Most of workers’ and human rights violations persist in the global South. Therefore, the debate about international workers’ rights revolves primarily around enforcing social standards in developing countries.

As countries in the global South operate on the same level of industrial development and similar market positions by offering cheap labor, the strict adherence to core workers’ rights will put them at a comparative disadvantage vis-à-vis its competitors.

This situation is the very reason why developing countries are limited in their ability to raise labor standards on their own. The author will argue that developing countries cannot raise their social standards in isolation but only in conjunction with other countries, by multilateral agreement.
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1. Introduction

While international trade has resulted in great affluence for advanced capitalist countries, the ongoing liberalization of trade has not been accompanied by increases in prosperity everywhere. In many emerging market economies, working conditions, wages, and environmental standards have deteriorated, particularly in plants producing for export. Every year, the International Trade Union Confederation (ITUC) documents widespread abuses of workers’ rights.

According to the International Labour Organization (ILO), the following workers’ rights are fundamental: freedom of association (Convention No. 87); the right to organize and bargain collectively (Convention No. 98); prohibition of forced labour (Convention Nos. 29 and 105), discrimination in employment (Convention Nos. 100 and 111), and child labor (Convention Nos. 138 and 182). The workers’ rights covered by these core conventions are an inseparable part of human rights because they were adopted by consensus among ILO members, because they were ratified by most member countries, because they are covered by UN covenants and several human rights declarations, and because they have been reaffirmed again and again at international summits.

The problem with the ILO’s conventions is not only that ratification is voluntary but that compliance is essentially also voluntary because the ILO has no enforcement mechanism to speak of. The »court of public opinion« is called upon in cautiously worded ILO reports on violations by individual countries.

The international labor movement has reacted to the ILO’s ineffectiveness in dealing with labor rights abuses in the context of a rapidly globalizing economy by calling for a so-called »social clause«, that is, a labor rights provision to be embodied in the World Trade Organization (WTO) and more recently in bilateral trade agreements. The Trans Pacific Partnership, initialed by the heads of the participating countries in October 2015, contains such a clause.

Predictably, employers’ associations, many governments and the overwhelming majority of economists contend that trade agreements are not an appropriate means of enforcing minimum standards. However, critics do not stop at the question of how to enforce international social standards but also cast doubt on the usefulness of international standards in principle (for example, Grossmann/Michaelis 2007). It is therefore necessary to examine whether international labor standards serve a useful economic purpose.

The question of whether international workers’ rights are economically justified touches upon the fundamental economic understanding of the nature of the market as a social regulatory mechanism. In highly simplified terms, the various concepts of the market can be reduced to two paradigmatic approaches: the neoclassical and the neo-institutional »schools«.

From the neoclassical standpoint, welfare-increasing efficiency gains can be achieved in foreign trade only if unhindered trade permits product specialization on the basis of comparative cost advantages. Even in the case of infant industries, protection is considered to be a suboptimal policy. Any domestic distortions should be addressed by subsidies, rather than protection. The neo-institutional approach, by contrast, points to the destructive potential that market mechanisms can have in trade between nations because of the absence of a central regulatory authority at an international level. According to that view, foreign trade should therefore be flanked by domestic social legislation and regulated externally by multilateral agreements.

If criticism on purely ideological grounds is to be avoided, it is necessary to challenge these approaches in their own »home domain«. Therefore, I will show that, despite the prevalent opposing view among neoclassical economists, even neoclassical economics lends itself to theoretical justifications of international labor rights. Practitioners of institutional economics, of course, provide many reasons for taking the »high road« on labor rights. However, even an institutional viewpoint cannot rule out short-term costs for countries adhering to higher standards. In contrast to most economic treatises on international labor rights, I will argue that the question of competitiveness is not a North–South issue, but a South–South issue. Even small increases in costs due to higher standards will put the respective countries at a competitive disadvantage vis-à-vis their competitors at a similar level of industrial development. Therefore, developing countries are limited in their ability to raise labor standards on their own. This competitive situation, however, is the very reason why labor rights have to be negotiated internationally.
Raising standards will have to be done in conjunction with other countries by multilateral agreement.

