and acquisition of existing companies, or destined to create new production ("greenfield sites"); whether the investment is confined to low-cost, low value-adding production, or whether it encompasses high value-adding and high-income generating stages of production; whether it engenders local linkages upstream and downstream from production; whether the locally produced goods are for export or for local sale, and whether wages are sufficient to permit local consumption. All these factors matter for development because they put firms and economies on more or less dynamic learning curves, and determine the degree of local economic autonomy and dependency. FDI should contribute to industrial upgrading if the recipient country is to benefit from it. This implies that initial low value-adding production, e.g. export processing through the assembly of (imported) parts and components – as was the case in the early export processing zones (EPZs) in South East Asia, and still happens in many of the Mexican maquiladoras –, should lead to more advanced modes of international integration, such as local subcontracting for the manufacture of parts and components, the supply of full packages instead of single items, and the move from mass production to higher quality goods and customized goods. In a wider sense, upgrading involves the absorption of strategically important, higher value-adding activities upstream from production, such as research, product design, product development and testing, and also the local provision of equipment and tools (capital goods); it also involves the stages downstream from production, such as marketing, distribution and financing. In other words, moving from knowledge-using to knowledge-producing activities, and advancing from a small proportion to a large share of the value-adding process.

According to the 2002 Trade and Development Report by UNCTAD, developing countries participating in the high-technology sectors are not involved in the skill and technology intensive parts of the overall production process, such as research and development of products. Consequently, their contribution to value-added is determined by the cost of the least scarce and weakest factor, namely unskilled labour, whereas the rewards to scarce but internationally mobile factors such as capital, management and know-how are reaped by their foreign owners (UNCTAD 2002). The basic policy issue facing developing countries in the trading system is not, fundamentally, one of more or less trade liberalization, but how best to extract from their participation in that system the elements that will promote economic development. So far, with few exceptions, international production systems have evolved in a way to concentrate low value-adding stages of production in developing countries, and high-value adding activities in developed countries. This division of labour helps to explain why, inspite of the increased share of FDI flowing to developing countries, the income gap between them and the developed world has widened, rather than narrowed as predicted by mainstream economic theory.

There is increasing consensus that the effects of FDI inflows on endogenous development, including the prospects for industrial upgrading, crucially depend on a propitious local policy environment. This is a critical parameter for attracting and retaining foreign investments. At the same time, it affects the capability of local subcontractors and suppliers to foreign investment enterprises to meet the demands for quality and timely delivery of local inputs. Making full use of FDI benefits requires supportive domestic public and private policies, and the resulting economic, social and institutional infrastructure in the host country.

A domestic policy setting which is to harness the development potential of FDI has to include well functioning financial markets, product markets and labour markets. Good market performance is not automatically the result of market liberalization and privatization. Instead, an "enabling" market demands an appropriate kind and degree of regulation, institutions, effective law enforcement, and public and private services, including banking and financial services, producer and commercial services (including transport and communication), and labour market services. ILS relating to the formation of a good local social infrastructure, active labour market policies and social protection arrangements to cushion the effects of job and income losses are indispensible for making FDI acceptable and sustainable.

It is more and more recognized that "human capital" and "social capital", more than natural resources, determine a country's level of growth and prosperity today. In high performance countries, the ratio between investment in physical capital and investment in human capital (including health, education and labour market skills) has clearly shifted in favour of the latter. Also, social security, social cohesion and social peace have been identified as necessary for productivity enhancement and balanced, dynamic and sustainable development.

To reap both social and economic gains from investment, it is important that wages rise with increased productivity in FDI host countries. This will provide incentives for firms to improve the utilization of labour, generate higher consumption power and avoid social unrest among the local labour force. Singapore illustrates the case of interventionist government policies in support of industrial advancement. In order to promote competitiveness and export success, the government did not hold labour cost down. On the contrary, at certain periods, wages were deliberately raised to induce firms to move up-market. Between 1980 and 1988, average monthly real wages rose from US $ 380 to US $ 620. Annual productivity growth in this period averaged 4.3 per cent. In addition to wage policy the government promoted other measures to stimulate labour productivity, including education and vocational training and social welfare policy. Government labour policy played an essential role in Singapore's quick transition from a low-wage, labour-surplus stage of labour-intensive export manufacturing to the high-wage, labour-shortage stage of increasingly capital- and skill-intensive manufacturing and services (Lim 1990).

One reason why labour market and social policies are so critical for national action is simply that they can take effect within relatively short periods of time, whereas other determinants of national welfare, such as demographic factors and financial resources, are relatively fixed in the short-term.

On balance, studies on the relationship between trade, respectively FDI, and ILS revealed positive links between ILS, especially core standards, and trade and FDI performance (Box 4.5). Most studies refute the conventional proposition of a "race to the bottom", according to which countries with low labour standards are favoured by trade and foreign investment. If anything,

BOX 4.5: Links between trade and ILS: The findings of recent empirical studies

Recent empirical studies investigated the links between fundamental ILS and trade. An OECD survey revealed that low-standards countries do not enjoy better export performance than high-standards countries. No evidence was found that freedom of association worsened in the countries that liberalized trade, or that these rights impeded subsequent trade liberalization. The strongest result suggested that that there is "a positive association between successfully sustained trade reforms and improvements in core standards" and the observance of worker rights "may work as an incentive to raise productivity through investment in human and physical capital". On average, countries that improved rights of freedom of association experienced an increase in GDP from 3.8 per cent to 4.3 per cent, and manufacturing output growth from 2.4 per cent to 3. 6. per cent within five years of implementing the change. (OECD, 1996). ILS reduce adverse effects during the transition to liberalized trade and may ease the adjustment arising from liberalization. Countries where core labour standards are not respected continue to receive a very small share of global investment flows; they do not provide a haven for foreign firms. Investors increasingly seek locations with highly skilled labour. Some studies found a negative relationship between non-core standards and trade performance; fears about a "race to the bottom" are "probably exaggerated"; opinions continue to differ about the impact of trade on employment patterns and wage inequality (OECD, 2000a). A World Bank study focussing on East Asia found that "there is no evidence from East Asia to support the argument that improved environmental and core labour standards ould unfairly affect manufacturing competitiveness. Quite the reverse: Evidence suggests that East Asian countries can raise their environmental and labour standards without adversely affecting their export and investment inflows. The fierce resistance of many in the region to considering these issues in line with broader development strategies may be misplaced (World Bank 2003)

An econometric study of a sample of 100 countries in the period 1980 to 1999 found little support for any step in the following chain of reasoning: (1) countries refuse to ratify ILO Conventions so that (2) they can degrade labour conditions in order to (3) reduce labour costs in order to (4) raise exports and (5) attract FDI seeking cheap labour (Flanagan 2002).

An ILO study on the impact of core ILS on labour costs and foreign direct investment in 127 countries found "no solid evidence in support of the conventional wisdom that foreign investors favour countries with lower labour standards, with all the evidence of statistical significance pointing in the opposite direction". The value of this study results from the use of newly constructed indicators of labour rights covering freedom of association and collective bargaining, child labour, forced labour and gender equality. Instead of labour legislation the indicators focused on worker rights in practice. For example, in respect of freedom of association an index of the incidence and severity of violations of this right was used in the study (Kucera, 2001 and 2002).

Cross-country econometric evidence based on large sample of countries has shown that countries with less child labour and better-educated work forces tend to have significantly better export performance (Kucera and Sarna 2004a). Countries with more violations of trade union rights do not have better export performance (Kucera and Sarna 2004b).

In the mid-1990s, a survey of several hundred managers of transnational corporations and international experts around the world assessed the criteria for the destination of FDI according to their importance. The growth and size of the market in the host countries and profitability ranked top, closely followed by the political and social stability of the country, quality of labour supply, the legal and regulatory environment, quality of the physical infrastructure and of producer and commercial services. The search for lower labour costs was not among the most important motives (Hatem 1997). Ranking and scores of criteria used by investors for locating FDI:

Rank	Criterion	Score of Importance
1	Growth of market	4.2
2	Size of market	4.1
3	Profit perspectives	4.0
4	Political and social stability	3.3
5	Quality of labour	3.0
6	Legal and regulatory environment	3.0
7	Quality of infrastructure	2.9
8	Manufacturing and services environment	2.9
9	Cost of labour	2.4
10	Access to technologies	2.3
11	Fear of protectionism	2.2
12	Access to financial resources	2.0
13	Access to raw materials	2.0

Source: Hatem 1997

The findings of another recent study of US multinational companies pointed in a similar direction. They invested predominantly in countries with skilled labour forces and advanced labour market regimes (Cook and Nobbe 1999). On the other hand, a survey by Fraunhofer ISI of medium-sized companies in Germany listed low production costs as the most important reason for relocating operations to other countries. Market access and proximity to large customers came next ("Die Zeit", 14 April, 2005). This deviant finding could result from the fact that many of the companies had just started to invest abroad and could have made faulty assumptions on the net economic advantages of relocation.

the evidence suggests that countries applying labour standards are more likely to attract foreign capital and benefit from increased trade. This result is hardly surprising given the fact that both the source and the destination of recent FDI flows were the most developed countries with comparatively high labour standards. There are exceptions, however. There are individual countries with good trade performance and big inflows of FDI, but lacking compliance with core ILS, and instances in which a race to the bottom has actually occurred. In fact, violations of trade union rights have been observed in a number of important exporting countries of the South, including China, Indonesia, Iran, Malaysia, Singapore and Thailand, whose share in total world trade among the non-OECD countries amounts to 40 per cent (OECD 1996). These countries have also received comparatively high FDI inflows. In fact, in recent years China figured as the number one receiver of foreign private capital.

Another way to study the link between ILS and investment decisions would be to look at FDI outflows and, in particular, the reasons for firms to stay in their home country. A study of 18 OECD countries found that the volume of investment outflows was comparatively low from countries with high skill intensity of their labour force, countries that had a social democratic government, and countries that had high trade union density and low strike intensity (Alderson 2004).

As the findings of the empirical studies on the relationship between ILS and trade are not entirely congruent, no final conclusions on the relationships between ILS and trade should be drawn at this point. Inconsistencies remain.

For example, the OECD study finds that FDI flows are not directed to countries that do not respect basic worker rights. At the same time, however, the study pointed to the growth of export processing zones (EPZs) which operate outside national laws and regulations. EPZs numbered 5.174 in 2002, as against 176 in 1986. Some 43 million workers are employed in EPZs. The trade unions have persistently documented violations of freedom of association and other fundamental ILS in many of these zones (ICFTU 2002). The available studies reported above inform us about statistical links, not necessarily about causation. Caution has to be taken to interpret the results because proxies had to be used where there was no direct statistical information on labour conditions, and because of ambiguities in the meaning of the indicators. For example, the rate of reported violations of freedom of association in a country depends not only on the actual incidence of violations, but also on the presence or absence of institutions, e.g. trade unions that file charges of violations. There are also indications that investment strategies vary in relation to economic sectors. For example, low-labour cost strategies appear to prevail in labour-intensive industries, such as garments and footwear. Chau and Kanbur (2000) have shown that a "race to bottom from the bottom" tends to develop particularly among small countries that cannot affect their terms of trade. But they hasten to note that this is by no means inevitable. For example, as reported by Kimberly Elliott, Costa Rica, when faced with increasing competition in traditional low-wage industries, advertised its political stability and high literacy rates to attract FDI in electronics and other higher value-added sectors. It chose to opt out of the race to the bottom and was able to do so (Elliott 2003).

In relation to the main arguments in this section, it is important to state, firstly, that the findings of empirical research are consistent with the view that high labour costs are not a deterrent to investors because they can be compensated by high productivity, higher product innovation, and other economic benefits. Secondly, there is no evidence that trade unions are an obstacle to a country's successful international economic integration.

Links between ILS and the level of employment

Convention No. 122 and Recommendation No. 122 of 1964 are the principal ILO standards on employment policy. They are aimed at full, productive and freely chosen employment. Each worker shall have the fullest possible opportunity to qualify for, and use his or her skills and endowments in, a job for which the worker is well suited, without discrimination. The means and measures for promoting employment, to be taken at the national and international level, encompass expansionary macro-economic policies, active and passive labour market policies, education and vocational training, structural policies, promotion of industrial and rural employment, and the active involvement of employers and workers and their organizations in the policy formulation and implementation. Other ILO Conventions make provisions for the development of human resources, public and private employment services and employment agencies. Various global agreements have reaffirmed ILO employment policies, including Commitment 3 of the Copenhagen Declaration adopted at the World Social Summit in 1995. The Millenium Goals focus particularly on the promotion of youth employment.

Employment is central to any development effort. It endows individuals with a sense of self-respect and recognition and usefulness to society, ensures them a means of livelihood and often provides a vehicle for participation and interaction with other members of the community. As indicated in Chapter 2.1, employment problems have become more severe in most parts of the world over the past decades. Apart from lost output and income, widespread joblessness has wider social and political impacts. It is associated with a variety of pathologies, such as higher rates of divorce, suicide and alcolholism. It leads to delinquent behaviour, especially among the young. It aggravates crime, prostitution and violence, and ethnic and religious conflicts. It tends to nurture policital apathy and political extremism. Notably in poor countries, unemployment and underemployment are associated with extreme suffering in the form of acute hunger and malnutrition, exploitation of child labour and miserable living conditions. All these result in poor health, physical and mental degradation and premature deaths.

Large-scale surplus labour in many developing countries is a major impediment for the implementation of ILS. It tilts the power equation in the labour market drastically in favour of employers. Labour will tend to be more pliable, and easy to exploit. As long as massive excess labour is available, it will be difficult to raise the level of wages, and employers have little incentive to invest in labour to make it more productive. There is a serious risk of a vicious circle of wage depression, poverty and high population growth. Massive joblessness, not over-regulation, is the ultimate reason for the expansion of the “informal economy”. Once informality is in place it becomes difficult to establish or reestablish standards. Encroaching on one area of ILS tends to weaken others, producing a vicious circle of cumulative erosion.

Freeman (2004) has emphasized the downward pressure on wages by a doubling of global labour supply and its amplification by globalization. In 1985, the global economic world consisted of 2.5 billion people. In 2000, as a result of the collapse of communism, India’s turn from autarky, and China’s shift to market capitalism, the global economy encompassed 6.6 billion people. The global labour force consisted of 2.9 billion workers, 1.5 billion more than 15 years earlier. Increased global supply poses a problem for employment because, absent adequate global macro-economic management, there has been no commensurate increase in demand. The resulting excess capacity exerts pressure on wages and benefits.

A shortage of employment opportunities is detrimental to labour standards in indirect ways. For example, it hinders the reconstruction of areas of crisis, notably those that have suffered armed conflict. In turn, this defeats the creation of social institutions. “What is the point of disarming and demobilizing young men if there are no proper schools or civilian jobs for them?” (Kofi Annan, in a speech before the German Parliament on 28 February, 2002).

Surplus labour itself may be caused or conditioned by poor labour standards. Child labour, forced labour, low real wages and lack of social security tend to increase the supply of labour. They cause real wages and social protection to decline further, raise the poverty level and increase child labour even more, ending in a self-

BOX 4.6: Social institutions and macro-economic stability

The ability to maintain macro-economic stability in the face of turbulent external conditions is the single most important factor accounting for the diversity in post-1975 performance in the developing world. The countries that were unable to adjust their macro-economic policies to the shocks of the late 1970s and 1980s ended up experiencing a dramatic collapse in productivity growth. The countries that fell apart did so because their social and political institutions were inadequate to bring about the bargains required for macro-economic adjustment – they were societies with weak institutions of conflict management. In the absence of institutions that mediate conflict among social groups, the policy adjustments needed to re-establish macro-economic balance are delayed, as labour, business and other social groups block the implementation of fiscal and exchange rate policies ...Evidence shows that participatory political institutions, civil and political liberties, high-quality bureaucracies, the rule of law, and mechanisms of social insurance ...can bridge these cleavages (Rodrik 1999).

BOX 4.7: Restrictive monetary and fiscal policies in the European Union

Problems of reaching full employment in EU member states – one of the explicit objectives of the European employment strategy - arise because according to the Treaty of Maastricht of 1992, the European Central Bank (ECB) is primarily obliged to look after price stability. Other economic objectives, such as economic growth and employment, are subordinate and should be considered only when price stability is achieved. It is for the ECB to decide autonomously when this condition is met. It sets interest rates accordingly. Practice has shown that the goal of low inflation is interpreted very restrictively, taking the harmonized consumer price index of 2 per cent as target. Long-term experience for industrialized countries reveals that inflation will inevitably exceed 2 per cent in cyclical upswings. In addition, the European Stability Pact of 1997 sets out restrictive conditions for fiscal policy at the national level, e.g. by limiting the permissible national current budgetary deficit to 3 per cent. In effect, this rule tends to force EU member states into a pro-cyclical, and in the long term a deflationary fiscal policy regime that may be seen as a major reason for the lack of vigorous growth and unsatisfactory employment performance in EU countries in the recent past.

perpetuating trap of surplus labour and low labour standards. Local areas, regions and whole nations may be in the grip of a self-perpetuating cycle of initial loss of employment and social degradation in its various forms, thereby aggravating the chance of economic recovery. Areas where social cohesion deteriorates stand a poor chance of attracting investment and new job creation.

