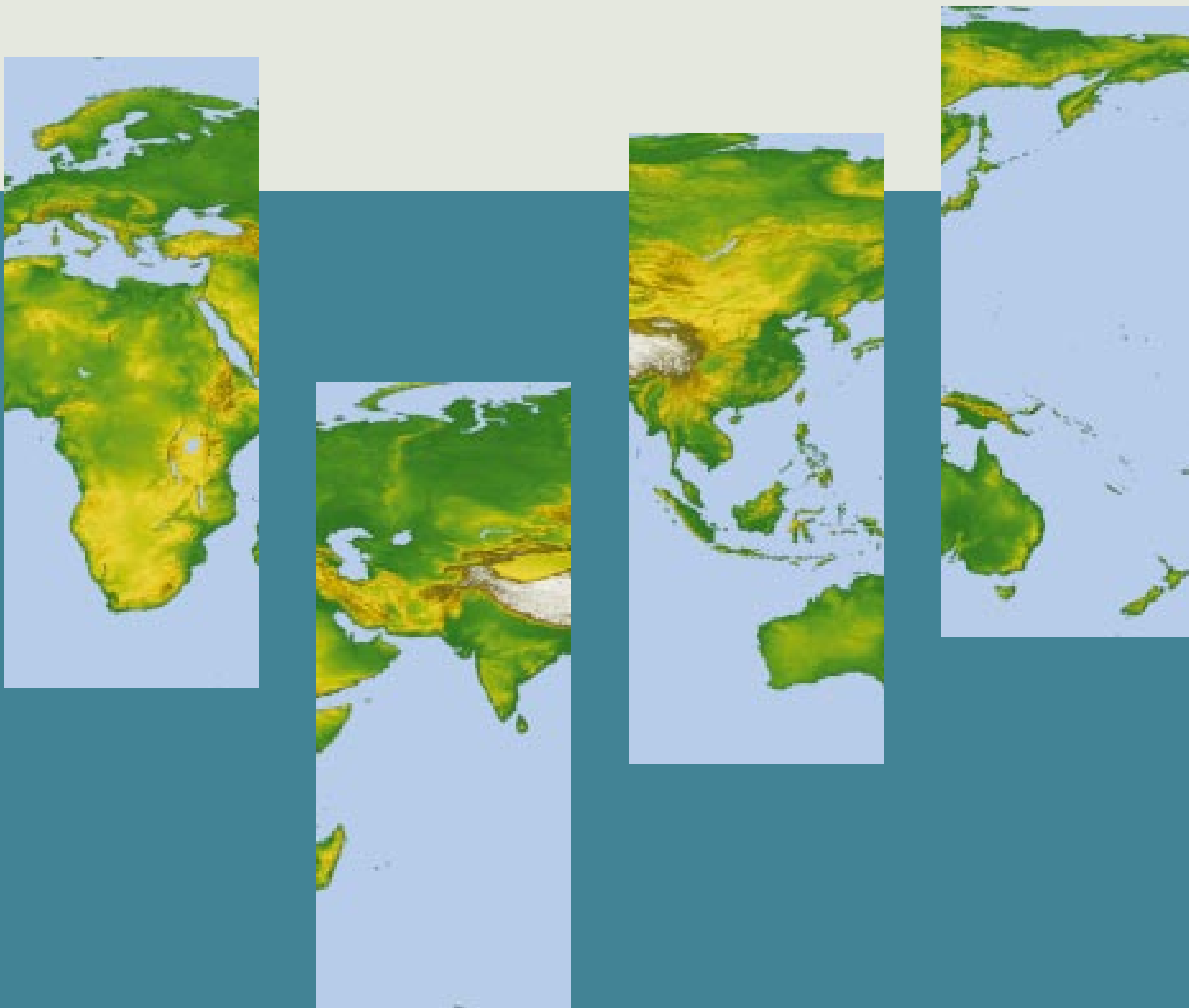
# Globalization and Social Progress: The Role and Impact of International Labour Standards

by Dr. Werner Sengenberger



FRIEDRICH EBERT STIFTUNG

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

ISBN 3–89892–156-5

*Publisher:* Friedrich-Ebert-Stiftung
Erwin Schweisshelm
Coordinator, Global Trade Union Program
Godesberger Allee 149
D-53170 Bonn
Tel. ++49 228 883-518
Fax ++49 228 883-575
Erwin.schweisshelm@fes.de

*Author:* Dr. Werner Sengenberger
*Editor:* Sabine Gürtner

*Production:* Gerd Ernst, FES
*Layout:* Pellens Kommunikationsdesign GmbH, Bonn
*Printed by:* Toennes Satz + Druck GmbH, Erkrath

Gedruckt auf 100 g Recystar
(100% Altpapier, matt oberflächengeleimt)

Printed in Germany 2002

# Contents

# 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 has 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.

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.