### 2. Neoclassical Defense of Workers’ Rights

The criticism of social standards from a development perspective comes in two forms. The »hard« variant takes the position that industrial development requires a repressive employment regime. This has been promoted by Gary Fields but enjoys little support in the economics profession. The »soft« variant only demands that the employment regime contains no minimum standards that slow down development. It enjoys support among the majority of neoclassical economists.

The soft variant of the criticism takes issue with international standards mainly in the areas of pay, health, and safety at work (standards under consideration for some codes of conduct and social labeling programs), but also in the field of workers’ rights. As a rule, it is argued that every officially imposed increase in production costs harms the prospects of sales in the world market, and hence the development prospects of the countries concerned. Every increase in labor costs supposedly jeopardizes the developing countries’ main comparative advantage, namely abundant labor.

Core workers’ rights can, however, also be justified within the neoclassical paradigm, mainly as responses to specific market failures. For example, freedom of association is a means to counterbalance the market power of employers. The bargaining power of an individual worker may be very limited faced with a powerful corporate employer or group of employers. The prohibition of forced labor and of the exploitation of children belong to the core principles of the neoclassical market order: the market is defined as an exchange of goods among free persons. Furthermore, the adherence to these rights can enhance market efficiency. If discrimination is practiced, employment and earnings opportunities are allocated based on considerations not related to how well someone does a job. Anti-discrimination measures may facilitate the employment of individuals in jobs for which they are best suited. Collective bargaining institutions allow efficiency gains by encouraging workers to share their views with management about the running of the enterprise (Freeman/Medoff 1984).

Market failure is also to be found on the world market. Due to the leveling effect of competition, violations of core workers’ rights in some countries can lead to their disrespect in one’s own country (Leebron 1996: 54). At the extreme, a race to the bottom can ensue, pushing the standards of all trading partners to the lowest level. Most neoclassical economists reject the argument of a »race to the bottom« (for example, Klevorick 1996). The term »destructive competition«, however, has been used within the neoclassical paradigm (Bator 1958; for a discussion within the debate on international labor standards, see Krueger 1996). If, for whatever reason, market exit is difficult, supply might stay the same or even expand despite lower prices. Destructive competition takes place in the labor market when workers offer their labor power at wages that do not cover their reproduction costs. An industrial worker who cannot afford to send his children to vocational training programs has not provided his labor power in accordance with his reproduction needs.

Rapid population growth contributes to a structural oversupply of labor power in the non-OECD world. Insufficient social standards are among the causes of population growth, especially the discrimination against women in education and in employment. Without welfare measures for old age, having a large number of children may remain attractive. Even without population growth labor power can be in oversupply. This is the case when industrial agriculture or world-class manufacturing meets subsistence or traditional industry. The displacement of the low-productivity subsistence agriculture or of inefficient industry (which had been protected by high transport costs or high tariffs) can make workers redundant faster than the more productive market-oriented agriculture or modern manufacturing industry can absorb. This oversupply of labor power is exacerbated by impediments to market exit. The »doubly free« wage laborer usually lacks an alternative to wage labor. Once the subsistence economy has been left, return is almost impossible. For one thing, the subsistence agriculture will be pushed from the more fertile soil by the more productive industrial agriculture. The remaining pockets of subsistence agriculture will be pushed from the more fertile soil by the more productive industrial agriculture. The remaining pockets of subsistence agriculture will be less and less able to support its population, still less any returnees from urban areas. In addition, those who have left frequently find the hard work in traditional agriculture even less attractive than a life on the margins of big cities.
The lack of a social safety net as well as falling wages increase the need to expand the supply of labor power. Without corrective intervention, the impoverishment of large segments of workers can turn into a self-supporting downward spiral: an increase in labor supply forces real wages down, and lower wages in turn increase the labor supply in the next round. In extreme cases, children are forced to work in order to secure the survival of the household. The more children are employed, the more adults are made redundant, which in turn forces them to send their daughters and sons to work. If the budget for education were to be cut because of a debt crisis, the number of children working would increase. This causal connection has been well documented, for example for Peru (Pollmann/Strack 2005: 26–27).