The promotion of ILS requires coordination of economic and social policies, at both national and international levels. Rodrik (1999) has shown that the countries that have benefited most from integration into the world economy have been those that commanded social institutions to achieve macro-economic stability (see Box 4.6).

To attain employment growth on a world scale requires a sea change of economic and social policies. This will hardly come about without a shift in power relations within and between countries (see Chapter 5). We are far from a concerted international effort to pursue economic and financial policies that foster growth and employment. This is the case even in the European Union which is the economically and politically most integrated region worldwide (see Box 4.7). Due to liberalized product and capital markets, it has become more difficult to stimulate demand for labour within a country through traditional fiscal and monetary policies. Among other things, it is feared that the expansionary effect of a unilateral lowering of the interest rate by a country may be defeated by subsequent outflow of capital. This constraint has to be overcome by ameliorating policy design and implementation at the international, if not the global level. It requires coordinated epansionary macro-economic policies, a reform of the international financial architecture, debt relief for the poor countries and the provision of sufficient means to finance development. FDI flows would have to be redirected to benefit the poor countries, and the disadvantaged regions within countries. While in the big wave of international capital movements prior to the First World War, FDI flew predominantly from capital rich creditor countries to less developed, capital scarce nations, the destination of FDI in the present wave of globalization is markedly different. The large majority of cross-border capital transactions are directed to the most developed and some emerging economies, not the least developed countries. By fostering the enhancement of productivity, ILS can help to counteract inflationary pressure and, thus, create more room for growth oriented demand policies. If it is true that growth reducing high interest rates result from the high risk premium that a country has to pay for its political and economic instability, and if under this condition profit rates have to be higher to secure investment, then there are two options to resolve this constraint: One is to accept higher inequality in the functional income distribution. This will clearly reduce the potential growth rate and jeopardize social cohesion and political stability, thereby pushing up interest rates further. The other option is to promote labour standards to reduce instability.

A vigorously expanding world economy can help boost growth and facilitate the task of employment generation, provision of social protection and social services, poverty reduction and environmental sustainability. Nevertheless, in most developing countries, and even in industrialized countries, domestic development remains the primary source of job creation. The promotion of small and micro-enterprise, and special programmes for the development of the environment and infrastructure (including the building of access roads, irrigation, sewerage, community buildings for education, culture and recreation, telecommunications) are important components of an overall employment strategy (Ghai 1999; ILO World Employment Forum 2001). Such programmes can be designed to fit seasonal employment needs, particularly in rural areas. They have proven their worth in the 1970s in India, Ethiopia and China, and during the 1930s in the Chile, the United States and Europe.

c) Standards as Means and Ends of Development

Contrary to what orthodox economic theory suggests, the opportunity of advancing labour standards is not strictly determined by economic variables. There is room for policies and the political will to make social progress through a firm commitment to setting and implementing ILS. Certainly, the pursuit of social policy objectives needs to be economically feasible. Barring income redistribution, real wages cannot rise faster than productivity in the long run, and poor countries may not have the resources to provide the same social standards as the industrialized countries. They may not be able to offer the same level of pensions or disability benefits and the same provisions for maternity leave. Sophisticated safety equipment and safety institutions may be beyond their means. In this sense, substantive ILS may be considered as contingent on a country's state of development. But all this has been recognized throughout the long history of the ILO. In fact, there is no general claim, and certainly none from the ILO that substantive standards could or should be harmonized at the same absolute level in all countries right away. Hence for these standards, as opposed to core ILS, the concept of a level playing field can be interpreted in a relative sense, meaning that any country can commit itself to social expenditure and the provision of resources for social advancement in a similar proportion to its GDP. There is no reason, however, why any country could not set targets and timetables for attaining higher social standards in line with improved economic resources. Quite often, the barrier to raising substantive standards is not so much the average level of income, but the highly uneven distribution of income and wealth.

The orthodox economic view that ILS, including substantive standards, cannot be introduced or raised unless and until poor countries have reached a higher state of development, or have left mass poverty behind, should be rejected. One may ask: Will economic growth by itself really take care of improved working and living conditions of workers? Should Pakistan, Egypt, or Guatemala wait until they reach the income level of Sweden or Canada, before they can comply with ILO standards on minimum wages, child labour and minimum social protection? Experience tells us that the fruits of growth may be distributed unequally and benefits for workers are not delivered automatically. For the orthodox economist, labour standards are the result, or the output, of economic development. Standards are seen as an exogenous factor for development. The opposite view holds that ILS should be regarded as an essential ingredient in the development process. They are part and parcel of development. They are both ends and means and, both input and output, of development. They provide favourable conditions for higher economic efficiency and a fair income distribution, which in turn lets a country progress economically and, in turn, lays the foundation for higher social standards. Even the application of costly standards makes good economic sense if a wider set of considerations is brought into the picture. Countries should not, therefore, use economic constraints as an excuse for failing to introduce ILS.

Frequently, economic analysis reaches negative conclusions on the impact of ILS because it conceives development in rather narrow terms. Analysts tend to look at easily measurable parameters, such as GDP growth, productivity, income, investment, trade, etc. There is, however, a wider loop in the benefits derived from ILS, such as fair treatment, job satisfaction, trust, due process, social justice, social peace, social cohesion and other less measurable outcomes, which are now often called “soft” factors of development, or “social capital”. Fortunately, their role is increasingly recognized by development economists. In addition, in many ways ILS contribute to the sustainability of development which has been defined as “meeting the needs of the present generation without compromising the needs of future generations (see report on “Our Common Future”, 1987). If the comprehensiveness and sustainability of the development process are taken into account, the balance shifts further in favour of ILS.

The standard economic indicators may also mislead us about the reality of economic performance and development. High per capita GDP, even if measured in purchasing power parity, does not necessarily signal a high aggregate utility. It includes the consumption of useful goods and services, but it also incorporates the costs of negative externalities and the depletion of resources, such as spending to redress stress and health problems that result from poor working conditions, public spending on the detection and prevention of crime, cleaning up environmental pollution, repairing damage caused by traffic accidents, and the like. These are investments that do not raise future consumption possibilities, but are needed to make a certain level of current consumption sustainable. In addition, working life may have costs which escape the standard performance indicators, such as lack of time for the family, time lost for commuting to the work place, loss of friends due to labour migration, and loss of a weekly rest day as a common time for social life.

The need for a comprehensive, socially inclusive approach to development has been strongly emphasized by the leading development economist Amartya Sen (Sen 2000). He calls for a new understanding of the notion of development based on the interplay and mutual reinforcement of economic, social and political freedoms. Freedom means not just the absence of restrictions, but the individual and collective capability for choice and action. The analysis of development issues and policies has to encompass diverse interests. According to Sen, the need for trading off one worker concern against another, and also the trade-off between equity and efficiency, is often overstated and is typically based on rudimentary reasoning. For example, quantity and quality of work need not be pitted against each other. It is not acceptable to call for earlier retirement of older workers in order to increase the job opportunities of young workers. Curing unemployment should not be treated as a reason for doing away with reasonable conditions of work for those already employed. The protection of employed workers should not be used as an excuse to keep the jobless in a state of social exclusion. Policies could be pursued to avoid favouring one group at the expense of another, or one generation over another. What economists and politicians often see as inevitable, or inexorable, trade-offs can be reconciled by policy and good practice.

5. How to Advance International Labour Standards

From the analysis above, both theoretical and empirical, it may be concluded that there are no compelling economic reasons that stand in the way of resolutely supporting and promoting ILS. On the contrary, a clear case can be made that standards foster economic development. This holds true particularly if one looks beyond narrowly defined costs and benefits and draws in a wider set of ILS effects which favour economic growth, such as trust, social peace, political stability and wage and income equality. This tenet, however, leaves us with a vexing question: If ILS do not run counter to sound economic logic, but are in fact conducive to economic development, why do we not see faster progress in the implementation of standards? More specifically, why is the freedom of association so frequently flouted if it can be demonstrated that trade unions can be a spur to dynamic economic efficiency, social stability and economic and political democracy? Why is child labour so pervasive even though it robs young people of an education and good health, tending to diminish their work capacity and capabilities permanently, thereby reducing a nation's growth potential? Moreover, if ubiquitous and inclusive social protection is the positive alternative to protectionism in the product market, why do many developing countries that complain about protectionist sentiments in industrialized countries not readily embrace social protection policies? One answer to the last question was given by Ajit Singh: "Developing countries regard it as ironic that developed country governments should be asking them to impose ILS at a time when, in the industrialized countries themselves, social protection is being diluted" (Singh 1990). If this is so, then we must ask why many industrialized nations are reluctant to advance standards. Why are some countries even tempted to downgrade them? Where social progress in the industrialized countries is deliberately obstructed this sets barriers to progress in the developing world. The lowering of standards in the high- wage countries intensifies destructive global wage and social competition. Similarly, developing countries may block each other's development as long as they seek competitive advantage in the under-cutting of standards. As long as international trade is driven by large disparities in labour costs and highly unequal terms of trade, it will remain far from the economist's dream of a regime where countries trade according to what they can do best, so that every party can draw net benefits from that commerce.

Concerning ILS, rhetoric and action often diverge. On many occasions, within the ILO and elsewhere, governments proclaimed that they would strive to respect ILS. At the World Summit for Social Development in Copenhagen in 1995, a total of 115 heads of State or Government solemnly signed a Declaration and Programme of Action that includes the commitment to work towards quality employment and the promotion of ILS. At the UN Millenium Summit in 2000, an even larger number of national leaders reaffirmed this commitment. A commitment to strengthening the observance of basic labour standards was made at the Ministerial Conference of the World Trade Organization (WTO) in Singapore in 1996. The number of ratifications of ILS, especially the fundamental Conventions, has increased significantly in recent years. At the same time, we witness many violations of ratified standards and large deficits in the decency of work, as reported in Chapter 2. What prevents those who are mainly responsible for making ILS a reality, be it by mandate or self-declared commitment, from vigorously implementing standards? There must be blockages of a political nature, possibly the same ones that account for the failure of policy makers to steer economic globalization on to a more benign track.

Obviously, the objective positive link between ILS and development is not enough to ensure progress. The relevant actors must be convinced that standards can move enterprises and the economy as a whole forward, they must have the will and power to act accordingly; they need to act in a concerted, cooperative manner; and they need to command the technical and administrative capacity to devise and implement social policies in conformity with ILS. Adhering to standards worldwide becomes a matter of good governance. It requires nothing short of a global social contract. It is fair to say that in many locations the necessary preconditions of governance are not in place. As far as governments are concerned, they may even be less present today than they were some decades ago, partly because of the intended or unintended new realities created by the international economy. Hence, the question is: What needs to be done to create a more favourable environment for the pursuit of ILS?

This chapter addresses these questions. It discusses the major obstacles that are blocking progress on ILS and presents an enabling framework for advancing standards.

a) Major Impediments

Misperceptions, vested interests and ideologies

Economic globalization has given rise to new ideologies that attempt to rationalize vested interests and make them acceptable in the public eye. There are strikingly different perceptions of the interests at stake. Whereas the empirical surveys quoted above found no decisive evidence of "global bidding wars" among governments competing for foreign capital, there is, nevertheless, according to an observer in OECD a permanent danger of such wars. A "race to the bottom" does not depend on investors being truly attracted to countries with lower labour standards. This perception, true or false, will suffice (Oman 2000). Ultimately, for decision-making it does not matter what the "true" impact of social protection on trade is, but rather, whether or not such protection is perceived as an impediment to flexibility, productivity and competitiveness. This perception can be either in the eyes of the potential investor and customer from abroad, or it can be in the eyes of the national government or sub-national authorities who wish to gain inward investment and orders. Thus, for example, President Musoveni of Uganda admitted that he sacked 265 women workers on strike in the clothing company Tri-Star in October of 2003, because he felt that the strike could deter investors. In Algeria, Mauritius and Burundi, the government is explicitly authorized to prohibit strikes which are damaging for the country's economy (ICFTU 2004). Freedom of association has been effectively restricted, notably in EPZs, in order to attract FDI. In fact, there may be a disastrous mismatch between the different perceptions. Whereas local authorities may believe that low wage costs and the absence or suppression of labour regulation will attract business, investors may be looking for something else. They may well be ready to accept higher production costs if there is political stability, adequate infrastructure, domestic demand for the goods and services produced, and sound industrial relations (ILO 2000a). It is pertinent to recall the result from a survey of investors which showed that labour costs were not among the most important factors deciding on the destination of FDI (Hatem, 1997).

Another source of frequent reluctance to adopt or improve standards is the complacency or inertia of employers, and sometimes ignorance of what standards really mean. A Minister of Labour of a leading Western country once told me that he wanted to get the textile industry of his country to diminish the level of unhealthy dust in textile mills. The producers that he confronted resisted the demand, arguing that they would go out of business if they had to shoulder the extra cost of installing protective devices. Eventually, one of the producers agreed to incur the cost and to install the necessary equipment. The outcome was unexpectedly favourable. Labour productivity in that company rose considerably due to lower absenteeism, lower sickness rates, and improved performance because of better health and greater motivation of the production workers. The cost saving exceeded the extra cost of investment, while the chances of recruiting and keeping good workers improved because of the better working environment. When the Minister of Labour learned about the outcome he requested the fortunate firm to invite other producers to emulate the measures taken for improvement. Yet the firm was reluctant, feeling that its competitive advantage from the innovation would be wiped out if the competitors installed the anti-dust device in their operations. The Minister then acted to ensure that the same device was used everywhere in order to generalize the human and economic benefits of the measure throughout the industry. The case exhibits the classic "collective action problem", which means that individual and general interests do not necessarily converge, and that public action may be required to harmonize the two.

Consider another example from India: Employers in the garment manufacturing industry justified the low proportion of women employed in a number of factories by arguing that "women are absent due to child birth, they lose training, and it is hard and difficult for ladies to work long hours" (Stahl and Stalmaker 2002, p. 74). Similar views were (and are still) held by some employers in Western industrialized countries, whereas others have discovered that gender equality in employment and occupation does not pose insurmountable obstacles or necessarily create economic handicaps. Where equal treatment has been realized, worries about competitive disadvantages have largely vanished.

Economic globalization offers a new pretext for indulging in old or new discriminatory behaviour and parochial attitudes to social progress. Business people, but also governments, often point to the intensified international competition to argue that an open economy does not permit social improvements, or that existing standards will have to be scaled down if the country is to remain internationally competitive and to draw FDI. (Note that this argument contradicts the promise of the economic blessings of globalization!).

Frequently, the downscaling of labour standards is excused by referring to a loss of autonomy for local action. John Evans illustrated the contagious discharge of social responsibility by governments: "The Conservative government in Britain (1979-97) was one of the most vociferous in arguing the need to weaken trade unions and deregulate labour markets to conform to a model of competitiveness in some unspecified place in East Asia. Yet, in 1997, the then Korean government justified its attempt to restrict trade union rights by saying that the Republic of Korea had to lower its labour standards to stop Korean firms from moving to Scotland and South Wales – attracted by the flexible labour markets in Britain" (Evans 2002). The example shows that individual opportunism conveniently legitimated by reference to international competition may undermine social progress. International agreement to set a social floor to competition is indispensable to permit economic advantages of labour standards to be conferred to business. Individual far-sighted entrepreneurs alone will not guarantee the broad application of standards.

So far, a good proportion of globalization policies have been dominated by an anti-social ideology. Ideologies involve attempts to further vested interests under the guise of serving general interests, or acting in line with traditions, or responding to asserted inescapable facts of life. A neo-liberal ideology advocating the unfettered market as the universal best model of development has been used to argue against the determined advancement of ILS. It has served as the theoretical underpinning of the so-called "Washington-Consensus", guiding the policies and actions of the international financial institutions (IFIs). The set of principles of that consensus include trade liberalization, promotion of FDI, fiscal discipline, tax reform, financial liberalization, competitive exchange rates, market deregulation, and secure property rights.