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, December 2002
*Erwin Schweisshelm*
Friedrich-Ebert-Stiftung

# List of Abbreviations

| | |
|---|---|
| CLS | Core Labour Standards |
| DGB | German Trade Union Confederation |
| EPZ | Export Processing Zone |
| ETUC | European Trade Union Congress |
| EU | European Union |
| FDI | Foreign Direct Investments |
| FES | Friedrich-Ebert Foundation |
| 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 |
| ICT | Information and Communication Technologies |
| ICFTU | International Confederation of Free Trade Unions |
| IFI | International Financial Institutions |
| ILO | International Labour Organization |
| ILS | International Labour Standards |
| IMF | International Monetary Fund |
| LDC | Least Developed Countries |
| NGO | Non-Governmental Organization |
| NLS | National Labour Standards |
| OECD | Organization for Economic Cooperation and Development |
| PRSP | Poverty Reduction Strategy Papers |
| R&D | Research and Development |
| SAP | Structural Adjustment Programme |
| TUAC | Trade Union Advisory Committee to the OECD |
| UN | United Nations |
| UNDP | United Nations Development Programme |
| UNCTAD | United Nations Conference on Trade and Development |
| WB | World Bank |
| WCL | World Confederation of Labour |
| WTO | World Trade Organization |

# 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 prior to 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, the sources of globally applicable 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 UN Convention on the Elimination of All Forms of Discrimination against Women, and the 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 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 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 standards. 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 social dumping, or a "race to the bottom", engendered by unregulated international competition that could depress 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 little or not cost, and are thus 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 are participating in international competition, but even 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 volume of poverty on a global scale 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 standards affects both developing and developed countries. Many of the former argue that they cannot afford standards unless and until they attain higher levels of development. They believe that if they proceed with standard implementation now 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 vigorously advance or even maintain their labour and social standards. A blockage based on 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 advancement of ILS.

None of the stated objections to the application of ILS stands up to close 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. The informal economy is not the cause, but rather the effect of non-observance of standards. The 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 operations, 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 can also promote constructive competition which encourages 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 for standards and the economic rationale for them do not conflict, but that 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 reflect knowledge and practical experience from all over the world, and for their adoption they need the approval of the governments, employers and workers that form the decision-making bodies of the ILO. The tripartite constituency ensures that the formulation 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 embody 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.

*What are the specific benefits of ILS?*

The application of ILS can generate important positive economic, social and political dividends. 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 of fostering cooperation 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; conflicting interests can be accommodated peacefully through consultation and negotiation; 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 macro-economic conditions, which is an essential prerequisite for high levels of employment; they have also facilitated the transition from centrally planned to market economies.

- 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. Worker security 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, as 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 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 drives wage levels down.
- 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 under-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 effects of standards, they should be regarded as both ends *and* means of development. This position disputes the orthodox economic stance that considers ILS to be solely the outcome of economic development. It also contradicts the related political views that countries need to reach higher levels of development before they can commit themselves to improving labour standards, or 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 the prevailing labour problems.

## 5. Evidence for the Dividends of ILS

Recent findings from empirical research on the impact of ILS are largely consistent with the positive effects of standards stated above. 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 civil liberties, and also countries with higher wage shares 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 standard 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 where violations of trade union rights have been observed have received important shares of FDI flows. It can be concluded that while in the aggregate 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 the destination of 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 already in hand point to the net economic advantages that can 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 theory and 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. National governments and the multilateral system tend to give priority to economic goals over social objectives in their policies, or they fail 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 objectives of the fundamental ILO Conventions. For a long time their action was guided by the neo-liberal agenda that regards 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 raise the general awareness of the population. This can be achieved through more and better research and advocacy, and the demonstration of the positive impact of standards 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 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 through action, for example 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, or regain, greater 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 and internationally coordinated policies for the promotion of global growth and employment. Trade unions can extend their influence 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 administrative 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. 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 already 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, and by transnational enterprises, usually taking the form of sector-specific product labeling and company-specific 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. It should be subjected to better and independent monitoring and auditing. Consistency with ILO norms should be ensured. International agreements providing guidelines for supervision could be helpful here. 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, and shows 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 considers 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. Many business people believe that their enterprise would be more successful if they could keep their labour costs down. Similarly, many governments believe that their countries would be more competitive if they relaxed their labour standards, reduced their social spending and provided tax breaks. In fact, international tax and wage competition has heightened and spread. More than 100 countries now offer tax holidays to foreign investors, expecting to attract more foreign capital and stimulate exports (Hansen, 2001). Fearing capital flight, many desperate communities make concessions on wages, taxes and regulations to retain corporate investment. The drawback for development is obvious – it reduces the fiscal revenues required for investment in the social infrastructure and for strengthening national institutions. These measures are indispensable for domestic development, and a sound infrastructure and institutional framework are another, more constructive way to secure capital inflows.