In order to restore an economic equilibrium according to market logic, some suppliers have to exit the market. Some neoclassical welfare theorists have rejected this solution even in the case of industrial plants. They argue that the momentarily underutilized capacities would find demand at a later point in time, but if at that time it would be very costly to rebuild these capacities, then the regulation of competition is justified (Kahn 1971: 175). Market exit is not a viable solution for most wage earners for the above-mentioned reasons. Therefore, the regulation of competition is to be preferred, namely limitations on working time. In a historical perspective, this was the answer to the oversupply of labor power during industrialization: the struggle for the eight-hour day, the prohibition of child labor, and (from today’s viewpoint more problematic) the displacement of women from gainful employment. If such collective solutions are not available, the destructive competition can cross borders via trade (see below).

3. Neo-institutional Arguments: Workers’ Rights for Sustainable Development

From an institutional perspective in economics, workers’ rights contribute to long-term sustainable development. Both demand-side and supply-side arguments are put forward to demonstrate the stimulatory growth effects of workers’ rights. From a demand-oriented perspective, highly unequal income distribution is regarded as an obstacle to sustainable development (Herr/Ruoff 2015). First, it is argued that such inequality impedes the emergence of a mass market in durable consumer goods, so that developing countries cannot emulate the »Fordist« growth model of the United States and Western Europe. Second, the concentration of national income in the hands of a few people produces an excessively high savings ratio, so that growth-stimulating investment is too low. It also increases the likelihood of capital flight (Boyce/Ndikumana 2002). Freedom of association and the right to collective bargaining are necessary preconditions for a more equal distribution of income (Gross et al. 2015).

The supply-side institutionalists cite two reasons why minimum social standards and resulting higher wages have a positive effect on a country’s economic development prospects. First, higher wages promote the development of »human capital«, without which no economic development is possible. Wages close to or below the minimum subsistence level make it impossible for workers to invest in their own education, or that of their children, and are often insufficient to pay for necessary health care. Higher wages, on the other hand, would not only enable workers to maintain and enhance their qualifications but would also increase the incentive to attend school and adopt performance-oriented behavior (Sengenberger 2005). There is evidence that the early involvement of children in work can have serious consequences for their health and development (UNICEF 2009).

Second, they argue that social standards are necessary for making the transition from an extensive to an intensive use of labor. Under the prevailing system of sweatshops, employers have no particular interest in using labor intensively because workers are paid based on how many items are produced; hence, no fixed labor costs arise. Capital stock is usually small and consists of outdated machinery that cannot be used more efficiently. The resulting low labor productivity in turn precludes raising wages. In such a situation, minimum social standards could increase interest in measures to raise productivity by changing the structure of incentives for firms and workers. For firms, they would make the extensive use of labor less attractive; for workers, they would make it more rewarding to strive for the success of the firm. If, for instance, a strategy of »flexible specialization« is to succeed, certain preconditions must be met to ensure that workers can earn better wages, show themselves to be cooperative, and acquire professional qualifications. Social standards could help create those...
preconditions (Piore 1994). As the minimum wage in Puerto Rico increased, for example, turnover and absenteeism declined, job applicants were more thoroughly screened, and «managerial effort» improved (Robertson et al. 2009: 9–14).

Studies conducted by the ILO (2009) that look specifically at certain international labor standards seem to be in line with the institutionalist argument. They show that compliance with labor standards contributes positively to a country’s competitiveness and good economic performance. Other studies have argued in a similar direction (cf. Dehejia/Samy 2009). However, given the persistence of violations of core labor rights, the question remains whether violations are the result of competitive pressures. Unintentionally, the study co-authored by David Kucera raises some doubts about the validity of these studies. Kucera has won considerable applause for operationalizing labor standards by developing a set of indicators for these standards (Kucera 2007). The study he conducted together with Ritasch Sarna shows, in line with the institutionalist argument, that weak labor rights do not correlate positively with strong export performance. However, the study identifies one exception: East Asia. The authors do not consider these countries to be representative: «the East Asian experience is anomalous in the broader global context» (Kucera/Sarna 2004: 25). This move to fortify the general argument is not convincing. Global competitive pressure originates exactly from this region (Berik/van der Meulen 2010). A second look at the above mentioned studies reveals that they treat all countries the same in their regression analysis, and account neither for global market shares nor for changes in these shares.