The charge of "disguised protectionism"

One of the standard claims that representatives of developing countries make against enforcable ILS, and particularly against their link to trade, is that these amount to "disguised protectionism", or a "new form of neo-colonialism", on the part of first world countries. Richer nations would want to protect jobs by keeping out products from developing countries, or they want to impose Western values on countries with different cultures and traditions. Care has to be taken to unravel these claims. In fact, advanced industrialized countries – and also newly emerging economies – have resorted to import restrictions, heavy subsidization, and other means to protect and promote various domestic economic sectors. Protectionism is a reality doing much damage to developing countries (See Chapter 2.b). Yet, where this happened, the charge should not be laid at the door of ILS. On the contrary, as explained in Chapter 4, protectionism in the product market tends to happen in the absence, not in the presence of ILS. The argument of disguised protectionism should not be used as a pretext to camouflage other reasons for non-compliance with ILS. Often, resistance to standards can be traced to national politics. "Where authoritarian governments do restrict labour organization, this is more likely to be motivated by domestic political considerations (such as the desire of a particular elite group to maintain political power for itself) than by external economic concerns (maintaining international competitiveness in export industries)" (Lim, 1990). In fact, quite a number of governments in developing countries have viewed trade unions as political opposition threatening their power or regime, and therefore, have restricted freedom of trade union rights. To governments in China, Myanmar, Indonesia, and elsewhere, the spectre of Solidarnosz, the Solidarity Labour Movement in Poland, that triggered the fall of the Communist Government in the end of the 1980s, looms large. In this light, repression of labour rights is less about markets and productivity than it is about sustaining power in what might be considered, in a more open framework, illegitimate government institutions (Maskus 2004).

The argument of disguised protectionism can also be questioned on other grounds. Many products manufactured in developing countries do not compete with products manufactured in industrialized countries. With the exception of highly differentiated and high quality commodities, industries such as textiles, garments, footwear, toys, and electronics have already moved in large parts to low wage countries. In many economic sectors, cost competition is much harsher among developing countries than between the South and the North. More than industrialized countries, developing countries are confronted with beggar-thy-neighbour strategies, whereby investors, producers and buyers play one low wage country off against others, putting continued pressure on wages and working conditions. The accession of China to the WTO in 2001, and the phase-out of the 30-years old protective Agreement on Textiles and Clothing in 2004, has intensified competition between developing countries. In view of the end of the textile quotas, countries like Philippines, Cambodia, Thailand, Sri Lanka, Bangladesh, Mauritius, Marocco, Turkey and Mexico feel threatened by the vast and rapid expansion of the Chinese manufacturing industry, and they have demanded new restrictions on the trade of garments. As WTO member China enjoys most favoured nation status in trade, and with its vast pool of low wage labour, it will be able to undercut virtually all other countries in labour-intensive manufacturing goods. A low wage/low standard strategy will not work for these countries because Chinese wages are lower still. A more promising approach to countering the competitive threats is the improvement of human resources and labour conditions in the textile and garment factories (see Chapter 5.d below).

Perceptions and political priorities can be changed in favour of ILS. Even strong vested interests are not immutable. They need not pose an absolute barrier to progress on ILS if it is understood that economic fortunes can be better attained with standards than without them. This is amply demonstrated by very successful firms and high-performing countries that comply with ILS. Unfortunately, an understanding of the need and advantages of cooperation within and across nations often comes very late and only after massive damage has occurred. It needed World War I, subsequent revolutionary outbursts in European countries and the rise of Bolshevism, to arrive at the broad consensus among employers, workers and governments which allowed the establishment of ILO and put the first Conventions against the worst employment conditions in place. The demise of communism as a rival to capitalism towards the end of the 20th century weakened that consensus, and with it came a lack of will to advance the global social agenda. Similarly, it was only after the great economic depression of the 1930s that governments were ready to take responsibility for full employment through a pro-active management of aggregate demand. The question is whether the general readiness to respect and promote ILS comes in cycles (for an account of cyclical social progress in the United States see Kochan and Nordlund 1989), and also whether it necessarily takes a major economic or political disaster to reach international agreement. Do we have to wait for another pervasive social or political catastrophe to see new forceful efforts to give effect to global social rules? Or will reason triumph by reaching a global social compact for preventing such an event in due time?

Inconsistent Policies and Uncoordinated Action among International Organizations

Today, we are far from seeing a consistent and well-coordinated economic and social strategy that could effectively support the realization of standards, either at national or international level. There are no concerted international efforts to foster growth and employment. The G-8 Group which represents the politically and economically most powerful countries in the world has little success in this respect. Within the multilateral system, we observe political and ideological differences between the various agencies, notably between UN organizations on the one hand, and the international financial institutions, including the International Monetary Fund (IMF), the World Bank Group (WB) and regional development banks, on the other hand. The mandates and competencies of these organizations overlap, their policies are not always consistent and their programmes and actions frequently lack coordination. As a consequence, national governments receive conflicting advice from different international agencies. Many governments tend to adopt the policy prescriptions of the IFIs, whether they like them or not, simply because these organizations provide the largest financial support, which is often badly needed. The conflicting policies of the international organizations are frequently rooted in disparate policy stances within national governments. In the majority of countries, economic and social policies are not part of an integrated policy package. In relation to social policy, widely differing positions are taken by the Ministers of Finance or the heads of the national banks that look after financial stability, by the Ministers of Economic Affairs who look after trade promotion, and by the Ministers of Labour and Social Affairs whose job is to advance social standards. No wonder that these Ministers, although they are members of the same government, carry their divergent policies to the governing bodies of international organizations.

The policy regime of the World Bank and the International Monetary Fund during the last two decades has not generally been favourable for ILS and other labour policies (see e.g. van der Hoeven 2000). Beginning in the 1980s, these organizations advocated so-called Structural Adjustment Programmes (SAPs), and made adherence to them a condition of IMF and WB lending. SAPs were geared to establishing fiscal and monetary austerity in order to attain stability; and reduce the role of government, which was regarded as inefficient and corrupt. Adjustment policies involved reforms directed to privatization and labour market deregulation. In many developing and transition countries, notably in Africa, following advice from the IFIs, public administration was retrenched to a point that it lost much of its capability. Public service salary levels that were judged too high by the World Bank were diminished, making public service in many instances unattractive so that the level of competence for public action atrophied (Institut de la Banque Mondiale et Bureau International du Travail 1999). In many countries of the South, a significant proportion of the most highly skilled workers emigrated, thereby weakening the capacity and effectiveness of the ministries and the civil service. This has had immediate negative consequences for ILS, because they require competent actors for policy design, and qualified inspectorates and other administrators to monitor firms, counter standard evasion efforts, and sanction violators.

Countries that were not willing to fall in line with the economic conditionalities set by the IFIs not only failed to obtain credit or development assistance, they also were unlikely to gain access to the private international capital market, or at least they had to pay a higher premium.

Advocacy and action by the IFIs directed to labour market deregulation have done harm to the case of international and national labour standards. It is hard to implement standards in deregulated job markets, even though orthodox economics claims that these would lead to the highest level of welfare. The truth is that there are no labour markets without rules anywhere in the world. What varies is the origin and nature of the rules. They may result from bilateral or trilateral agreement or unilateral imposition. Devolving decisions on labour policy and labour practices to the level of the individual firm, and leaving the utilization of labour resources to managerial prerogative, do not lead to anything like an undistorted, untrammelled labour market.

In recent years, the IFIs have become somewhat more concerned with the social dimension of globalization. They pay more attention to social policy issues, especially to the fight against poverty. Starting in 1999, countries that wish to qualify for debt relief or receive new concessionary loans from the World Bank are required to present so-called Poverty Reduction Strategy Papers (PRSPs). By 2004, PRSPs had been completed in 37 countries and another 16 countries had submitted interim PRSPs to the Bank. The PRSP process is supposed to be owned by the national governments of the countries concerned, with civil society involvement. The Bank promised to consult and involve the trade unions in the design and execution of the PRSPs, yet in practice this has happened to a limited extent. National and international trade unions have complained that they were frequently excluded or only superficially consulted in the PRSPs. Since 2003, an improvement of trade union participation in the process has been reported.

Promoting education, health and social safety nets all figure prominently on the IFIs' poverty reduction agenda. On the other hand, employment as a key strategic component to overcome poverty has not yet been accorded the same priority status in the IFI policy package. Only in 2001 did the Bank reach the conclusion that "since labour is often poor people's main or only asset, equitable access to safe and well paid employment is one of the most important aspects of risk reduction" (Holzman and Joergensen 2001). Nevetheless, the Bank's Poverty Reduction Strategy Papers do not normally set employment targets, or include policies for the improvement of wages and working conditions which would be crucial for poverty reduction.

In recent years, the IFIs have gradually adopted a friendlier position towards core ILS. In 1999, after the adoption of the Declaration on the Principles and Rights of Work at the ILO, the World Bank clarified its stance: "The Bank has taken an unambiguous position on three core labour standards (child labour, forced labour and discrimination) that have been shown to consistently accord with economic development". After reviewing empirical studies on the economic effects of trade unions and collective bargaining (Aidt and Tzsannnatos 2002), the Bank recognized the positive role of these institutions for development and poverty reduction. It now claims that it supports all core ILS. However, it has not made these standards a mandatory element in its operational policies. Only in a few instances has the Bank really gone beyond a rhetorical commitment to core ILS and has taken practical stepts to promote them as, for example, in Bank procurement contracts, or as a condition for loans granted by its International Financial Corporation (IFC). Furthermore, on non-core, substantive ILS, the Bank and the IMF continue to show reservation or opposition. Their policy stance on labour market flexibility shows little convergence with the policy lines of the ILO. The IFIs have persistently argued against minimum wage fixing, restricting working hours and employment and income protection, denouncing these as labour market rigidities and red tape. Although the IMF does not consider labour market policy its core area of policy and has no mandate for it, this does not prevent Fund staff from advising against centralized wage negotiation, minimum wages, and wage indexation even where real wages have fallen sharply. Failing to understand that different countries require different policies, the Fund has tended to apply dogmatic "one-size-fits-all" advice to labour market reforms.

While the World Bank's stance on core labour standards has become more positive, its endorsement of worker rights varies a great deal across its various departments and échelons. Views on ILS within the organization are not always consistent. Shortly after the World Bank stated that "the principles embedded in the core labour standards can contribute to the World Bank's development mission… [and they] can contribute to economic growth and reduce workplace risks faced by the poor" (World Bank, 2001), it was asserted in another Bank publication that "developing countries have a good argument that labour standards could become a new form of protectionism against poor countries – with the ironic effect of increasing poverty and hence child labour" (Collier and Dollar 2002). Homage paid to worker rights on the part of top officials does not necessarily translate into action at the lower ranks. Practical action is not always in line with what the researchers find and recommend. For example, the Bank's comparatively progressive World Development Report 2000-01 found that large inequalities hamper economic growth, yet in practice there is little sign that the Bank promotes policies in favour of the redistribution of labour incomes. In the same report the Bank called for the empowerment of the poor and their representatives, but whether this will be followed by concrete steps remains to be seen.

Obviously under the impression of private sector failures, including California's bad experience of privatizing energy supply and the spate of financial scandals and collapses of large corporations in the U.S. and elsewhere, the IFIs appear to have also nuanced their policies towards privatizing the public sector. In a new study on "Reforming Infrastructure: Privatization, Regulation and Competition" (World Bank 2004), the Bank self-critically admitted that driven by “irrational excuberance”, it had sometimes blindly pushed privatization in a doctrinal fashion. Both the Bank and the Fund no longer view the private sector as unconditionally good and the public sector as generally bad. While before they favoured squeezing public employment, they suggested later on that the social sectors (education and health care) should be excluded from budgetary cuts. The Bank has also retracted somewhat from its advocay of pension reforms strongly build on private pension schemes.

Ambiguity with regard to ILS can also be noticed at the World Trade Organization (WTO). At their Third Ministerial Conference in Singapore in December 1996, the members of WTO crafted a policy concerning fundamental ILO standards. In its Declaration the Conference stated:

“We renew our commitment to the observance of internationally recognized core labour standards. The International Labour Organization (ILO) is the competent body to set and deal with these standards, and we affirm our support for its work in promoting them. We believe that economic growth and development fostered by increased trade and further trade liberalization contribute to the promotion of these standards. We reject the use of labour standards for protectionist purposes, and agree that the comparative advantage of countries, particularly low-wage countries, must in no way be put into question. In this regard, we note that the WTO and the ILO Secretariats will continue their existing collaboration”.

In reality, however, operational cooperation between the WTO and the ILO is virtually non-existent, despite their secretariats being not more than two kilometers apart. “The impasse on the linkage between trade and labour standards has meant a complete blockage of a normal policy dialogue between the two organizations” (Hagen 2003a). One would like to know why it is that although the Ministers of Trade declare the ILO to be the principal and competent agency for monitoring standards, this Organization is not bestowed with greater authority to enforce its Conventions.

Neither the Fourth WTO Ministerial Conference held in Doha/Quatar in 2001, where a new round of trade negotiations was agreed (the Doha Development Agenda), nor the conference in Cancun/ Mexico in 2003, produced any progress on linking core ILS to trade, or on the cooperation between the WTO and the ILO. This policy stance begs the question of symmetry of treatment of labour rights and property rights, because the WTO has already allowed a linkage of trade sanctions and intellectual property rights. Why should capital and intellectual assets be protected from theft, expropriation, and imitation, upon pain of trade sanctions, while workers cannot be protected by the WTO in the exercise of their own core rights? (Elliott and Freeman 2003).

For a long time, the Organization for Economic Cooperation and Development (OECD) was unenthusiastic about ILO norms. Today, its policy stance is more in tune with the core ILS, possibly as a result of the above-mentioned OECD surveys which found that ILS do not hold back the expansion of trade. So, there are signs that in the most powerful international organizations the tide has to some degree changed in favour of fundamental ILS. But this does not mean that these organizations are now wholehearted supporters of labour standards. Joseph Stiglitz, Nobel prize laureate in economics in 2001, believes that neoclassical economics which informs a good part of the policies of the IFIs and OECD, has “provided considerable comfort to politicians with a different agenda” (Stiglitz 2001). After completing his three-year term as chief economist of the World Bank in 2000, Stiglitz concluded that “…during that time, labour market issues did arise, but all too frequently, mainly from a narrow economics focus, and even then, looked at even more narrowly through the lens of neo-classical economics” (Stiglitz 2000).

Hard Times for Trade Unions

Trade unions remain the key stakeholder when it comes to improving labour conditions. This means that organized labour has to provide major impulses for the promotion of ILS. In fact, the international trade union movement has made global social justice its main objective for the 21st century (see ICFTU 2000).

What is the strength of trade unions, national and international, today? To what extent have they been able to respond strategically and organizationally to the new global economic reality? Worldwide, the trade union movement has about 180 million members. Yet this figure does not tell us very much. A more important indicator is the trade union density within countries, and the growth or decline of membership. Out of 92 countries for which figures were available, only 14 had a trade union membership rate of more than 50 per cent in 1995; in 48 countries, the rate was less than 20 per cent (ILO 1997). Trade union membership peaked in many countries in the mid-1980s, declining in many quarters of the world since then. Of the 58 countries for which the ILO has sufficient data, union density levels fell in 42 countries, they were relatively stable in 4 countries and rose in 12 countries (including Brazil, South Africa, Republic of Korea and Finland). On the other hand, many employers' organizations have noted an increase in membership during the 1990s (ILO 2000b).

Again, effective trade union influence cannot be measured merely by the rate of organization. For example, in the former communist countries organizational density was high because it was expected that employees become union members, and also because unions had a role in social security and welfare services. After the collapse of the Communist regimes, the development of pluralism and independent unionism translated into lower levels of registered membership. Yet, this does not mean that trade unionism as such has been weakened; on the contrary, it reflects the development of genuine organizations (ILO 2004a, p. 53). Nevertheless, it remains true that in many parts of the world the trade union movement has fallen on hard times. Compared to its heyday from the 1950s to the 1980s when, in most countries, unions reached peak organization levels and bargaining strength, they now find themselves largely in a defensive position. In many developing countries, a major reason for the weakening of trade unions is the rapid expansion of the informal economy in which unions have hardly set foot (in spite of some reported successes of trade unions organizing that sector in Argentina, Philippines, Ghana and India). In some countries, labour unions are legally prevented from organizing workers in the informal sector. In many developing countries independent trade unions are not tolerated by governments or not trusted by employers. Although the ratification record on ILO Conventions 87 and 98 on freedom of association and the right of collective bargaining has improved in recent years, it still holds that about half of the world's workers do not enjoy protection under the two Conventions. Some of the largest countries in terms of population size, including Brazil, China, India, Mexico and the United States, have not ratified the two fundamental worker rights standards (for the reasons see ILO 2004a, p. 23). Over the past ten years, ILO's Committee on the Freedom of Association has addressed many violations of trade union rights, most of them in Africa, Asia and Latin America. These violations include the murder or disappearance of trade unionists, physical assault, arrest and detention, forced exile, obstacles to freedom of movement, breaches of freedom of assembly, seizure or destruction of trade union premises and property, dismissal or suspension of union membership or activities, attempts by employers to dominate unions, and governments declaring states of emergency and suspending civil liberties (for a comprehensive report on the infringement of freedom of association, see ILO 2000a; and annual ICFTU reports on the violation of trade union rights by country).