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 should we proceed with economic globalization? Who is to benefit from it? Obviously, the existing patterns of globalization, and the policies driving them, need to be revised if economic integration is to be a tool for social progress.

ILS need to be part of a global set of rules governing 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 social progress, equity and the eradication of poverty.

# 2. The Context of Globalization

Standard economic wisdom tells us that globalization enriches 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 which will diminish the economic disparities between nations and eventually let them converge at the same level of income.

## a) Economic and Social Deficits in a Divided World*

Today's reality falls far short of the promises of globalization. After three decades during which trade grew faster than output, and a surge of cross-national capital flows and foreign exchange trading during the 1990s, 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 improvements in 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, extreme poverty declined worldwide from 29 per cent to 23 per cent. On average, real incomes in developing countries are still higher today than they were fifteen years ago. The European Union has made progress with integration, and has established a monetary union. The United States has experienced its longest peace-time economic boom in history.

Yet, the downside of global 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. *International trade and capital flows,* including foreign direct investment and portfolio invest-

* Unless otherwise indicated, the statistical data presented in this section are taken from periodical reports of international organizations, particularly the Human Development Reports of UNDP, the Trade and Development Reports of UNCTAD, the World Development Reports of the World Bank and the World Employment Reports and the World Labour Reports of the ILO.

ment, were very uneven and largely concentrated in the OECD countries. 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 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 are still severely disadvantaged if this cross-border investment is measured in per capita terms. The increase in the proportion of FDI received by developing countries can largely be attributed to inflows to China and the transition countries of Central Europe. The inflow of FDI to the 48 least developed countries (LDCs) has been almost negligible (0.4 per cent). 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.

Over the past decade, most of the growth in international production has been via cross-border mergers and acquisitions (M&As) rather than greenfield investment. Some 90 per cent of all cross-border M&As (by value in 1999), 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 M&As in their GDP and have witnessed a parallel increase in FDI flows. While transnational corporations (TNCs) now number some 63,000 parent firms with around 690,000 foreign affiliates and a plethora of interfirm arrangements, spanning virtually all countries and economic activities, the world's top 100 (non-financial) TNCs are based almost exclusively in developed countries. They are the principal drivers of international production.

Capital transaction has come to be largely a "rich-rich affair", a process of "diversification finance" rather than "development finance" (Obstfeld and Taylor, 2001, p. 66). Recent trends stand in stark contrast with the direction of capital flows during the first wave of economic internationalization in the three decades prior to World War I. In that period, FDI moved primarily from capital-rich countries, such as the United Kingdom, France and Germany, to less developed countries where capital was scarce and its marginal product was high (Flanagan, 2002).

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

Declining shares of world trade, reduced net capital flows, 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).

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 1.1 per cent.

The overall *employment* situation remains deeply flawed. During 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, and the rate of joblessness rose during the decade to over 6 per cent. Among the unemployed are 66 million young people. 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. It has to be stressed, however, that the unemployment rate has limited applicability in countries where self-employment accounts for a large part of total employment. This is the case in many developing countries. 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 is under-employment, i.e. not having as much work as one wants to have. The ILO estimates that presently there are 310 million underemployed workers worldwide. Altogether, there are about one billion people – approximately one-third of the global labour force – who are unemployed, underemployed or working poor.

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 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. *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 1999, 2.8 billion people lived on less than US $ 2 a day. Twenty-three per cent of the world's population, 1.2 billion people, lived on less than US $ 1 a day, the measure most often used by the World Bank for indicating absolute income poverty. In 1987, the figure stood at 28 per cent, but because of population growth, the actual number of extremely poor people dropped only slightly during the 1990s. 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, up 10 percentage points from 1987. In eight African countries, more than one-half of the population subsisted in absolute poverty. *Relative poverty,* measured by the share of the population living on less than one-third of the average national consumption for 1993, 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). Poor pay is one of the main causes of poverty. Sixteen out of every 100 workers worldwide are unable to earn enough to raise their families over the most minimal poverty line of US $ 1 per person per day. Table 1 provides an indication of the differences between countries today in terms of income, poverty levels and income inequality. Figures on the share of the working poor are obtained by adjusting the population of the poor by relevant demographic and labour force factors, so as to exclude those who do not participate in the labour force (see Majid, 2001). During the 1990s, the number of working poor increased in low-income countries where on average they are estimated at approximately 30 per cent of those in employment (Berger and Harasty, 2002).

Wage levels across countries differ enormously. For example, the monthly earnings (deflated by exchange rates for the US $) of a carpenter in the construction industry are US $ 52 in India, US $ 223 in Argentina and US $ 2.474 in Sweden (Freeman and Oostendorp, 2001). *Wage and income inequality* has risen in the 1980s and 1990s, reversing a decline in many nations between the 1950s and the 1970s. Rising 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 and Kyrgyzstan, for example, the Gini-coefficient of per capita income jumped to 47 per cent and 55 per cent respectively, more than twice the level in 1989. Even where poverty has declined, as in India and China, income inequality has grown.