4. Head-to-Head: South–South Competition

While almost all countries have ratified some ILO conventions, the new export nations in particular have been slow to ratify even core conventions. Some of the motives for not signing the ILO conventions are political. Dictatorships have good reasons to believe that trade unions might become places of government opposition (for example, Solidarnosc in Poland). There are also economic reasons. While the «high road» promises long-term benefits, it may incur short-term costs. The level of these costs, their impact on competitiveness, and their long-term rewards are difficult to appraise (Dehejia/Samy 2004). ILO studies conducted in India suggest that as a proportion of the final price of carpets to the consumer, labor-cost savings realized through the employment of children are between 5 and 10 per cent (Anker et al. 1998).

However, the likelihood of higher wages does not automatically translate into higher production costs. According to the institutional argument mentioned above, the observance of labor rights will lead to greater efficiency, which compensates for higher wages. In the short term, higher costs are nevertheless likely before the efficiency gains are realized. Given that most export goods from developing countries are sold to wholesalers or transnational corporations, which command a strong market position vis-à-vis the producers, even small differences in production costs can be expected to be decisive for market success.

The competition among the countries in the South has not received nearly as much attention as the North–South trading relationship. However, theoretical arguments as well as empirical evidence suggest that competition is fiercer along the South–South than the North–South axis (Ghose 2000). The greater the similarity between the competing regions with regard to factor endowment and market position, the more acute is the danger (Mosley/Uno 2007). The extent of competition among Southern countries is influenced by the following factors: (i) simple production techniques that allow for easy market entrance; (ii) a fast-growing labor force because of the crisis in subsistence agriculture; (iii) foreign indebtedness, which forces countries to maximize export earnings; and (iv) the ability of transnational corporations to switch supply sources and to relocate production facilities. The latter is more likely in labor-intensive, low-skill industries, such as the toy or garment industries.

In a number of product lines, fierce competition has led to an environment conducive to violating core workers’ rights. The search for cheap labor is well documented for the garment industry. Pressure originates from brand-name manufacturers as well as large retail chains (Anner/Hossain 2015). Because of fair trade campaigns, brand-name buyers are trying to enforce certain labor and environmental standards on their suppliers. However, they seem not to be willing to pay for the extra compliance costs (Zhang 2011).
5. Will the South Suffer under Global Rules?

The objective of global rules for workers’ rights is to take them out of the competition among producers. If efforts to make these rules binding for every country succeed, the competitive situation among countries will change. Individual countries will no longer fear that they will suffer competitive disadvantages by adherence to these rights. Instead, they will be able to assume that there is labor competing under similar conditions.

The need for international agreements is demonstrated particularly well in the case of child labor. Some authors see only two alternatives for children in economic problem areas: work or starvation. Because exploitation is better than starvation, they opt against prohibiting child labor (Bhagwati 1994: 59). However, such harsh alternatives exist only under ceteris paribus conditions; that is, when the rules of competition have not changed. If child labor were prohibited in just one region – in, say, carpet weaving – there is of course the risk that the carpet companies in that region will lose their market share. By contrast, if child labor were prohibited in all regions, then a loss of market share is not likely. In that case family living wages could be paid to adults. Indian carpet makers would no longer be in competition with Pakistani carpet makers on labor costs, but with industrial manufacturers of carpets. In this hypothetical case, the risk is whether the higher prices for carpets, which all carpet makers could charge, would lead to a diminishing overall demand for hand-made carpets. To answer this question, the substitution or demand elasticity has to be known. Experts are not of one mind concerning the degree of demand elasticity for products from the South.

Even if a »correct« value for the price elasticity of demand could be established, it would probably not reflect the reality of many exporters in the South. The elasticity of substitution and demand would vary considerably from product to product. Hand-made carpets, handicrafts, and tropical agricultural products can be substituted for products from the North only to a limited degree. Thus, demand for these goods is fairly insensitive to changes in price. The income elasticity of demand for these products will be quite high, because they do not belong to the group of staple goods. The demand for these goods will depend on the business cycle. Furthermore, their production costs are rather low relative to the final sales prices. This is also true of garments and footwear. For some brand-name products, production costs are unrelated to sales prices. For cotton jeans made in Honduras and sold in the USA under a brand name, apparel assembly workers take home only 4 per cent of the sales price (Anner/Hossain 2015). Increases in production costs can be easily absorbed by distributors or retailers. Most child labor occurs in labor-intensive industries. It can, therefore, be safely assumed that the prohibition of child labor would not impinge upon the export opportunities of the South in the North.