The suppression or external control of workers' organizations hampers the improvement of national labour standards both directly and indirectly. Directly because there is often no other agent to pursue worker interests, indirectly because in the absence of trade unions labour laws are often not applied, and wages will not rise, or rise commensurately to productivitiy. As a result, investment in the labour force remains scanty, hours tend to be long and working conditions poor.

Economic globalization has contributed to the organizational difficulties which trade unions face. For example, special economic zones or export processing zones have been established in various parts of the world to attract foreign investors. Many EPZs have been kept "trade union free", on the assumption that this will confer competitive advantages on costs and flexibility. Anti-union strategies in EPZs have ranged from avoidance to outright repression (for documentation, see ICFTU 2002a). In some cases, pressure for the restriction of trade union rights has come from foreign multinational companies. But such pressures may also be instigated by governments where they believe that in the absence of unions and wage pressures more inward investment will be attracted.

There are several other ways in which globalization, directly or indirectly, has had a negative impact on trade union strength and thus, on collective bargaining. Among them are privatization, the increased resort to outsourcing and offshoring of work, and the expansion of small firms and production units in which trade unions are normally less represented. Globalization has widened the exit option for mobile capital. Production and services can easily be moved from one country to another. The mere threat of relocation is enough to diminish the relative bargaining power of worker organizations and makes organizing campaigns more difficult. One of the best documented cases can be found in the United States (see box 5.1).

The widely diminished effort to maintain a high level of employment through expansionary macro-economic policies has hurt trade unions as well. As a result of liberalized financial markets, and in the absence of internationally coordinated fiscal policies, government spending to stimulate the economy can trigger a devaluation of the national currency and the money injected in the economy could well be wasted on the purchase of imported goods. Clearly, the slower rate of economic growth during the last two to three decades has not favoured workers. Lower growth has been accompanied by rising levels of unemployment, which in turn have depressed trade union membership rates. Furthermore, slow growth has had negative repercussions on the distribution of earnings. With the exception of very few countries, earnings inequalities have risen and have eroded unionization. In turn, the decline of trade unions has carried inequality further.

A host of other, partly internal organizational reasons restrain trade union strength and clout. Trade unions have not succeeded everywhere in organizing the expanding modern sectors, such as the information and communications sector (although some strike action has occurred there recently). Like other mass organizations, unions have had difficulties attracting young members. Unions have been slower than capital or employers to acquire the technical tools for cross-national action. Being democratic organizations based on the associative principle they tend to require more time to transform themselves than do economic institutions.

In spite of the odds, transnational trade union organization and representation is in place, at the regional as well as the global level. The first international trade union organizations were established more than a century ago. Today, the International Confederation of Free Trade Unions (ICFTU) and the World Confederation of Labour (WCL) operate on a worldwide scale. In 2004, the two bodies have agreed to work towards organizational unification in order to ensure effective representation of workers' rights and interests in the global economy. WCL has

BOX 5.1: The impact of capital mobility on union organizing activities: The case of the U.S.

Recent acceleration in capital mobility has had a profound and devastating impact on the extent and nature of trade union organizing campaigns. A larger number of employers have credibly threatened to shut down and/or move their operations in response to union activity. In 18 per cent of the campaigns with threats, the employer directly threatened to move to another country if the union succeeded in winning the election [about forming a trade union. W.S.]. Mexico was the country most often mentioned in plant closing threats. Overall, more than half of all employers made threats to close all or part of the plant during the organizing drive. At 68 per cent, the threat rate was significantly higher in mobile industries, such as manufacturing, communication, and wholesale and distribution, compared to a 36 per cent rate in relatively immobile industries such as construction, health care, education, retail, and other services.

The high rate of plant closing threats during organizing campaigns occurred despite the fact that in the last five years unions have shifted the focus of their organizing activity away from the industries most affected by trade deficits and capital flights, such as textiles and garments, electronics components, food processing, and metal fabrication, where plant closing threats during organizing campaigns average more than 70 per cent.

The threats of closing or removing plants have been very effective in undermining union organizing efforts. The rates of unions winning elections under the election and certification procedures of the National Labour Relations Board was 38 percent where an employer made a threat, compared to 51 per cent in the absence of threats. With 32 per cent, win rates were lowest in mobile industries. Threats of plant closure were found to be unrelated to the financial situation of the company.

Source: Bronfenbrenner 2000.

26 million members in 113 nations. The bigger ICFTU is a confederation of 233 national trade union federations with 151 million members in 152 countries. It has regional organizations, such as the African Regional Organization (AFRO), the Inter-American Regional Organization of Workers (ORIT), and the Asia-Pacific Regional Organization (APRO). Some regional trade union bodies, such as the European Trade Union Confederation (ETUC) and the Trade Union Advisory Committee (TUAC) to the OECD, are not formally part of the ICFTU. The sectoral and occupational trade unions formed International Trade Secretariats (ITS). In 2002, these were renamed Global Union Federations (GUFs). They are autonomous, self-governing organizations associated with the ICFTU (for a synopsis of the GUFs, see Bendt 2003 and ICFTU 2004).

All these international worker organizations gather information and documentation on subjects of common interest and assist their national member affiliates. They also facilitate bilateral relations between national trade unions and worker committees of the subsidiaries of multinational companies. International campaigns have been conducted, partly to denounce child labour, forced labour and other abuses of international labour standards. The international trade union bodies have also advised national affiliates to negotiate codes of conduct with transnational companies with a view to respecting ILO standards. Trade union action, e.g. through collective bargaining, needs to adjust to the globalizing market. Efforts have been made to reach international labour agreements, and have more or less succeeded. Among them are a few sectoral collective agreements, such as the agreement on wages, minimum standards and other terms and conditions of work reached in the shipping industry between the International Transport Workers' Federation and the International Maritime Employers' Committee in 2000. The

Global Union Federations and their national affiliates have begun forming Global Union Networks (GUNs) at the company level to build counterveiling worker power in relation to transnational enterprises. They are instrumental to the exchange of information and experience for trade unionists, including those from peripheral countries, about the multinational's strategy and practices and as a means to raise the competence of union representatives in transnational industrial relations. Common perceptions and action, on the part of all union representatives across all operating units of a multinational, enable the local unions to resist being played off against each other. GUNs have been set up at the Nestlé (see Box 5.2), Badische Anilin and Soda Fabrik (BASF) and Daimler-Chrysler corporations.

A further salient activity of the global union federations concerns the so-called "global framework agreements" which they negotiate with multinational companies concerning their international activities. Framework agreements establish minimum labour standards and a process of so-

BOX 5.2: The Global Trade Union Network at Nestlé

With a turnover of nearly 90 billion Swiss francs and more than 250,000 employees, the Nestlé Corporation is the largest food company in the world. It has 508 production sites in 85 countries. Only 2 per cent of total output is produced in Switzerland, the company's country of origin. The formation of a global trade union network at Nestlé by the IUF evolved in several stages, starting with company councils in Europe in the 1970s, and proceding with the addition of a North American network in 1987, regional network meetings in Latin America, Africa and Asia-Pacific in the 1990s, and finally a global Nestlé trade union meeting in Manila in 1999 leading to the Manila Declaration. It is an agreement among union delegations on basic principles to be adhered by Nestlé in all of its factories around the world.

The Manila Declaration provides that all Nestlé employees have the right to:

- freely organize in trade unions and collectively bargain with the company;
- a safe and healthy working working environment based on international best practices;
- reasonable periods of notice of changes and to consultation through their trade union representatives on the impact of the introduction of new technologies on the workplace;
- adequate training for their job positions and to further training enabling them to advance within the company;
- secure and dignified employment. Restructuring measures must be subject to prior negotiations with trade union representatives;
- a workweek and work schedules that permit a sound social and family life;
- full information about business developments and access to dialogue with decision-makers within the company;
- equality of treatment and freedom from discrimination based on gender, race, age, religion, handicap, sexual orientation, national origin, union affiliation, political opinion, or social origin. Specific and positive actions to promote equal opportunity should be negotiated with union representatives.

From the unions' point of view, work on the Manila Declaration is to continue in several directions in the future. It is to be used; (I) to draw up an inventory of unacceptable management practices and shortcomings; (II) for publicity work within the company in an effort to promote discussion about Nestlé-wide minimum social standards; and (III) to serve as a basis for common negotiating positions vis-à-vis the management

Source: Rüb 2004.

cial dialogue. The first of these agreements was concluded between the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers (IUF) and the French food multinational Danone in 1988. It covers co-operation in the areas of worker training, information, gender equality, trade union rights and employment. Some 30 framework agreements have been concluded to date covering more than 3 million employees (see Table 5.1 in Section 5.4 below).

To advance the case of ILS, the global trade union organizations have lobbied influential governments, inter alia at meetings of the G-8 group, WTO meetings, and other political summits. They have tried to influence the policies and action of the international financial institutions to get the IFIs to open up to trade union concerns, and make core labour standards and other social issues part of their agenda. In fact, the World Bank and the International Monetary Fund have made a commitment to regular dialogue with the international trade union movement. Since 1999, high level meetings and various staff level meetings have taken place. Furthermore, consultations between the trade unions and the Bretton Woods organizations have increased on the national level.

The trade union movement, and also employers'organizations, has revisited their relationships with various other types of non-governmental organizations (including churches, charities, social workers, immigrant organizations, cooperatives, associations of unemployed people, etc.) that act or claim to act on behalf of workers. Unlike the trade unions and employers' associations, many NGOs are not membership associations, not accountable to any constituency, and not bound to observe collective contracts. Nevertheless, when it comes to international labour standards, trade unions could, and sometimes do, form partnerships with NGOs and engage in alliances of action (see section 5.b below).

On the whole, trade union organization and collective bargaining, like labour market regulation, remain an intra-country affair. However, one may conclude that, confronted with the challenges of globalization and the related strong pressure it puts on labour rights and conditions, action for building a global union movement is under way and growing stronger. Global union networks and global collective agreements are the indispensable and effective answer to global production networks and global markets. Today's effort to form global collective workers' organizations is analogous to the earlier efforts to form nation-wide unions in response to national product market extension.

b) An Enabling Framework for the Promotion of ILS

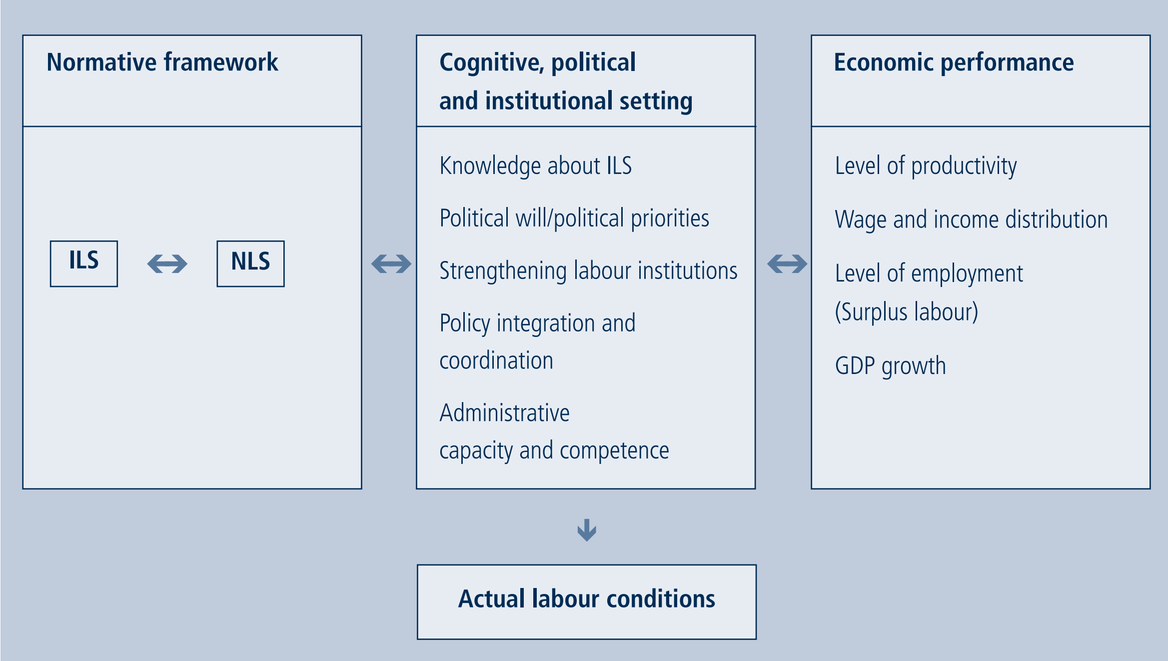
Figure 5.1 maps a propitious institutional setting for attaining national labour conditions that satisfy the provisions of ILS. The elements identified in the figure are largely drawn from the previous analysis of the benefits of ILS, as well as the political and organizational deficits that obstruct the implementation of standards.

Actual labour conditions in a country, i.e. the level of wages, fringe benefits, social security, occupational safety and health, etc. are contingent on the following factors:

Normative framework

Labour conditions are shaped by national law and its congruity with ILS. Labour law guides and channels the behaviour of governments, employers, trade unions and other actors that share responsibility for the terms of employment and the welfare of workers. Nation states declare their will to adhere to ILS by ratifying ILO Conventions, thus making national labour law consistent with the international labour code. Yet, ratification does not necessarily mean actual compliance with ILS, and actual practice at the country level is not always in line with national labour law.

FIGURE 5.1: An Enabling Environment for Observing ILS



There are several explanations for the fact that ratification of ILS does not directly show up in improved labour performance. First, ratification is not the only means to comply with ILS, and to give effect to them. Secondly, as pointed out in Chapter 3.c, there is considerable variation across countries as to when a Convention is ratified. Some countries wait until their actual labour situation corresponds to the normative prescriptions of the ILO Conventions, whereas others ratify knowing well that their actual conditions fall short of the international standard, but hoping that they can gradually close the gap between norm and reality. Thirdly, both ratification and compliance with ILO norms is voluntary. The ILO cannot force its norms on member countries, and its sanctioning powers in case of violation are weak. With few exceptions, no real sanctions are applied when ratified Conventions are not respected.

The relatively weak legal recourse in case of violations of ILS originates in the nature of the ILO as a voluntary organization. Its founders believed that member States would be discouraged from voting for the adoption of Conventions or from ratifying them if they were made obligatory. The ILO is far from being anything like a World Ministry of Labour and Social Affairs. It cannot police its standards through legal or economic means. Repeated attempts in the multilateral system to link ILO standards to trade, and to sanction violating countries by excluding them from international trade, have failed (see Chapter 5.c). In effect, the ILO can resort only to moral sanctions. In a number of cases these have proved effective. Also, the ILO can and does provide advice and technical assistance to States requesting its support in adopting and implementing standards. Global reports on actual observance of Conventions serve as a basis for assessing the effectiveness of ILO assistance and technical cooperation. Under the follow-up to the 1998 ILO Declaration on Fundamental Principles and Rights at Work, reports have already been filed on Freedom of Association (June 2000), the Elimination of all Forms of Forced and Compulsory Labour (June 2001), the Effective Abolition of Child Labour (June 2002) and the Elimination of Discrimination in Respect of Employment and Occupation (June 2003). A second cycle of Global Reports started in 2004 with a report on Freedom of Association and Collective Bargaining (June 2004), and continued with a report on Forced Labour (June 2005).

Economic Feasibility

The implementation of ILS and the actual improvement of labour conditions at the national level must be economically feasible. At a given distribution of income, average real wages cannot for long move faster than the rate of productivity improvement, if cost-push inflation is to be avoided. But income distribution is not immutable. Wages equate with productivity only at the level of the firm, not necessarily at the level of the individual (Dessing 2002). Furthermore, while it holds that social security benefits and investments in safety at the workplace must be at a level a country can afford at a given point in time, dogmatic views about this connection should be avoided. The economic contingency of labour conditions does not mean that nothing can be done to improve them. As argued in the previous chapters, while productivity improvement is the mechanism for making higher wages and other social achievements possible, applying labour standards can be an important source of productivity improvement. Hence, in the end they serve as a lever to raise the level of welfare. Furthermore, we have shown that large wage and income inequality hampers growth and causes poverty, so that a change in income distribution can provide incremental scope for economic improvement. The extent of social security coverage, and particularly the level of social benefits and social services, is not strictly determined by a country's level of development. To a significant extent the level of public social expenditure is subject to discretionary policy depending on a country's political preferences and priorities. This is borne out by the fact that there is no close statistical correlation between the level of GDP per capita and the level of social spending proportional to GDP. Again, the provision of social protection can set an economy on a higher path of growth and can improve the quality of growth. This implies that the opportunities for advancing ILS look more favourable when seen in a dynamic perspective. In conclusion, while it remains true that the improvement of labour conditions must be economically feasible, the opportunity for it can be leveraged by the growth-enhancing impact of standards and income redistribution.