Table 2.1: **Per capita income, inequality and absolute poverty in selected countries**

| Country | Per Capita Income (PPP $ in 2001) | Income Inequality (Gini index in 1990s) | Absolute Poverty | | Working Poor+ |
|---|---|---|---|---|---|
| United States | 34 142 | 40.8 | | 14.0 *** | |
| Norway | 29 981 | 25.8 | | | |
| Denmark | 27 672 | 24.7 | | 8.0 *** | |
| Belgium | 27 178 | 25.0 | | 12.0 *** | |
| Germany | 25 103 | 30.0 | | 12.0 *** | |
| Finland | 24 996 | 25.6 | | 4.0 *** | |
| Sweden | 24 277 | 25.0 | | 5.0 *** | |
| UK | 23 509 | 36.1 | | 13.0 *** | |
| Chile | 9 417 | 57.5 | – | 18.4 ** | 4.2 |
| South Africa | 9 401 | 59.3 | 11.5 * | 35.8 ** | 12.6 |
| Russian Federation | 8 377 | 48.7 | 7.0 * | 25.1 ** | |
| Brazil | 7 625 | 59.1 | 9.0 * | 25.3 ** | 5.1 |
| Romania | 6 423 | 28.2 | 2.8 * | 27.5 ** | |
| Kazakhstan | 5 871 | 35.3 | | 15.3 ** | |
| Peru | 4 799 | 46.2 | 15.5 * | 41.4 ** | 16.8 |
| Ukraine | 3 816 | 29.0 | 2.9 * | 45.6 ** | |
| China | 3 976 | 40.3 | 18.5 * | 53.7 ** | 19.1 |
| Egypt | 3 635 | 28.9 | 3.1 * | 52.7 ** | 3.4 |
| Indonesia | 3 043 | 31.7 | 7.7 * | 55.3 ** | 15.7 |
| India | 2 358 | 37.8 | 44.2 * | 86.2 ** | 45.4 |
| Bangladesh | 1 602 | 33.6 | 29.1 * | 77.8 ** | 30.0 |
| Nepal | 1 327 | 36.7 | 37.7 * | 82.5 ** | 38.9 |
| Kenya | 1 022 | 44.5 | 26.5 * | 62.3 ** | 27.3 |
| Nigeria | 896 | 50.6 | 70.2 * | 90.8 ** | 72.4 |
| Mali | 797 | 60.5 | 72.8 * | 90.5 ** | 75.1 |
| Tanzania | 523 | 38.2 | 19.9 * | 59.6 ** | 20.5 |

Per capita income: Source: UNDP, Human Development Report, 2002.
* % of population below US$ 1 a day
** % of population below US $ 2 a day
*** Population below US$ 14.40 (1985 PPP) a day
Sources: ILO, Key Indicators of the Labour Market, 1999 and 2001-02;
\+ Working poor as a proportion of the employed population, around 1997.
Source: Majid (2001), Table A1.

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 average families (Krugman, 2002)

Contrary to what is often alleged, 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 lower 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 dispro-portio-nately 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 with developing countries, the demand for low skilled labour in the North declined by about 20 per cent during the 1889s (Wood, 1994). 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, 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).

Increased gaps in income also showed up in the discrepancy between rich and poor countries. 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, signalling a sharp trend towards divergence. Sixty-six countries have a lower per capita income today than a decade ago. 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. The informal economy has expanded, especially in Africa and Latin America. In the 1990s, 93 per cent of all new jobs created in Africa were in the informal sector. The rate for Latin America was 60 per cent, and for Asia it was 50 per cent. Between 60 per cent and 80 per cent of the informal economy labour force are women.

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 number of *migrants* was estimated at 120 million in the late 1990s, 75 million more than in 1965. Between 1970 and 1990, the number of countries with sizeable worker emigration increased from 29 to 55, the number of countries with significant immigration rose from 39 to 76 (Stalker, 2000).

Various other 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 10 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, for sickness and health, reaches only a tiny proportion of the people. There are at least 211 million children aged 5-14 years engaged in some economic activity, and 186 million children aged 5-17 years are engaged in hazardous work or the unconditionally worst forms child labour (including prostitution, child trafficking, debt bondage and use of children in armed conflict). This amounts to one child in every eight in the world (ILO, 2002a). The proportion of child labour generally varies with the level of per capita income. In the poorest countries, more than one-quarter of the children are in the labour force. But there are exceptions such as Vietnam, India and Ghana. The proportion in some African countries such as Burkina Faso, Eritrea, Ethiopia and Malawi rises to between 35 and 51 per cent. For most middle-income countries, the share is around 15 per cent and less (see Table 2.2).