Demand elasticity would be much more pronounced for complex industrial supplies from the South. These products are in direct competition with those from the North. Because they usually have not yet reached the same quality levels, they would compete mostly on price. These kinds of products are produced in emerging economies, some of which violate core workers’ rights. Nevertheless, it can be assumed that higher wages would not necessarily translate into higher prices. Compared with the hand-made products mentioned above, the higher degree of capital intensity keeps the share of wages in total production costs lower. In addition, the efficiency wage argument is applicable at this higher level of industrial development. Workers’ qualifications and their motivation are important in mastering complex production processes. The general increase in wages can also be beneficial for the development of domestic demand, which in turn accelerates the move up along the industrial learning curve and helps to realize economies of scale. Nevertheless, the more effective enforcement of workers’ rights may carry adjustment costs with it in the short term.

Higher costs in the short term, however, are not likely to influence the long-term growth of developing countries. Growth prospects are more dependent on the educational level of the workforce and on technology transfer than on the level of wage compensation. Even where minimum standards are maintained, wage costs are significantly lower than in the OECD countries. In addition, higher labor costs do not necessarily lead to higher prices for consumers in the OECD countries. They could be either neutralized by currency devaluation or absorbed by export price profit margins (Erickson/Mitchell 1998: 179).

In sum, the more an economy is capital-, research-, and service-intensive, the less it will be affected by violations
of core labor rights. Workers in Greece or Portugal will enjoy greater material benefits from the worldwide enforcement of core workers’ rights than will workers in Germany or Japan. The main benefits would, therefore, accrue to the developing countries. Developing countries trying to respect these rights and improve working and living conditions are the most vulnerable to being undercut in world markets by countries seeking comparative advantage through the suppression of workers’ rights. Often the victims are young and unorganized female workers in export processing zones that advertise the absence of trade union rights in order to attract investment. For these reasons, developing countries cannot raise their social standards in isolation but only in conjunction with other countries, by multilateral agreement.

6. Conclusion

International core labor rights are human rights and, as such, to be respected. In addition, they can also be justified on economic grounds. In the academic debate, the arguments of advocates of internationally binding workers’ rights are based on a neo-institutional view of the market mechanism, while those of their critics stem from a neoclassical approach. If criticism on purely ideological grounds is to be avoided, it is necessary to challenge these approaches on their own »home ground«. It can be demonstrated that core workers’ rights can also be justified within the neoclassical paradigm. They are constitutive for markets (because the market is defined as an exchange of goods among free persons) and address market failures such as power imbalances or barriers to market exit. They are an important precondition for the development of »human capital« and therefore contribute to economic efficiency.

If standards are as beneficial as some claim, why are they not adopted voluntarily? Some of the motives for not signing the ILO conventions are political. There are also economic reasons. Although the »high road« promises long-term benefits, it may incur short-term costs. While attempts to assess the cost impact of adherence to ILO conventions have not delivered reliable results thus far, even small differences in production costs can be expected to be decisive for market success. Most export goods from developing countries are sold to wholesalers or transnational corporations, which command a strong market position vis-à-vis the producers. This competitive situation, however, is the very reason why social standards have to be negotiated internationally. As long as it is possible for an economic region to gain competitive advantage by undercutting the social standards in other regions, these other regions are in danger of losing market share and hence employment opportunities. The greater the similarity between the competing regions with regard to factor endowment and market position, the more acute is this danger. It will be particularly high if market success depends on a single factor, namely low-skilled labor. In such a case, the danger from lower standards cannot be offset by other factors. This situation is particularly true of developing countries, which face the constant risk that new regions with an even larger reservoir of cheap labor will break into the world market. For these reasons, developing countries cannot raise their social standards in isolation but only in conjunction with other countries, by multilateral agreement.

There is no need to fear a decline in the overall demand for goods from the developing countries, as their long-term growth depends primarily on the training level of their workers and on transfers of technology. International standards can, therefore, plausibly be justified in terms of development theory.
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