Requirements of National and International Governance

Neither labour law nor "economic law" strictly determines a country's actual labour conditions. A normative framework and economic feasibility are necessary, but not sufficient ingredients for practising ILS. A number of important cognitive, political and institutional preconditions must be met in order to progress. They may be seen as factors of good governance in the broad sense of this term.

Furthering ILS should start with increasing knowledge about their meaning, role and impact, and the dissemination of this knowledge among decision makers and the wider public. There are many different sources of knowledge and experience with ILS. What practitioners know and think of labour standards, and how they assess their effects, is frequently at variance with the relevant findings of research. Much of the existing body of academic studies has been informed by orthodox economic models that are systematically biased against ILS by regarding them as market distortions. Broader and better conceptualization of ILS is urgently needed to do justice to labour standards (see Box 5.3). As explained above, the appliation of ILS is hampered by orthodox economic reasoning on economic growth, employment and economic stability. Policy needs to be purged of the fallacies of monetarism and supply side economics (for a concise analysis of the main fallacies of economic doctrines, see Wilkinson 2000).

BOX 5.3: The need for more and better research on ILS

As influential actors have failed to see that ILS are ends and means of development, efforts should be made to show how dividends from standards accrue at the micro- and macro-levels of the economy. The focus of research has to shift from the preoccupation with ILS as market distortions to market- supporting instruments and from comparative disadvantage to comparative advantage. It should elaborate the notion of standards as public goods. Concepts such as trust, cooperation, collective efficiency, dynamic efficiency, social peace, and social and political stability ought to become central themes of an improved theory on ILS. Some promising inroads in this direction have been made in recent years. Research on the benefits of standards has to be extended and improved. Exemplary practices of ILS at the level of enterprises, economic sectors, and countries could be collected and documented. Some documentation and case material exists but it is scattered. Often, this material resulted from re-interpretations of cases that were developed for other purposes. Thus, there is a need for the development of new and better case studies to illustrate and substantiate the benefits of standards. Such material can be used to raise awareness among workers, employers and government officials. It can also serve for media campaigns.

The methodology used in empirical analyses on the effects of ILS can be enhanced. So far, apart from the econometric studies cited in Chapter 3, few studies rely on multivariate analysis. Simple correlations between measures of labour standards and measures of economic performance tell us little about the role that ILS play in determining economic outcomes. For example, in order to gauge the marginal contribution of standards on trade performance, one must compare each country's performance against a baseline expectation as to what this country should be trading given its factor endowments and other determinants of trade.

Most of the existing research on labour standards is concentrated on industrialized countries. Future research efforts will have to pay much more attention to the developing world, and especially to the poor and excluded workers. More comparable and reliable statistical data based on standardized indicators and suitable for empirical testing need to be made available.

ILS will not flourish without an unequivocal political will on the part of the key national and international policy makers, and the corresponding priority given to realizing standards in economic and social policies. As indicated above, declarations of intent, even where they come from the heads of State or Government, are not always followed by determined action to make standards a reality. This applies to poor and rich counties alike.

There are various reasons for the credibility gap. Firstly, ILS are still widely seen as a "soft" ethical issue that is less important than "hard" financial and economic concerns. This view is parochial and short-sighted. It ignores historical experience showing that the presumed soft character of social policy can turn into hard constraints. This happens, for example, when countries find themselves confronted with social and political upheaval due to neglect of social balance, or when investors shun the country because of actual or presumed social instability. Partly as a result of relatively short election cycles, politicians tend to accord precedence to issues from which they expect short-term success over the more long-term or delayed benefits associated with investment into the implementation of ILS. To some extent, adverse short-termism in governmental politics can be counteracted by the greater continuity of civil society, especially the workers' and employers' organizations that are not subject to the political cycle.

The advancement of ILS demands sustained effort and loyalty to principles. It is necessary to respect international agreements even when they appear to run counter to local interests or preoccupations. Recall the difficulties that arose in applying the first ILO Convention on maximum working hours. Some governments felt they could not implement the agreement because it would hurt their economy. They relapsed into the old practice of long hours, with the result that competitors in other countries followed suit, and the old equilibrium was restored without anyone having an advantage. Opportunistic social behaviour is widespread. It locks the larger community into inferior welfare regimes. If in a theatre some people stand up in order to see better this will very likely cause others to do the same. In the end the whole audience is on its feet, nobody sees better but everybody has the discomfort of standing. Avoiding opportunism requires a common understanding among the spectators. At international level, it demands a social contract that binds partners in order to have everybody benefit from the higher welfare enabled by standards.

ILS require the viability and support of institutions, and most of all labour institutions. Among them, trade unions as the prime stakeholder of labour interests are the most essential, but collective organizations of employers are equally important because in their absence collective bargaining and sound social dialogue are not practicable. It is not by chance that the implementation of ILS is most advanced in Northern Europe where we find high rates of organization both among workers and employers, nearly complete collective bargaining coverage, and effective social dialogue, both bi-partite and tri-partite. These countries have been nearly immune from encroachments on labour standards in the era of globalization.

The strengthening of the trade union movement – in part through global union organization – may be the single most important factor for the observance of ILS. As shown above, economic globalization is a major underlying cause for the weakening of trade unions. It is myopic to view the declining bargaining power of workers as simply a labour problem, failing to see the wider implications for the economy and society at large. As demonstrated in Chapter 4, collective worker organizations are a crucial, indispensable factor in economic development. Next to setting the terms of employment and work, they have a wider role to play when it comes to creating and maintaining social peace, social cohesion and political stability. Hence, the viability of worker organizations must be a concern for everybody. Governments that have opened commodity, capital and money markets are responsible for countering the negative effects of market liberalization. At the minimum they have to safeguard the rights of association to ensure that collective organizations are secure and can be vital enough to balance the power structure in the labour market.

Trade unions can enlarge their strength and effectiveness by cooperating with other non-governmental organizations that are active in the labour and social policy field (see Box 5.4).

A further significant precondition for advancing ILS is the integration of economic and social policy as a coherent policy package, with the two being treated on an equal footing. Frequently, social policy is an afterthought. Or it takes the back seat, whereas economic policies are placed in the driver's seat. Within the multilateral system, the international financial institutions, i.e. the most powerful and financially potent agencies, have just begun to acknowledge the contribution made by the core ILS to economic growth and the fight against poverty, and have rethorically committed themselves to making these standards part of their development mission. So far, however, they are not generally prepared to make lending conditional on a government's respect for worker rights. Core ILS must be promoted consistently in all their operations. Thus, the process of revisiting and revising policy positions in these organizations has to continue.

In the meantime, a better international coordination of economic and social policies has been demanded by various organizations. For example, the European Commission has

BOX 5.4: Extending trade union impact through alliances with civil society

Trade union strength at the national and international level can be enhanced by the formation of alliances with NGOs that are active in the labour and social policies field. The need for that is less in countries such as South Africa, where trade unions are strong, have a broad social policy agenda and are directly involved in national policy making. Or in Sweden, where it was shown that NGOs concerned with gender equality played a minor role because the trade unions themselves have been engaged in this field (Yeong-Soon 2001). The need for alliance is greater in countries, such as Bangladesh, where trade union organization is fragmented and covers no more than a small proportion of the labour force, and the state cannot provide basic services while NGOs are an important actor to provide them. In a number of countries the role of civil society for advancing ILS is already well established. For example, the campaign for progressively eliminating child labour in the soccer ball industry in Sialkot/Pakistan, consisted of several stakeholder including manufacturers, local trade unions, ICFTU, NGOs and the ILO. The involvement of civil society groups in the formulation of social policies has led to an extension of the traditional tripartite structures of consultation and negotiation.

Government can gain broader legitimation by opening itself up to the participation of civil society organizations, especially with regard to policies and action for the unemployed, the poor and the excluded groups (Baccaro 2001; Baccaro 2002). An impressive example is Ireland, one of the miracle economies of the 1990s. Its success in drastically lowering unemployment and moving within 15 years from being the "poor man" in Europe to one of its richest countries has been attributed to cooperation within a "tripartite plus" framework. In the words of the Irish Government:

"A strong democracy enhances and protects the capacity of citizens to participate directly in social life, create their own social movements and address issues that concern them and speak directly on issues that affect them. In a strong democracy people regard the State not as the answer to every problem, or the essential funder of every action, but just as one player among many others. All the others – the private sector, trade unions, religious organizations, NGOs, sporting organizations, local community and residents' associations – have a pivotal role to play in our democratic life and in ensuring continued economic and social progress" (Government of Ireland 2000).

called for a more balanced global governance system, through strengthening ILO instruments and fostering joint work by international organizations. It has proposed a high level international dialogue with the participation of the ILO, WTO, and development organizations such as UNCTAD, UNDP and the World Bank (European Commission, 18 July 2001). The latest call for international policy coherence comes from the World Commission on the Social Dimension of Globalization that was set up by the ILO Governing Body. The Commission included 26 eminent individuals from government, business organizations, trade unions and academia, who served in their personal capacity. In its report entitled "A Fair Globalization" published in February 2004, the Commission demands that, in order to further economic development and social justice, all organizations in the multilateral system need to deal with international economic and labour policies in a more consistent and integrated fashion. International organizations should launch Policy Coherence Initiatives in which they work together on the design of more balanced and complementary policies for the achievement of a fair and inclusive globalization, and to address the question of global growth, investment and employment creation. A Globalization Forum should be established as a platform for regular dialogue between different stakeholders on the social impact of developments and policies in the global economy. A UN Economic and Social Security Council and a global council on global governance are proposed. A need is seen to enhance parliamentary control over international institutions and for accountability of their policies vis-à-vis the broader public. The multilateral system is to be made more democratic, participatory and transparent (World Commission on the Social Dimension of Globalization 2004; see also Box 5.5).

In the economic and social policy field, as elsewhere, global governance will have to strike a better balance between the concerns of the South and the North. So far, the interests and the influence of the rich and powerful countries predominate, especially in the Bretton Woods organizations. Although developing countries are deeply affected by the decisions of the IFIs they have little power in their decision-making. A large proportion of the voting rights are vested in a very small number of wealthy countries that are the principal shareholders of paid-up capital. In the IMF, 48 per cent of the voting power is held by the United States, Japan, France, the United Kingdom, Germany, the Russian Federation and Saudi Arabia; 52 per cent of the votes go to the rest of the world. In the World Bank, the ratio is 46 per cent to 54 per cent (UNDP 2002). So far, the chief executive of the World Bank has always been a US citizen and, that of the IMF a European. If the South is to get a bigger voice in these institutions, the existing voting power in favour of the wealthy nations will have to be replaced by more equal country representation.

The need for adequate global governnance will have to consider the political economy of world order. According to one observer, at the beginning of the 21st century, there are three geographically overlapping configurations of world power: the American empire; the Inter-State system; and civil society. And in the back-

BOX 5.5: Major Recommendations by the World Commission on the Social Dimension of Globalization

The main recommendations of the Commission focus on better governance for a fairer globalization: They include the following:

- Solving the problems of globalization begins at home. Contrary to the dominant ideology of the 1990s, the Commission envisages a stronger role for a democratic and effective state and civil society.
- Globalization needs to be governed by fairer rules, including rules for trade, investment, labour and migration. Taxes and unfair technical barriers must be reduced so that LDCs can gain market access for goods for which they have a comparative advantage.This must be accompanied by high standards of accountability on the one hand and adequate aid flows on the other.
- The capacity of the ILO to promote respect for core labour standards should be reinforced. Resources available for fair and appropriate supervision and monitoring and for promotional assistance should be increased. Stronger action is required to ensure respect for core labour standards in export processing zones and, more generally, in global production systems. All relevant international organizations should assume their responsibility to promote these standards and ensure that their policies and programmes do not impede their realization.
- A minimum level of social protection for individuals and families needs to be accepted and undisputed as part of the socio-economic 'floor' of the global economy, including adjustment assistance to displaced worker.
- The quality of global governance must be improved. Better policy coherence is an important prerequisite to this, especially putting social policies on a par with financial and economic objectives.

Source: World Commission on the Social Dimension of Globalization 2004 ground lurks the "covert world" (including organized crime, terrorist organizations, and illegal financial circuits). The three power configurations are not confined by boundaries. They are in contest everywhere asserting rival claims to legitimacy. The inter-state system remains the "most feasible means for restoring legitimacy in global governance. Its primary challenge is to induce an American 'hyper-power' to abondon the mirage of 'exceptionalism' and bring the USA back into membership along with other states in a community of nations… The outcome will depend most of all on how Americans in the aggregate come to see the world". But the inter-state in turn must transform itself into a mechanism for working effectively on the problems affecting the world's peoples: the health of the biosphere; bringing about some equity in the conditions of life of people around the world; reform in the institutional organization of credit; and a willingness to search for consensus on divisive issues (Cox 2004).

As argued in Chapter 3, ILS stand a poor chance in an economy with high labour surplus. Therefore, the promotion of full and productive employment is essential for progress on any of the labour standards. Employment promotion will not succeed without employment-friendly macroeconomic policies. As yet, there is virtually no institutional framework for macro-economic management in place. Market liberalization has enlarged global supply, especially of manufactured goods, but national policy makers and the international polity have failed to increase demand commensurably. The G-8 Group representing the most powerful countries has special responsibility in this regard. However, macro-management must extend beyond the G-8. Raising aggregate demand is very much a question of augmenting mass purchasing power. It means reversing the trend towards stagnating or declining real wages and widening income differentials. Since tax competition makes it difficult to conduct redistributive policies, harmonizing tax rates and proventing tax evasion will have to be essential ingredients of an effective international policy for growth, employment and social justice. Securing sufficient demand requires, in addition, the intelligent use of trade and foreign capital flows in accordance with local circumstances, instead of pushing them indiscriminately regardless of whether domestic economies are ready for them or not. The collapse of the Zambian textile industry illustrated in Chapter 2 is just one of numerous instances of the devastating results of trade policy based on questionable economic dogmas.

Finally, the application and monitoring of ILS require adequate administrative capacity and competence. Conventionally, the administration of ILS-related policies and practices has been the obligation of state and public institutions, such as the labour market administration, the social security administration, caring institutions and the labour inspection. In recent decades, in the course of slimming government and large-scale privatization drives, the provision of private services, such as private employment services, and private health and care facilities, has expanded. So have hybrid arrangements, such as public-private partnerships. Their results have been mixed. Dogmatic views on the superiority of the private sector are not helpful. Cases abound where the transition of economic sectors to private organization have entailed inferior quality of service, serious safety problems and even shortages of supply. While the private sector can undoubtedly have a useful role, a certain volume of public services and public control remain indispensable for ensuring broad coverage, and equality of opportunity and treatment in the provision of supportive services. It is one of the most important effects of public goods and public services that these are provided independently of the income and consumption power of people, thereby ensuring a degree of equality of living standards.

Shortages of capacity and capability for implementing and administering ILS policies are particularly acute in developing countries. Large national and international efforts have to be made to augment resources. One helpful measure could be debt relief. It would permit the indebted countries to spend more of their public budgets on building institutions and rebuilding public services. Another measure could be to restore competitive salary levels in the public service to ensure sufficient and competent administrative staff for implementing standards.

c) International Incentives and Disincentives

Even with an enabling political and institutional framework in place, two issues remain when it comes to advancing ILS. One relates to the appropriate means of action to be used at the national and international level. Should compliance with ILS be achieved by using incentives (rewards) or disincentives (punishments)? This question will be taken up in the present section. The subsequent section deals with the choice of actors. Who should take action, and who should be responsible, for promoting ILS?