Virtually everywhere in the world there is *gender inequality* with respect to the quality of jobs and the level of earnings. Its degree, however, varies greatly between countries (See Table 3). The number of annual occupational accidents worldwide amounts to an average of 250 million a year. On average, about 3000 people die every day because of work-related accidents or occupational diseases. Trade union density has increased in very few countries, in most countries it has fallen. Freedom of association is flouted in many parts of the world, as indicated by the discrimination, harassment, political persecution, and even murder of trade unionists. In Columbia alone, no less than 177 trade unionists were assassinated in 2001, up from 128 in 2000 and 69 the year before. Many of these were working for multinational companies, shot down by paramilitary death squads of the "United Self-Defence Forces of Colombia" (AUF). According to one estimate close to two countries out of five have serious or severe problems of freedom of association. There are often obstacles to worker representation and social dialogue in export processing zones (EPZs), which account for some 27 million workers worldwide. Violation of trade union rights is known in many countries outside the OECD. In the large majority of countries, only a fraction of the work force is covered by a collective labour contract. Forced, compulsory and bonded labour remains a sad reality in a significant number of countries involving tens of millions of workers. In Myanmar,

Table 2.2: **Child labour as a percentage of children aged 10-14, 1995, selected developing countries**

| Country | Proportion of Country Child Labour | Country | Proportion of Child Labour |
|---|---|---|---|
| Vietnam | 1.0 | Thailand | 16.2 |
| Iran | 4.7 | Cambodia | 24.7 |
| Colombia | 6.6 | Afghanistan | 25.3 |
| Egypt | 11.2 | Nigeria | 25.6 |
| China | 11.6 | Angola | 27.1 |
| Ghana | 13.3 | Bangladesh | 30.1 |
| India | 14.4 | Malawi | 35.2 |
| Bolivia | 14.4 | Eritrea | 40.0 |
| Dominican Republic | 16.1 | Ethiopia | 42.3 |
| Brazil | 16.2 | Burkina Faso | 51.1 |

*Source: Majid (2001).*

Table 2.3: **Gender disparities in selected countries in the early 1990s: The share of women in employment and earnings**

| Country | Government (Ministerial Level) (% women) | Administrators &Managers (% women) | Professional & technical staff (% women) | Earned Income Share (% women) |
|---|---|---|---|---|
| Sweden | 55.0 | 38.9 | 63.3 | 41.6 |
| Spain | 15.6 | 9.5 | 47.0 | 18.6 |
| Italy | 17.6 | 37.6 | 46.3 | 27.6 |
| Bulgaria | 18.8 | 28.9 | 57.0 | 41.1 |
| Turkey | 6.0 | 4.3 | 31.9 | 30.2 |
| Australia | 19.5 | 41.4 | 23.8 | 26.0 |
| Trinidad & Tobago | 8.7 | 22.5 | 54.7 | 24.7 |
| Costa Rica | 28.6 | 23.1 | 44.9 | 19.0 |
| Mexico | 11.1 | 19.4 | 43.2 | 22.3 |
| Equador | 20.0 | 26.0 | 44.2 | 13.3 |
| Brazil | – | 17.3 | 57.2 | 22.9 |
| Sri Lanca | – | 6.9 | 49.6 | 25.1 |
| India | 10.1 | 2.3 | 20.5 | 19.2 |
| China | 5-1 | 11.6 | 45.1 | 31.2 |
| Japan | 5.7 | 8.0 | 42.0 | 33.5 |
| Ethiopia | – | 11.2 | 23.9 | 29.4 |
| Nigeria | 22.6 | 5.5 | 26.0 | 28.5 |
| Zambia | 6.2 | 6.1 | 31.9 | 25.3 |

*Source: UNDP, Human Development Reports, 1995 and 2002* hundreds of thousands of indigenous people, supervised by armed guards, work or have worked on the construction of infrastructure, railways and pipelines, partly for foreign companies. An estimated 15 to 20 million workers are affected by debt bondage, a pervasive manifestation of forced labour.

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 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 economics – to raise the level of productivity, GDP growth, employment, and real income. It may be true that 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 job security. 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).

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 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 was 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 instances, 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 substandard 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).

Many observers expect that the deep economic divisions in the world will dissipate with the spread of modern information and communication technology (ICT). Such hopes may be 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 already wide and they are growing wider. In the period between 1998 and 2000 alone, the huge gulf in the shares of internet users and internet hosts between the technologically advanced regions and the backward regions increased further. Half of the world's population has yet to make its first telephone call. The number of telephone lines in Tokyo exceeds that of the entire continent of Africa.

The undelivered promises 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 trade and capital flows. The deepening inequalities and inequities entail the risk of social disintegration that can become social and political dynamite. In a recent 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.