With regard to the means of action for complying with ILS, a fairly broad consensus exists in favour of a 'development-centred' approach that seeks to establish a propitious national environment through the exchange of information and experience, technical cooperation in support of capacity-building of national actors, and the provision of public and private financial aid. These are appropriate means to exploit the problem-solving facility of ILS. They are to be used to promote the adjustment of firms and workers to shifts in demand at the national and international markets so that the structural change becomes socially acceptable. But what to do if a government is not willing to participate in the cooperative approach? What to do if persistent, severe infringements of fundamental rights at work are tolerated, or even instigated, by governments or other actors? Such a situation arose, for example, in Myanmar (Burma) where forced labour was systematically used, and child labour and other violations of core ILS were rampant for many years, and the government did not respond to calls from the ILO and other organizations to cease the practice. This led the ILO in 2000 to apply Article 33 of its Constitution recommending that UN bodies, international financial institutions, national governments, and private companies re-examine their relations with Maynmar, and if necessary sever them, in order to ensure that they are not unwittingly encouraging the use of forced labour. It was the first time in history that the ILO adopted such a resolution. There is now an almost total ban on loans for the country. Many private enterprises withdrew their investments, but others are still doing business with Myanmar. According to ICFTU's database, over 400 multinational companies were operating in the country in 2004 (See ICFTU website).

In principle, various options are available for international action to solicit or enforce compliance with ILS. Firstly, complying countries may be rewarded with favourable treatment, such as trade preferences, international aid, and credit and procurement, conditional upon the observance of core ILS. Or, one can use trade sanctions, e.g. by imposing a ban on imports from countries that violate core ILS. Secondly, rewards and sanctions can be applied in a multilateral, regional, bilateral and unilateral framework. In general, it may be argued that a multilateral approach is preferable because it has greater moral force and greater reach than unilaterally applied measures. The interests of smaller countries tend to get a fairer hearing in a multilateral setting.

Linking the enforcement of core ILS with trade has generally been justified by the fact that the success of competitive strategies and labour policies in any single country depends on the policies of its trading partners. More specifically, there has been the fear, reflected in terms such as "social dumping" and "race-to-the-bottom", that industries in countries with high wages and high labour standards cannot withstand the competition from low-standard countries so that their labour conditions will suffer. Therefore, labour policies would have to be integrated and coordinated with trade policies and negotiations. After all, the effect of trade on workers' rights and the creation of universal ILS, in order to prevent trading countries gaining 'unfair' competitive advantages, was part of the original rationale of the ILO. However, since the ILO itself has never been afforded an effective sanctioning mechanism in the case of violation of its Conventions, trade sanctions operated by other organizations have been demanded to enforce compliance.

As was explained in Chapter 2.b, cross-national wage differentials and variations in social standards as such do not justify to take international action against competitors. The criterion for such action must be the violation of universal minimum ILS, notably core ILS.

Social clauses in multilateral trade agreements

The most conspicuous and most controversial move with regard to trade-linked ILS has been the attempt to establish a so-called social clause in Article XIX of GATT/WTO. The reason for lodging ILS matters there is simply that the WTO incorporates an enforcement mechanism and provides a legal base to retaliate. The mechanism could be used to exclude countries not respecting core ILS from access to international markets. Except for a prison labour clause in GATT, this sanctioning device has not been adopted by the multilateral system so far. A majority of developing countries and employers' organizations have opposed it, mainly on the grounds that it hampers the export opportunities of developing countries and opens up possibilities for protectionist abuse by developed countries (for a comprehensive account of the divergent and conflicting views of the parties in the debate on this issue in the ILO, see Hagen 2003). Nevertheless, individual country governments of industrialized countries, among them especially the U.S. Government, and the European Parliament, national and international trade union bodies, and a number of NGOs have continued to call for trade-linked ILS, and also for introducing social conditionalities in the policies of the International Financial Institutions. For example, the ICFTU, for the first time in its world conference in 1996, called for a social clause or "workers' rights clause" in trade agreements within the framework of WTO. Sanctions are to be used as a last resort after all other, non-coercive means of action have failed. A joint advisory body of WTO and ILO should be able to recommend trade sanctions as an ultimate penalty against a non-cooperating country after a specified period of time. Contrary to allegations by liberal trade economists that trade unions in the South would oppose trade-linked ILS (see Bhagwati 2002; Srinivasan 2004), a survey revealed that the use of trade sanctions for the encorcement of core labour standards does receive support from "an overwhelming majority of developing country union leaders" (Griffin et. al. 2003). As part of its ongoing campaign, the ICFTU has called for closer ILO/WTO cooperation on ILS, and it has been providing information to the WTO on fundamental workers' rights legislation and practices, e.g. concerning freedom of association and child labour, in connection with WTO reviews of individual countries (for details see ICFTU 2004). The EU Commission has also called for measures to make the ILO more effective, and for greater cooperation between the ILO and the WTO (and also the Bretton Woods organizations), but it has been firmly opposed to the use of sanctions within the framework of the WTO. Instead, the Commission supports the (voluntary) inclusion of workers' rights in the Trade Policy Review Mechanism for WTO members, and encourages the WTO to use incentive measures to promote core ILS.

A new appeal to the WTO, to bolster incentives and disincentives for countries to enforce ILS, has recently been made by academics. Elliott has suggested that violations of core ILS that are clearly trade-related , including those committed in export processing zones (EPZs), should be addressed by the WTO (Elliott 2001). Elliott and Freeman see a clear economic rationale for trade sanctions to be applied in cases of "egregious" violations of core ILS. The WTO would have a role to play where poor labour standards produce a well-defined, trade distorting cross-border externality. A coordinated, multilateral approach to identifying the export-related infringements of ILS would be warranted. Targeted trade measures against specific exports implicated in trade violations, instead of broad sanctions against a sector or country as a whole, would avoid protectionist abuse of WTO measures. (Elliott and Freeman 2003).

Other scholars, however, have emphatically rejected attempts to enforce labour standards through WTO trade sanctions. In their view, compulsory standards are likely to cause economic harm to most exporting developing countries, at least in the short to medium term, while doing little or nothing to improve their labour conditions. What is more, any cut-back in developing country exports due to sanctions will not provide protection to labour and industry in the advanced countries for long. This is because the most severe competition for advanced countries comes from the small number of newly industrialized countries whose productivity growth rate is much faster than that of advanved countries (Singh and Zammit 2000, p. xv).

Apart from the opposition from developing countries that hardened during the 1990s, one needs to recognize that social clauses in trade agreements will be of limited effectiveness because they do not reach economic sectors outside the export industries where labour conditions are frequently more precarious. As Ghose remarked, the concern about the adjustment problems generated by North-South trade in competing products is quite distinct from the far more general concern about low labour standards in developing countries. "It is not the case that low labour standards in the South are fine so long as North-South trade is not in competing products" (Ghose 2003, p. 97).

Trade preference schemes and regional and bilateral trade agreements

A link between ILS and trade has been established through unilateral, non-reciprocal trade preference schemes. Developed countries have used Generalized Systems of Preferences (GSP) to provide reduced or no tariffs for imports from developing countries in return for compliance with ILS. They are made possible by so-called "enabling clauses" of GATT/WTO. Generalized systems of preferences schemes are operated by the United States, Canada, Japan, Norway, Switzerland, Australia and New Zealand. The GSP policy of the United States, which was inaugurated in 1974, was amended in 1984 to allow duty-free access for selected products provided that the exporting country respects internationally recognized worker rights. These include the core ILS and "acceptable conditions of work related to wages, hours of work and health and safety" (Harvey 1996).

The European Union (EU), the world's largest provider of trade preferences in favour of developing countries, has implemented GSP schemes since 1971, following the recommendation of UNCTAD in 1968. Since the middle of the 1990s, the EU under its 'incentive labour clause' aims at helping countries that apply core ILS by providing preferential benefits as compensation for the extra cost of advancing social policies. The EU-GSP schemes that make explicit reference to core ILS, apply to countries in Latin America, Asia and the Pacific, Africa, the Caribbean basin, Central and Eastern Europe and the Commonwealth of Independent States (CIS). In January 2002, the European Union adopted a new GSP policy that doubles the tariff reduction for countries that respect core ILS (as well as environmental standards, human rights, and the control of drugs). To benefit from the schemes, governments must provide information on their domestic labour legislation and its implementation and monitoring. Benefits can be withdrawn when there is evidence that the beneficiary commits violations of core labour standards. In 2004, new regulation was proposed for EU trade policy on tariff preferences for the period 2005-08, including simpler and more flexible rules, extending the range of duty-free products to 7,200, and a focus on a smaller number of countries, preferably LDCs, with vulnerable and poorly diversified economies. Also, indications of actual conformity with core ILS, instead of merely the ratification record, will be used to grant trade preferences to a country.

The GSP schemes operated by the U.S. and Europe had ambiguous effects. Out of 63 cases reviewed between 1985 and 1995 for labour rights reasons under the U.S. GSP-scheme, 12 ended in the withdrawal or suspension of GSP benefits for 10 countries, 51 resulted in a decision that the benefit-receiving country was taking steps to afford worker rights, and 7 cases are still pending (Harvey, 1996). Since 1996, benefits have only been suspended for Belarus. In several instances where U.S. trade sanctions were applied or a GSP review was announced, several countries moved to reform their labour code or changed their labour practices (For a synopsis of studies of successes and failures of U.S. and European GSP schemes, see Greven 2004). Yet, it is also clear that many developing countries resent the conditionality attached to trade assistance programmes. According to the GATT-WTO rules international trade should not be conducted on a discriminatory basis. An analysis of the enforcement of labour rights provisions in the GSP schemes of the U.S. showed that the U.S. Government enforced the unilateral labour rights provisions less on the basis of a fair and consistent assessment of violations than with a view to U.S. foreign policy interests and domestic policies (Greven 2005). Moreover, the removal of preferential treatment, or even the threat of it, can have undesired or inadvertent effects (van Liemt 2000). This became evident when U.S. trade sanctions were imposed on Bangladesh under the 1992 Child Labour Deterrence Act. Children working in Bangladesh's garment industry were dismissed but as there were no alternative jobs available to them they staged a demonstration demanding to be given their jobs back. It was then agreed that their removal from the industry should be more gradual and tied to the availability of employment and educational facilities (Taher et. al. 1999). The lesson to be learned from this case is that trade sanctions can at best induce a country to change its poliy to child labour, but it does not yet resolve the problem. Local action is required to effectively reduce child labour in socially acceptable ways.

A further policy option for trade-linked labour standards is to include relevant clauses in regional, sub-regional, and bilateral trade and investment agreements. A recent comprehensive survey of such agreements concluded that, in view of the failure to attain the enforcement of ILS at the WTO, these would be "the second-best option available" (Greven 2005). Among the most important agreements of this kind are the North American Agreement on Labour Co-operation (NAALC), which is a side agreement to the North American Free Trade Agreement (NAFTA) of 1994, concerning local enforcement of ILS in Mexico, the United States and Canada; the U.S.-Cambodia Bilateral Textile Agreement; the U.S.-Jordan Free Trade Agreement, and others. Labour rights provisions are incorporated also in bilateral agreements of the EU. Examples include the Cotonou Agreement with 77 African, Carribean and Pacific Countries (ACP), and agreements with South Africa, Chile, and Mexico.

A widely applicable mechanism for reinforcing the observance of ILS is provided by *making public aid and investment by international organizations conditional on compliance with these norms.* The opportunities are vast. The OECD Development Assistance Committee's Poverty Guidelines adopted in 2001 now include a clause on labour rights as part of assistance. There have been calls on the World Bank to set and enforce social criteria based on ILO Conventions in its lending, procurement and technical assistance activities. A few steps have been made in this direction. For example, the Bank's Multilateral Investment Guarantee Agency already requires that assistance be refused where forced or child labour is used. The same principle could be applied with regard to other fundamental ILS, and it could be extended to the Bank's procurement contracts. Another example is the construction industry where upon the initiative of the International Federation of Building and Wood Workers labour-intensive public works projects financed by the World Bank were carried out with due respect for core labour standards. Trade unions could be given a greater say and role in the design and implementation of poverty reduction strategy papers (PRSP) at the national level. It has also been proposed that the Bank and the IMF establish within their organizations trade union advisory committees modeled after TUAC in the OECD.

The choice of appropriate international action for the compliance with ILS touches on the larger issue of a new political world order. Specifically, the use of sanctions raises questions about their legitimacy and justification. Nation states may view – and have viewed – sanctions as a means of encroaching into their national sovereignty. To assess whether international interference in national affairs is justified, we need to acknowledge the shift in thinking that has taken place in recent years throughout the international community with regard to the concept of 'sovereignty'. The traditional notion of sovereignty foresaw that nation states are fully autonomous entities and regulate their affairs within their own territory. Article 2 of the UN-Charter stipulates that nation states are equal, their territorial integrity and political independence inviolable, and other nations or international organizations are not entitled to interfere in their internal affairs unless their action poses a threat to international peace. National sovereignty is not normally considered compromised when a State voluntarily agrees to international cooperation that includes international monitoring and control as, for example, inquiries and supervision by international bodies in relation to ratified ILO Conventions. However, in view of the new and greater national sensititivities and vulnerabilities connected to an increasingly interdependent world, and especially with the increased importance of human rights, the traditional concept of sovereignty has aroused debate and has undergone significant modification. Rights and obligations of sovereign states have been redefined. According to a report by the "International Commission on Intervention and State Sovereignty" of the UN in 2001, entitled 'The Responsibility to Protect', unconditional sovereignty of a nation finds its limit where the sovereignty of another nation is at stake. If the effects of national action spill over to other nations – economists speak of external effects – they can no longer be regarded as purely 'internal affairs'. Furthermore, according to the new concept, state sovereignty is not unconditional where it runs into conflict with the sovereignty of individuals. The nation state is obliged to protect its citizens against threats to their integrity and violations of human rights. If the State is not in a position to provide such protection then the obligation can be conferred to the international community. In the social area, this applies, for example, to the persecution and torture of trade unionists, or racial discrimination under the Apartheid regime in South Africa. These have been rated crimes against humanity. Various forms of slavery and forced labour, including the trafficking of children or women across national borders for employment and sexual exploitation, are clear violations of human rights that have international implications. Hence, countries where these occur must accept the legitimacy of international interventions if nothing is done at the national level to prevent such practices. Under the revised concept of sovereignty, hearings and reports by UN agencies into infringements of human rights and human security are no longer considered as illegitimate or unlawful "interventions" in internal national affairs. The mandate for the world community, including protection of freedom, and protection from violence and other human abuse, and human want, is part of a re-interpretation of sovereignty, and becomes part of what may be seen as "internal law" of the world community. In no case, however, should external intervention consist of unilateral military action. According to Chapter VII of the UN Charter, military interventions to defend human rights are legitimate only if the UN Security Council finds that peace is threatened.

d) Diversifying Actors, Multiplying Responsibility

Who should act to advance ILS, and who should take responsibility for monitoring compliance? Conventionally, responsibility has fallen on the ILO and national governments. However, in view of the weak enforcement power and the limited resources of the ILO and, in particular, considering the narrow margin of maneouvre available for linking ILS to trade, it has been felt that non-governmental actors should bear responsibility, or additional responsibility, as well. Among them are private enterprises, workers' and employers' organizations and NGOs. Their initiatives for the application of ILS are regarded as a voluntary complement to binding governmental regulation and supervision.

The principal idea behind private initiatives is both simple and intriguing: reinforcing self-responsible action on the part of producers, investors and consumers as a conduit for the improvement of working conditions. If goods were manufactured everywhere in socially acceptable ways, with respect for labour standards as a criterion for investment decisions, and if consumers only bought products that were known to be "clean", in terms of the labour conditions under which they are made, then 'decent work' deficits would be resolved "at the source". Some have interpreted the private initiatives as "governance without government". However, government, both at the national and international level, has not been entirely mute and absent from influencing private action. It has tried to assume the role of encouraging and promoting non-governmental action for the advancement of ethical standards in business.

During the last decade the notion of "corporate social responsibility" (CSR) has gained momentum. "CSR concerns the voluntary initiatives enterprises undertake over and above their legal obligations. It is a way by which any enterprise can consider its impact on all relevant stakeholders. It is a complement, not a substitute, for government regulation and social policy" (World Commission on the Social Dimension of Globalization 2004, para. 550). The CSR approach which is an outreach not just to employees, but to multiple stakeholders, has been endorsed by national and international governments. For example, in 2002 the EU adopted a strategy to promote CSR, and the EU-Commission subsequently developed guidelines for fair and ethical trading at Community level, promoting the development of global codes of conduct by EU social partners and enhancing synergies with trade policies.

So far, reactions to CSR as an approach to enhance work standards have been mixed. While some multinational companies appear to demonstrate a real commitment to social responsibility, others seem to be more concerned with the publicity value it may generate.

The diversification of agents dealing with labour standards has been criticized on grounds that the coherence of standard setting, and standard monitoring and control, might be lost. If a variety of new actors establish their own labour standard regimes, there is a risk that they might restrict their concern to core ILS and neglect social standards. This would result in the loss of a unified approach to the breadth and depth of ILS. It erodes the erstwhile universality of standards, and allows the extent of protection of worker rights in particular instances to be set according to the interests of the most powerful actors. In the view of an international labour lawyer: "If a multinational enterprise or a government can satisfy its (international) obligations by abiding by a fuzzy set of core standards promoting civil rights, what incentives has it to accept (or, in the case of a government to ratify) any existing non-core ILO standards relating to economic and social rights?" (Alston 2001).

While it would indeed be dangerous if first-class and second-class ILS were to emerge, and governments abdicated their responsibility for standard control, one should not in principle deny the legitimacy of actors other than the ILO and national governments to monitor ILS. In fact, new actors have arrived on stage partly because the mandated conventional public supervisors lack capacity. Even developed countries are often not capable of mustering enough resources and qualified staff for public labour inspection. In view of the phenomenal rise of transnational corporations in the last quarter of the 20th century, it is hard to imagine how without their cooperation ILS can be imparted to the world economy. Therefore, a broadening of the constituency dealing with standards should be welcomed. The diversification of stakeholders becomes a problem, however, where it leads to a dilution of ILS, or where private codes of conduct are used as a device to supplant public regulation. The 18th ICFTU World Congress in December 2004 declared that "trade unions must not take an uncritical or a dismissive approach to CSR; ...it must not be permitted to be used as a substitute for the proper role of government or for trade unions; ...on the other hand, CSR can provide trade unions with opportunities to engage companies about the social impact of their business activities.

Appropriate independent monitoring and verification (auditing, inspection) can go some way to prevent the degradation of ILS by means of voluntary initiatives. Hence, a main issue of private action is reliable and validated information about local conditions of production. These must be fully transparent and their implementation needs to be verifiable. Only then can consumers, producers and investors make appropriate decisions, and skepticism about such action, especially on the part of workers and their organizations, can be overcome. The issue is, furthermore, who and what ensures genuine independence of monitoring ILS. According to one trade union official "the only real system of "independent monitoring" of workplaces is by the workers themselves through their trade unions (Justice 2003).

In the following, the main instruments of private initiatives that are of importance for ILS are discussed. They encompass social labeling of products, company codes of conduct, international framework agreements, and ethical investments.

Social labeling

Social labeling involves the certification of goods for export produced by using fair labour practices. Attaching a label or mark is to indicate to consumers of the product that the item was manufactured free of labour exploitation and abuse. Hence, the consumers are in a position to choose in line with their preferences. It is assumed that consumers in the developed countries are willing to pay a premium price on products knowing that these are not made in sweatshops.

The labeling approach can be traced back to the 1970s, when consumers in industrialized countries established direct trade links with producers in third world countries as part of an international solidarity movement. They were buying products, such as coffee, tea, cocoa, sugar, bananas and flowers, on a selective basis paying attention to the social and economic conditions under which the goods were produced.

A prominent example of a sector-specific label is "Rugmark", a foundation concentrating on the elimination of child labour in the carpet industry in India, Nepal and Pakistan. Next to providing labels for hand-woven carpets not made by child labour, the Foundation runs programmes for education and social welfare for former child workers and their families. Another example is the "flower label". It guarantees that growers of flowers care for working conditions and the working environment. Protective measures include the regulation of working hours and health and safety rules to be respected when applying pesticides, such as appropriate waiting periods (depending on the level of toxity) before re-entering areas where pesticides have been used, free medical care, and a committee to monitor the implementation of occupational health programmes.

To date, the world-wide market share of labeled products is estimated at 1 to 4 per cent of total production (Wick, 2003). In some product areas, the proportion is much higher. For example, the share of consumption of certified bananas in Switzerland amounts to 15 per cent. Eleven per cent of the EU citizens are said to buy socially labeled products (Goetschy 2004). It may be questioned, however, whether there is much scope for the expansion of labeled products, and hence for the effectiveness of this market-based instrument. Given the small increase, or stagnation, or even decline, of real wages for workers in industrialized countries in recent years, the continuing high levels of unemployment, and the increasing polarization in the personal income distribution, the average mass consumer is likely to look for cheap consumption goods, rather than incurring the premium prices of labeled commodities.

From the perspective of the ICFTU, labels for products that certify the labour practices involved in the manufacture of the product pose special problems. "Unlike product content or safety labels, the claim cannot be verified by testing the product itself. A label covering labour practices could only be credible if there was constant policing of the workplace – a condition that exists only where secure and independent trade unions are permitted to perform their proper functions and even then, only where they are supported by enforceable and enforced labour regulation in an open and democratic society" (Justice 2002).

Company codes of conduct

Multinational companies, business organizations, workers' organizations, and NGOs have established *codes of corporate conduct, also called codes of labour practice. Auditing protocols* usually based on private labour inspection are used to determine whether firms in their production networks actually comply with those codes. The significance of the codes has increased with the degree of outsourcing of production, especially to countries with a record of not respecting core ILS. Reports of low wages, repression of trade unions, child labour, forced labour and inhumane, precarious and dangerous working conditions in the supply chain of leading Western brand-name producers, especially in the clothing, footwear, toys and other labour-intensive industries, have aroused public concern. NGOs, trade unions and consumer groups have put pressure on transnational enterprises to accept more responsibility for working conditions among their overseas suppliers and subcontractors. A number of companies have voluntarily set up ethical codes to deflect criticism about anti-social conduct, avoid negative publicity, or improve their image.

Some observers have been optimistic about the impact of corporate codes. They have suggested that in place of a "race to the bottom" in which companies compete on grounds of low cost and poor social standards, a competition for good standards might evolve. Firms could be induced to compete with one another to improve their social performance, thus "ratcheting ILS" in the countries where they operate. In its fullest version, every firm would report wages, working conditions, workforce profiles, environmental and labour management systems, and other elements of social performance under its purview. Monitors would then provide rankings that would be made publicly available (Sabel et. al. 2000).

The demand for companies to report every year the way they are meeting their social responsibilities, and respecting fundamental ILS, has been agreed in the "Global Compact", This was formally launched by the UN in 2000, upon an initiative of Secretary General Kofi Annan, who called on business to do its part by "demonstrating good global citizenship wherever it operates". The Gobal Compact is based on 9 principles derived from the Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Enviroment and Development, and the UN Convention on Corruption. Around 700 companies, global unions, NGOs, and other civil society are participating so far.

In some quarters, including trade union circles, corporate codes of conduct have met with reservations. Do they represent "a workers' tool or a public relations ploy?" (Wick 2003). "It was clear early on that many businesses wanted the new codes to become substitutes for regulation and use them to avoid trade unions" (Justice 2002). It would seem that, ultimately, the effect of the codes depend on several conditions: whether they concern 'single-stakeholder' codes, issued by companies alone, or 'multi-stakeholder' codes, issued by other organizations as well; whether or not the codes make reference to ILO standards which implies a body of jurisprudence accompanying ILO Conventions; whether there is regular and ongoing monitoring and accurate reporting of the actual working conditions in the entire production network of companies; and whether the rules of verification are credible and accepted by the public.

Based on a survey in 2000, the OECD counted 246 codes of conduct, most of them adopted in the 1990s. Of these codes, 118 were issued by individual companies, 92 by industry and trade organizations, 32 by partnerships between stakeholders including trade unions and NGOs, and 4 by international organizations. Most of the codes originated in the United States, the United Kingdom, Australia, Germany and Switzerland (OECD 2000b). Among the best known codes are those developed by the Clean Clothes Campaign, Fair Wear Foundation, Social Accountability International, Ethical Trading Initiative, Fair Labour Association, and Worker Rights Consortium. These codes cover all core ILO conventions and standards on wages, hours and safety at work (for details see Wick 2003; and ICFTU 2004).

If codes of conduct are to achieve the purported objective they will have to be designed and operated so as to reach contractors downstream in the production channels. The potential effect of that coverage can be enormous. Consider, for example, the case of Levi Strauss. The company itself employs no more than 8000 workers. But there are about 200.000 employees in firms in many countries that operate down the company's supplier and service chain. If Levi Strauss could make all these firms respect ILO standards, much would be gained. A study of three leading European based multinationals in the apparel and footwear industry revealed that their supplier networks span from 1,000 to 5,000 main suppliers and between 5,000 and more than 10,000 subcontractors, largely in developing countries. These numbers give an indication of the quantitative dimension of the task of implementing standards throughout the global value chain. They explain why – in the view of the authors – monitoring and social auditing is, and is likely to remain, incomplete. The difficulties are aggravated by the high turnover of suppliers and subcontractors, and the severe price competition among them, particularly at the low end of the production chain (Fichter and Sydow 2002).

Care has to be taken to see exactly what the private codes of social conduct actually achieve and, in particular, whether and how they ensure compliance with core ILO standards. According to an ILO study, corporate codes drawn up exclusively by enterprises contain relatively few references to the fundamental ILO Conventions, whereas in multi-stakeholder initiatives references to core ILS are much more frequent (ILO 2003; Urminsky 2001). A review of of codes came to the conclusion that "without appropriate internal and external pressures, there is a

BOX 5.6: Independent monitoring of ILS in the Cambodian garment industry

A model for independent monitoring has been put in place in an ILO-project called "Better Factories in Cambodia". A team of independent labour monitors was created to make unannounced visits to garment factories in that country, checking on conditions as diverse as freedom of association, wages, working hours, sanitary facilities, machine safety and noise control. The monitors' checklist, based on Cambodian labour law and ILO standards, contains more than 500 items. The monitoring arrangements provide a source of independent and transparent information that can be used by garment buying companies to make sourcing and investment decisions. Consumers and workers' organizations can also access this information. In addition, the ILO offers the factories direct remedial assistance, e.g. by providing vocational training opportunities, and capacity building for trade unions, employer representatives and the Government. The project demonstrates that the interests of consumers who seek affordable products, the interests of buyers in making profits, and the interest of young rural women who need to find decent jobs, can be accommodated (see ILO 2004). Cambodian employers that were irritated by the monitoring at first changed their attittude in the course of the project. According to the Secretary General of Cambodia's Garment Manufacturers' Association: "It's hard to have people poking their noses in private business… we have come to accept that labour standards are good for the economy and for the people of Cambodia" (Bernstein 2001, p.74).

Today, the project is seen as a positive response to the severe threats to Cambodia's garment industry – that makes up 80 per cent of the country's exports – after the phase-out of the Multi-Fibre Agreement in 2004 and the enormous expansion of Chinese production and export capacity in that industry.

strong tendency for economic forces to 'trump' code standards" (Murray 2005, p. 17). Compliance with ILO standards could be enhanced by arranging for the involvement of relevant actors, including trade unions and NGOs, in setting up and monitoring the codes, and through independent verification by experienced auditors and adequate complaint procedures. The international trade union movement has developed guidelines for union involvement in private-sector codes of conduct (ICFTU, 2002b). A lucid case of independent international monitoring is presented in Box 5.6

International framework agreements

In contrast to company codes of conduct, mostly written by the company itself for its own purposes and monitored, if at all, by it or its paid consultants, *international framework agreements (IFAs)* result from negotiations between multinational enterprises and global trade union federations (formerly called international trade secretariats). In some cases, IFAs have been negotiated and signed by World or European Works Council representatives on behalf of the Global Trade Union Federation. IFAs imply a commitment by multinational enterprises to respect core ILS in all their activities, and throughout their production chains, even in countries that have not ratified ILO Conventions mentioned in the agreement. Most agreements also include clauses on substantive ILO Conventions, such as wages, working hours, occupational health and safety, training and environment.

IFAs are a trade union response to companies' unilateral codes of conduct. "Although an international code of conduct can be part of a framework agreement, and sometimes is, the main purpose of an IFA is to establish an ongoing relationship between the multinational company and the international trade union organization" (ICFTU 2002, p.136). Most IFAs are of unlimited duration. They give the signatory union the right to raise with corporate headquarters any alleged breaches of the provisions of the agreement. Often, the agreements specify regular meetings for that purpose, usually once a year, and may also establish channels for more urgent intervention. The advantage to the unions of these provisions is that a check can be kept on the company and, any failure to live up to its commitments, quickly brought to the attention of the corporation's top management. This way IFAs give substance and credibility to corporate ethics. At the same time, many of the agreements emphasize the primary role of local management and trade union representatives in discussing problems and solving disputes.

Framework agreements contain references to core ILS much more frequently than corporate codes of conduct. Thus, for example, of the 35 agreements negotiated by March 2004, all of them mentioned freedom of association and the right to collective bargaining, and 28, respectively 29, agreements referred to the two ILO Conventions by name and title. Many IFAs make also explicit reference to one or more of the following international agreements: the ILO Declaration of Multinational Enterprises, the ILO Declaration on Fundamental Rights at Work, the OECD Guidelines on Multinational Companies, the UN Declaration on Human Rights, and the UN Global Compact. Most of the framework agreements involve monitoring and accreditation procedures, as do multi-stakeholder codes, but they generally emphasize dialogue, complaints procedures and awareness-raising activities. They stipulate that in case of dispute in the application of the agreement, corrective measures must be agreed jointly. Reports by IUF and ICEM suggest that monitoring procedures have been implemented and monitoring meetings have produced positive results. A comprehensive assessment of the effectiveness of IFAs remains to be done.

The number of IFAs has risen at increasing speed from the mid-1990s. By May 2005, a total of 37 agreements covering more than 3 million employees had been concluded. The majority of them concern European multinational enterprises with good industrial relations records (see Table 5.1).

Ethical investments

Investments may be called 'ethical' if they are selectively made in those countries or enterprises that observe agreed social and environmental standards. Investments should not be made in countries or enterprises known for their human rights violations, even if this means investors missing business opportunities or incurring losses. Ethical investments started several decades ago with the boycott of corporations that maintained business links with South Africa during the period of apartheid. It has since moved to other topics, like alcohol, nuclear energy, arms, and also, increasingly, fundamental ILS.

Socially responsible investment (SRI) is becoming more and more prominent in the CSR debate. It covers three major types of activity: indexes, ratings and funds. Labour criteria used in socially responsible investments are usually not very specific and far from standardized. An examination of these criteria of 62 U.S.-based funds in 2001 revealed that 43.5 per cent of the funds' screens had labour relations criteria. Topics falling broadly into the category of equal opportunity and non-discrimination were part of 71 percent of the screens. Recent ILO research of several rating agencies identified some that incorporate the full range of core ILS (ILO 2003).

World-wide, the number of screened mutual SRI funds increased from from 55 in 1995 to 195 in 1999. In terms of capital value, SRI grew at twice the rate of the total capital market between 1997 and 1999.

The share of private assets managed by institutional investors has strongly risen. It amounts to 45 per cent in the U.S., 52 per cent in the U.K., 34 per cent in Japan, and 29 per cent in Germany. SRI screened funds produce neither a lower yield than unscreened funds nor spectacularly superior yields. In 1999, the total amount of the world's pension fund assets approximated USD 13,500 billion, showing the enormous potential scope of influencing policies through this instrument.