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 the necessary adjustment, outcomes have been largely positive. But this was not the case everywhere. 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 investment. 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 richer countries have set rather high tariffs for manufacturers and agricultural producers in developing countries. Subsidies for agriculture in the developed countries alone exceed the total GDP of Sub-Saharan countries. High-income countries' agricultural tariffs and subsidies have been estimated to cause an annual welfare loss of US $ 19.8 billion for developing countries (World Bank, 2000). 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".

At the same time, many of the poor countries have opened their markets quickly only to see their domestic industry 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. It is likely that to a large extent the adverse global trends sketched above are due much more to the new policy regime of rapid liberalization and privatization, rather than to economic integration as such. The developing countries that opened up their economy and had the highest rates of GDP growth in the 1990s, including China, the Republic of Korea, Vietnam, Malaysia and India, were not the ones that 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. Also, they went beyond relying on "comparative advantages", starting to develop their endogenous industry potential, often on the principle of "getting prices wrong" (Alice Amsden). The most developed industrialized countries themselves gained their prosperity through mixed, extensively regulated economies. They protected their infant industries. Why should the same be denied to the developing countries?

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, but attempt to re-regulate the economy so as to accommodate the concerns of various stakeholders. Economic and social rules and structures have to be balanced at the national and global levels; and economic and social development must be integrated and synchronized. UN Secretary-General Kofi Annan in his report to the Millenium Summit stated that: "…in recent decades an imbalance has emerged between successful efforts

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.*

to craft strong and well-enforced rules facilitating the expansion of global markets while support for equally valid social objectives, be they labour stan-dards, the environment, human rights or poverty reduction, has lagged behind".

Many advocates as well as many opponents seem to believe that globalization is an irresistible force that cannot be influenced. This belief totally underestimates the role of politics. 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.

Compared to the automobile, where few people today would dispute the feasibility, necessity and utility of rules and regulations, and also the need for a fair sharing of the costs and benefits, go-

Box 2.3

**Civilizing globalization: Learning from the automobile**

It could be instructive to look at experience gained in the introduction and dissemination of technology in order to draw lessons for the future governance of economic globalization. For example, we have learned a lot about how to use the automobile to both enlarge its utility as a fast transport device, and diminish its many potentially harmful effects. After nearly a century of mass motorization, ways and means have been found to regulate the construction of cars and trucks, and to regulate their use in traffic circulation so that earlier scepticism and opposition has subsided. Although the automobile remains a dangerous device that can injure and kill innocent people, most citizens today feel that the damage is acceptable if measured against the blessings. For example, public safety standards for the construction and maintenance of vehicles have been set. Standards and controls for limiting hazardous emission and pollution have been established. A voluminous set of traffic rules and traffic arrangements in the streets and roads, including speed limits, have been put in place to protect all those directly or indirectly involved in automobile traffic. A large part of this regulation has been harmonized in accordance with international standards. In some countries, provisions have been made to protect vulnerable persons such as the blind and the deaf against traffic-related injury. The automobile has even been used to enhance the mobility and life opportunities of handicapped people. Moreover, we have gradually managed to distribute the costs and benefits of the use of the automobile more equitably, through taxes, insurance with mandatory liabilities, toll fees, etc. We have progressed in applying public and private arrangements and controls, and partnerships between the two, to come up with better solutions.

vernance in the area of global markets appears archaic. Awareness that globalization has to prove its worth by serving the bulk the world population has yet to be firmly achieved. To date, the idea prevails that globalization is more a goal in its own right than an instrument for attaining other, superior goals, such as the eradication of poverty or the advancement of democracy. There is a belief that the positive effects of trade and capital transfers accrue automatically, and that rules and regulations are unnessecary or hindering. We are still far from accepting the need for an international framework of rules to govern global markets, especially financial markets. Issues of the distribution of costs and benefits have been underplayed or even ignored. Access to benefits is still very uneven, with weak and vulnerable groups being excluded or disadvantaged in their access. All this explains why a large proportion of the population, in the North and even more in the South, are not yet convinced that we should advance the case of international economic integration. Understandably, many people, and among them many workers, perceive more public “bads”, such as poverty, poor working conditions, job loss, insecurity and instability, and drugs and arms trade emanating from globalization than public “goods”, such as increased prosperity, peace and sustainable development.

There is an increasing gap between the global challenges and the capacity of international institutions to deal with them. To prevent the negative outcomes of the ongoing globalization processes, and promote the positive ones, global governance is needed. Global governance is not so much about world government as it is about institutional mechanisms for cooperation between nation states, which facilitate coordinated action (Nayyar and Court, 2002).

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. This definitely holds in the field of labour. More 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, is a prerequisite for global action to deal with it. Moreover, 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.