TABLE 5.1: Framework Agreements, concluded between Transnational Companies and Global Union Federations (GUFs) as of May, 2005

Company	Employees	Country	Sector	GUF	Year
Accor	147,000	France	Hotels	IUF	1995
Ikea	70,000	Sweden	Furniture	IFBWW	1998
Statoil	16,000	Norway	Oil Industry	ICEM	1998
Faber-Castell	6,000	Germany	Office Material	IFBWW	1999
Freudenberg	27,500	Germany	Chemical Industry	ICEM	2000
Hochtief	37,000	Germany	Construction	IFBWW	2000
Carrefour	383,000	France	Retail Trade	UNI	2001
Chiquita	26,000	USA	Agriculture	IUF	2001
OTE Telecom	18,500	Greece	Telecommunication	UNI	2001
Skanska	79,000	Sweden	Construction	IFBWW	2001
Telefonica	161,500	Spain	Telecommunication	UNI	2001
Triumph	38,000	Germany	Textile Industry	ITGLWF	2001
Merloni	20,000	Italy	Metal Industry	IMF	2002
Endesa	13,600	Spain	Power Industry	ICEM	2002
Ballast Nedam	7,800	Netherlands	Construction	IFBWW	2002
Fonterra	20,000	New Zealand	Dairy Products	IUF	2002
Volkswagen	325,000	Germany	Automobiles	IMF	2002
Norske Skog	11,000	Norway	Paper	ICEM	2002
Anglo Gold	64,900	South Africa	Mining	ICEM	2002
Daimler Chrysler	372,500	Germany	Automobiles	IMF	2002
Eni	70,000	Italy	Energy	ICEM	2002
Leoni	18,000	Germany	Electrical/Automotive	IMF	2003
ISS	280,000	Denmark	Cleaning/Maintenance	UNI	2003
GEA	14,000	Germany	Engineering	IMF	2003
SKF	39,000	Sweden	Ball Bearing	IMF	2003
Rheinmetall	25,950	Germany	Defence/Automotive/Electronics	IMF	2003
Bosch	225,900	Germany	Automotive/Electronics	IMF	2004
Prym	4,000	Germany	Metal Manufacturing	IMF	2004
SCA	46,000	Sweden	Paper Industry	ICEM	2004
Lukoil	150,000	Russia	Energy/Crude Oil	ICEM	2004
Renault	130,700	France	Automobiles	IMF	2004
Impregilo		Italy	Construction	IFBWW	2004
Electricité de France (EDF)	167,000	France	Energy	ICEM	2005
Rhodia	20,000	France	Chemicals	ICEM	2005
Veidekke	5,000	Norway	Chemicals	ICEM	2005
BMW	106,000	Germany	Atutomobiles	IMF	2005
Total	**3.272,700**				

Source: Steiert (IMF), Hellmann (IFBWW), April 2005

A promising approach to socially responsible investment is the participation of workers in pension fund investment decisions in order to secure worker friendly policies. In institutionalized form workers' voting power in pension funds exists in Scandinavian countries. In Denmark, for example, workers command half of the voting power for investment decisions. According to a collective agreement in Denmark that provides guidelines for ethical investments, there can be immediate disinvestment if the guidelines are violated. In the United Kingdom, France and the United States, pension fund administrations are legally obliged to respect ethical principles, including human rights. The U.S. Council of Institutional Investors (CII) calls on the board of directors to use investment decisions to implement worker rights according to ILO standards and have investments monitored by independent external auditors. The effectiveness of this instrument will of course depend on the social awareness of the investor. The more knowledge there is about the role and impact of standards, and the more is known about their violations and abuse in the world, the better the chances of committing investors to pay attention to them and engage themselves in remedial action.

International agreements for guiding corporate conduct

The social conduct and social performance of transnational enterprises can be enhanced by guidelines based on international agreements. At present, several such instruments are available: The *ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy* adopted in 1977 and amended in 2000; the *OECD Guidelines for Multinational Enterprises* negotiated and agreed in 1976 and revised in 2000; and the *European Works Council Directive (EWC)* adopted by the EU Council of Ministers in 1994

The ILO Declaration covers issues of employment promotion, employment security, training, equality of opportunity, working conditions and industrial relations matters, including freedom of association, collective bargaining, and the settlement of disputes. It specifies, among other things, that multinational enterprises should maintain the highest standards of safety and health, in conformity with national requirements, bearing in mind their relevant experience within the enterprise as a whole They should also make available information on safety and health standards relevant to their local operations which they observe in other countries; and that workers' representatives should receive information required for meaningful negotiations. They should endeavour to provide stable employment for their employees and should observe freely negotiated obligations concerning employment stability and social security. In view of the flexibility which multinational enterprises may have, they should strive to assume a leading role in promoting security of employment. They should provide reasonable notice of changes in operations to the appropriate government authorities and representatives of workers in order to mitigate adverse effects of changes to the greatest possible extent.

The OECD Guidelines are recommendations addressed by governments to multinational enterprises. They apply to 30 member countries of that Organization, plus Argentina, Brazil, Chile, Estonia, Lithuania, Slovenia and Israel. The Guidelines cover important labour provisions, among them the disclosure by enterprises of timely, regular, reliable and relevant information regarding their activities, structure, financidal situation and performance; respect for core ILS; provision of information to worker representatives relevant for negotiations; the observation of standards of employment and industrial relations not less favourable than those observed by comparable employers in the host country; provision of training; provision of employment protection; and health and safety. Application of the guidelines does not depend on endorsement by companies. The guidelines are backed by an improved implementation procedure, where ultimate responsibility for enforcement lies with governments. In this regard, the guidelines differ from unilateral company codes of conduct. Governments must set up National Contact Points (NCPs) within their administration. These are responsible for undertaking promotional activities, handling inquiries and contributing to the solution of problems that may arise. A user's guide for trade unions developed by OECD's Trade Union Advisory Committee supports the monitoring of the rules (TUAC 2003).

The EU Directive on European Works Councils (EWC) requires every company that employs more than 1000 employees in the EU, with over 150 employees in at least two member states, to establish a Council. The Directive provides for consultation between management and employee representatives, primarily with regard to the effects of FDI, acquisitions and mergers, and company restructuring. It also enables better cooperation through information exchange and joint action between employee representatives from different countries. By April 2004, EWCs were established in 751 transnational companies, amounting to 35 per cent of the 2,169 companies within the scope of the Directive.

At present, trade within and between transnational companies represents about one-third of world exports. Large enterprises account for a major share of international investment. Increasingly, small and medium-sized enterprises also invest beyond their home territory, thus playing a role on the international scene. If social conduct in these enterprises in accordance with ILS could significantly be improved, much would be achieved. The large majority of workers worldwide, however, continue to work in the domestic economy, including the informal sector. To make them benefit from ILS is by far the greater challenge. While national governments and international organizations bear primary responsibility for the observance of ILS in both nationally and internationally operating firms, private business organizations must ensure their own socially responsible behaviour. As companies demand enforceable rights for doing business, they must also accept national and international obligations with regard to their social performance.

6. Conclusions

Global progress in economic and social development has not been satisfactory in recent decades. Average prosperity has risen in the advanced industrialized countries and in a number of emergent economies in Asia. But other regions have seen little improvement, some have stagnated, and some are worse off today than they were 30 years ago. Mainly due to economic improvement in China and India, the share of the world's population living in absolute poverty has declined – if one believes the estimates of the World Bank. But the absolute number of poor people has not. Those living in poverty include many working poor. The proportion of people below the poverty line has increased in a number of countries. An increasing rate of contagious financial and economic crises, declining rates of productivity growth, stagnating or shrinking real wages, greater income inequality within and between countries, higher average rates of unemployment and under-employment, and insufficient social protection account for these worrying trends.

These negative outcomes are at variance with the progress promised from economic globalization, which marks the most important change in the second half of the 20th century. Standard economic theory predicts that international trade and investment entail economic convergence between countries. In reality, however, the development gaps have widened rather than narrowed. Nevertheless, it would be a grave error to blame economic interdependence and economic integration as such for the grim results. The ultimate reason for divergent development lies in the unequal terms of exchange rooted in the unequal distribution of power across nations. The prevailing economic and social ills reflect a clear gap in global governance, i.e. the failure of policy makers to implement global rules and set up institutions that can accommodate the challenges from economic interdependence and integration. The negative effects of action in one country spill over to other countries. Global governance is necessary to ensure fair access to markets and the participation of all nations. In fact, countries where adequate social institutions are in place have drawn major benefits from economic openness. However, the large majority of countries exhibit social and institutional deficits, which make them vulnerable when exposed to international markets. In their case, it does more harm than good to push market liberalization before the necessary social institutions and safeguards are in place, as illustrated by the collapse of infant industries in Sub-Saharan Africa.

The central aim of this report is to demonstrate that a framework of social rules and institutions must be part of global governance and global development. Without them, economic globalization will not yield more beneficial outcomes. Such a framework already exists in the form of universal ILS codified in the ILO's Conventions and Recommendations (the "international labour code") as well as other international agreements. International labour standards include fundamental principles and rights at work, such as freedom of association and the right to collective bargaining, freedom from forced labour and child labour, and freedom from discrimination in employment and occupation. Next to these core ILS, the international labour code also covers substantive standards of social protection, such as social security and occupational health and safety, and standards of promotion concerning employment and human resource development. The core ILS can be viewed as enabling conditions for the improvement of social standards.

In many countries ILS are not respected or not implemented. There are even serious violations of fundamental worker rights. Disrespect for international rules is not unique to the labour policy area. It is emblematic also to other fields, such as the environment. In this area, an international treaty, the UN Framework Convention on Climatic Change, was signed in 1992, followed by the Kyoto Protocol in 1997. Yet important countries, including the world's largest polluter, have so far refused to sign the agreement, or change their behaviour.

The reasons for non-adherence to standards are primarily political. There is no compelling reason for failing to comply on economic grounds. On the contrary, this report identifies a number of major economic, social and political dividends that can be earned from giving effect to ILS. Standards can promote economic growth in a number of ways: they help to raise productivity, particularly dynamic efficiency; they are the precondition for labour market flexibility; they make economic openness acceptable and sustainable; they further equality of employment and income opportunities; and they support a fair distribution of the national product. In the final analysis, they promote democracy, social cohesion and political stability. While it is true that the improvement of labour conditions is facilitated by economic growth, it also holds that economic growth depends on the observance of labour standards. In this perspective, ILS are both ends and means of development. There is evidence to show that collective organization in the labour market, collective bargaining, social dialogue, social security provisions, and the protection of vulnerable groups lead to better economic outcomes. No empirical support has been found for the view that ILS hinder trade and investment.

The benefits that accrue from adhering to standards are relevant for all countries, regardless of their level of development. The widespread belief that developing countries would suffer economic disadvantages if they implemented ILS is untenable. There is no sound financial reason for failing to observe core worker rights, and countries can also afford to observe the substantive, social standards if these are kept in tune with local economic capabilities. Rarely do arguments that standards are too costly for poor countries stand up to scrutiny. ILS may even be more important in the developing world because of the fierce wage competition between many countries in the South, especially in labour-intensive manufacturing. Often, the meaning and effect of ILS is misunderstood. Their application does not mean to level the labour costs across all countries. The ILO norms prescribe minimum wages, minimum social benefits and health and safety standards, but they do not stipulate that these should be the same everywhere. They should be compatible with local circumstances and economic feasibility. Where ILS are observed protectionist sentiments are less likely to arise. Social protection, which shields workers from the negative fallout of structural adjustment, trade and foreign investment, is the positive alternative to protectionism in the form of import restrictions in the commodity markets.

The beneficial economic effects of ILS depend upon the regulation of competition in the labour market. They *prevent destructive, downward directed competition* by setting a floor to wages and other terms of employment, and they *promote constructive competition* by inducing firms to improve their performance through better enterprise management, better human resource development, and through cooperation among workers and employers. Firms that cannot meet the common pay standard cannot survive. More efficient firms take over their market share, thus engendering dynamic efficiency. The realization of ILS requires competent employers and managers. By blocking the "low road" of inertia, complacency and reliance on low wages for competitiveness, ILS provide a spur for innovative, creative management, thereby facilitating the "high road" approach to development.

Minimum standards forestall the depressive labour market mechanism that we saw in the industrialized countries before they adopted protective legislation and collective bargaining. Today, we witness again the same downward spiral operating in many quarters. In the presence of large surpluses of labour, unrestricted downward wage flexibility leads to low efficiency, low wages, mass poverty and high population growth, which in turn increases labour supply and depresses wages even further. It creates a fertile ground for child labour. The unfettered labour market cannot break this vicious circle: Political intervention into markets through public and private action is required.

Preventing sub-standard terms of employment and poor working conditions is the "classic" justification for ILS. There is, however, a wider rationale for ILS, which affirms that they are a repository of worldwide knowledge and experience in the use of labour resources and the resolution of labour conflicts. ILS embody the accumulated international wisdom on good practice in the labour field, and make it available for general use. Thus, ILS may be seen as international public goods. Normative ILO instruments set the goals for national social policy and specify the means to attain them, drawing on international experience gained over 80 years. Learning from this experience saves countries going through the same, often painful process of finding appropriate solutions to their labour issues. Transfer of the knowledge inherent in ILS occurs through standard formulation, standard monitoring and technical cooperation. Adopting an ILO instrument requires a two-thirds majority of votes in the International Labour Conference from (worker, employer and government) delegates representing the ILO member countries. The standards are therefore relevant for all countries.

If ILS are conducive to economic and social development, why are they not consistently observed? There are several explanations.

One is related to misconceptions about ILS, and the pursuit of parochial, vested interests. Companies and governments often believe they could gain more from pursuing individual interests rather than common concerns. Poorly qualified and short-sighted management remains one of the greatest impediments to higher labour standards. Significant objections to ILS originate in the dogmas of neo-classical economics, which have become the economic orthodoxy. It holds on to a narrow concept of the labour market as a commodity market; it looks almost exclusively at the market as a place of exchange, but not at production and the social relations governing it; it misjudges the important issues of power in market relations, especially when it neglects the inequality of power between employers and workers; it therefore underplays the need for regulation and collective organization in the labour market in order to correct assymetric power and enable autonomous action in the market; and where it assumes self-correcting market forces, it denies or underestimates positive feedback or reinforcement of market failures. Neo-classical theory is deterministic in that it tells us that there is one, and only one, best solution to labour problems ("one size fits all"). Such determinism leaves no room for strategic choice, negotiation, the consideration of specific institutional local circumstances and the common search for appropriate solutions. Leading development economist Amartya Sen has demonstrated that we are rarely forced into inescapable economic trade-offs between objectives such as efficiency and equity, or flexibility and security. Such trade-offs spring from rudimentary reasoning. Where they do appear, it is for policy to reconcile them.

Labour market institutions and the rules and regulation they involve, which the economic doctrine regards as rigidities and market distortions, are necessary *to make markets work*. They can compensate for market failures, such as discrimination, which distorts fair competition in the labour market. Interventions are needed to provide equal opportunities and equal treatment in employment and occupation, especially for workers who are vulnerable and have special needs. Freedom of association and collective bargaining, as well as social protection, are indispensable conditions for redressing asymmetrical power relations in labour markets.

A second major barrier to progress on standards lies in the *failure to integrate economic and social policies,* and the *lack of coordinated action* among policy makers. This applies to national governments as well as to international institutions in the multilateral system. The policies of international organizations are often inconsistent, and this translates into conflicting advice for national policy makers. Recently, the IFIs as the most powerful and financially potent agencies have taken a more positive stance on the fundamental ILS, however without so far consistently translating this endorsement into corresponding action within their policies. The IFIs continue to have reservations or objections to many social standards prescribed by the international labour code. Employment which is central to development deserves higher priority in the policies of the financial organizations. There is an urgent need for a coordinated macro-economic policy that is not exclusively geared to attaining monetary and fiscal stability, but which promotes growth and employment.

The third impediment to advancing ILS relates to the sharp *shift in the balance of power* in both local and world labour markets at the expense of labour. This loss of power results from the weakening of trade unionism in many parts of the world. To a large extent, it is the outcome of globalization, which opened up new strategic options for employers, such as relocation and outsourcing of production and services. The mere threat of moving from existing locations is sufficient to change the bargaining power equation in the employers' favour. In a large number of developing countries, trade unions have suffered from the policies of governments that attempted to gain competitive advantages by keeping EPZs free from collective worker organization. Higher average unemployment and faster structural change have caused loss of trade union membership and influence. Initiatives have been taken by national and international trade union organizations to counter the global trends through negotiations with companies and international organizations. Among them are enterprise-wide trade union networks in multinational companies and framework agreements between multis and global union federations. Their numbers are on the rise.

Labour law is a necessary and important condition for the realization of labour standards, but it is not sufficient. An enabling policy framework is needed to promote ILS effectively. Such a framework has to encompass research that is not prejudiced against ILS, but is designed to identify and measure the positive contributions of standards to development. ILS will not advance without a clear political will. In line with international commitments (including the conclusions of the World Summit for Social Development and other international agreements), ILS-linked social objectives have to become priorities in national and international policy formulation. The gulf between rhetoric and action needs to be closed. National governments and international agencies have to put social and economic policies on the same footing, integrate them into a coherent and consistent policy package, and coordinate their action accordingly. The IFIs have to allow for more equal representation of poor countries on their governing boards, and they also have to allow workers and employers to play a greater role in the design and implementation of their poverty reduction strategies. Adherence to core labour standards should be made an integral part of their lending and procurement policies. Administrative capacity and managerial competence for implementing ILS must be strengthened, especially in developing countries. Not only must the suppression of trade unions cease, but they must receive active support as the most important stakeholder and driver of ILS.

ILS should be promoted by providing *incentives* for various actors to comply with ILS standards. Such incentives include preferential treatment in trade and investment policy for countries and enterprises respecting ILS. Punitive action, such as trade sanctions and the withdrawal of public aid, should be used as a last resort in case of persistent violation of core labour standards. The diversification of actors and the means of action for applying standards should be generally welcomed. There is ample space for enterprises showing greater social responsibility. However, care has to be taken that private initiatives for promoting the observance of ILS, such as codes of conduct and labelling actions, do not in any way hinder or supplant public control, or dilute standards, or lead to selective application. The final responsibility for enforcing ILS lies with governments.

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