A major shift in economic and social policies is required to make globalization benefit the large majority of people, and to make it politically and socially acceptable for everyone. 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 and inducement to stay in the country. 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 boardrooms. In recent years hundreds of thousands of people, among them many trade unionists, have demonstrated against the globalization policies 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. Increasingly, the benefits of globalization are not only questioned in streets, but also in boardrooms.

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 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 whether all of these targets can be realized.

Halving extreme poverty requires major efforts to increase productivity as well as employment. According to an ILO estimate, about 530 million working poor in the developing countries will have to be mobilized for productive work and better incomes. In the next ten years there will be an additional 500 million entrants to the world's labour force. To halve both the unemployment rate and the rate of working poor by 2010 demands rates of GDP growth per annum as high as 6.3 percent in South Asia and 5.9 percent in China (see ILO World Employment Forum, Global Employment Agenda). Major efforts are needed to achieve the ILO's goal of "decent work for all in the 21st century".

# 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 major objections put forward 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, many 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 for 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, a fact which 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 normative rules, often called economic and social rights of workers, or social standards, 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 which 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 principles concerning the fundamental rights, which are the subject of the eight core ILO conventions are stipulated 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 eight conventions.

The main objectives of the fundamental conventions, and the number of countries that have ratified them, are listed in Table 3.1.

By the end of August 2002, the total number of ratifications of ILO Conventions by the 175 member States of the organization amounted to 7057, and the number of ratifications of fundamental Conventions stood at 1173.

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, many question whether this could or should be achieved through ILS. From the early days of the ILO, and even before that, it was a contentious issue whether international standards would help or harm the working population. The ILO 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. The remedy would be international action for the application of agreed universal minimum labour standards and "fair" competition. There is a long history to the argument that social progress requires that all competitors obey the same rules. Already Jacques Necker, the Swiss-born 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.

From the very inception of the ILO, the link between labour standards and international market competition played an important role in 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. Standards are necessary to protect workers against the hazards of that competition. At the same time, the need for international competitiveness is frequently – and conveniently – invoked to make a case against ILS.

To be effective, the coverage of ILS will have to be co-extensive with the size of the labour, product and capital markets. The norm has to apply to all actual or potential suppliers and demanders in order to prevent the undercutting of the

Table 3.1: **Fundamental (core) ILO Conventions and number of Ratifications**

| Convention No. | Title and Aim of Convention | Ratifications (August 2002) |
|---|---|---|
| No. 29 | **Forced Labour Convention (1930)**<br>Requires the suppression of forced or compulsory labour in all its forms. Certain exceptions are permitted, such as military service, convict labour properly supervised, emergencies such as wars, fires and earthquakes. | 161 |
| No. 87 | **Freedom of Association and Protection of the Right to Organize Convention (1948)**<br>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. | 141 |
| No. 98 | **Right to Organize and Collective Bargaining Convention (1949)**<br>Provide 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. | 152 |
| No. 100 | **Equal Remuneration Convention (1951)**<br>Calls for equal pay and benefits for men and women for work of equal value. | 161 |
| No. 105 | **Abolition of Forced Labour Convention (1957)**<br>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. | 157 |
| No. 111 | **Discrimination (Employment and Occupation) Convention (1958)**<br>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. | 156 |
| No. 138 | **Minimum Age Convention (1973)**<br>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. | 116 |
| No. 182 | **Worst Forms of Child Labour Convention (1999)**<br>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. | 129 |

standard, and the spill-over of sub-standard labour conditions from one country to another. This requirement is recognized by economists when they refer to "moral hazard" or the "free rider" problem. It is also apparent to any trade unionist who is involved in collective bargaining over the terms of labour. The requirement occupies a central place in the philosophy of the ILO, whose Constitution (Preamble) states explicitly 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" 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".

*"Improvement of labour conditions is determined by economic growth"*

Mainstream economics is at variance with ILO views. 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 held that the conditions of work and life would depend primarily 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 has existed with the ILO. From the days of Albert Thomas, the first Director-General, the organization has 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 in the presence of international competition there is indeed a tendency for land, capital and labour to be used in ways that generate the greatest return. The seeking of 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, 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. 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, some of the basic issues remain. We still witness an opposition between:

- those – primarily trade unionists and economists of the so-called "neo-institutionalist" school – who point to the threat of "social dumping" or a "race to the bottom", and call for international labour law and actual compliance to keep defectors from gaining an unfair competitive advantage; this threat would grow with increasing globalization, because the prevailing disparities in labour costs would reinforce depressive competition, and subcontracting to countries with low standards would be facilitated by the spread of new information, communication and transportation technologies; and
- those – primarily mainstream economists – 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.

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; in short, the German system applied to South Africa or some other developing country" (Sachs, 1966, 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).*

Modern 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; Krugman 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 implementation 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. (see e.g. Bhagwati and Hudec, 1999; for a synopsis see Brown, 2000). This view has been echoed by the governments of many developing countries.

The controversy about the economic impact of ILS might not have to be taken very 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, or to make "necessary" adjustments in their national labour law. Reforms of labour law to strip the labour market of "excessive" and harmful regulation were made a condition for international credit and other assistance. In recent years, greater international agreement has been reached on the desirability and the benefits of ILS. Yet, by and large, this agreement is limited to the fundamental labour standards. Even the basic worker rights, such as freedom of association, have been disputed.

There is basic agreement 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). It is also 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 productivity improvement. Has this anything to do with labour standards, national or international ones? If the answer is yes (as argued in the next chapter) then we can assume a positive effect of standards on national economic performance.

*"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 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 (Smith, 1986, Chapter X).

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 are 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 are 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. Similarly, from an employer's point of view, the sweatshop may be seen as a highly efficient economic arrangement, instead of a form of economic backwardness. In a critical perspective, Michael Piore has described the economic rationale underlying the sweatshop: Because labour is paid by the piece, and the major cost which is independent of output is rent for the factory premises, employers try to minimize the cost for rent by cramming as many workers and production materials as possible into the space where work takes place. The crowded conditions and health hazards associated with them are detrimental to worker productivity, but the impact on the employer is minimized by piece rates which effectively shift the cost of the sweatshop to the worker and eliminate any incentive for the employer to control working conditions. The ultimate logic of this system is industrial homework, where the worker even pays rent and all costs are variable. The system also encourages child labour since the piece rate system compensates for a child's lower productivity (Piore, 2002; 1994).

*"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 orthodox 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 normally exceed the benefits. In the last two decades, the cost argument has gained currency in relation to 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. Until they reach a higher level of economic development, it is premature for them to adhere to ILS. Mass unemployment, underemployment and poverty demand policy priorities other than quality jobs and good working conditions. Thus, for example, in its February 9, 2000 edition the Financial Times stated that people in developing countries need jobs and income, not human rights. In other words, labour standards are not seen as part of development but as something alien to it. Many normative prescriptions of the ILO are 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 would have to point out, first of all, that there are indeed national labour standards (NLS) that appear to create excessive 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 potential competitors, even though the very low wages in Sri Lanca mean that the actual amount of compensation was not worth more than US $ 3,600 at the rate of exchange in 2001 (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 and other national legal requirements in Tanzania, such as to provide safety equipment and workmen's compensation insurance, were 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 ILS 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 if the organization of production was readjusted, without additional cost. 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.

There are various assumptions inherent in the argument that ILS engender unacceptably high costs which are either not valid or exaggerated. First of all, 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 tired? 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 go 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. Moreover, it cannot be assumed that the absence of standards, or non-compliance with them, is costless. For example, the regulatory framework embodied in the ILO's "Termination of Employment" Convention may be viewed as a mechanism which protects employers from excessive litigation costs that might otherwise arise from worker dismissals.

In the economic literature, reference to the cost 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 and economic regulation rationale 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.

Furthermore, 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 higher non-wage benefits. In addition, it is possible to adjust for any increased labour cost arising from higher standards through currency devaluations (where this means is available). In this way the cost of improved standards is borne by consumers in the form of higher prices (Lee, 1997, p. 181).

Are the costs of applying ILO standards in developing countries prohibitively high for these countries? Again, the accepted wisdom and the popular view may frequently be called into question. 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 shown 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. There are both rich and poor countries willing to accept that a larger part of their income should be redistributed to cover social contingencies. Expenditure on social protection is not merely a question of economics, but also one of social values, political priority and governance (ILO 2000). 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 safety standards can be substantially 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 complacency. Living up to standards takes an extra effort on the part of the employer. Another reason is that the costs are mostly direct, easily visible and measurable, immediate, and localized, whereas many benefits have the opposite features: they are indirect, intangible, and more difficult or impossible to measure, delayed and non-local. So, the benefits of higher standards in terms of efficiency and innovation tend to be underestimated. Consider the following case:

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).

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 limited 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 sizeable 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 orthodoxy 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 maximum fuel consumption. That would have allowed the progressive producers to incur the high development costs for new engines without facing undue competitive disadvantage from those who resisted the innovation.

Krugman (1997) made an additional point. As countries open to the international economy, adherence to ILS raises the cost for producers because they can no longer – as is the case in a closed economy – pass on the cost of labour standards to the consumers through higher prices. In a free trade regime in which prices are set by the international markets, the whole cost of meeting ILS must be absorbed by the firm or the workers. So, there will be downward pressure on domestic standards unless there is a common international standard for all competitors.

To give another example of the cost implications of ILS: Respect for freedom of association can lead to the formation or strengthening of a trade union, and increased worker bargaining power 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 effort, 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 also increase domestic demand by raising mass purchasing power. Henry Ford was one of the few employers who at the beginning of the last century understood the macro-economic benefits 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 amenable and accessible 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.

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, 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. It has introduced the notion of flexible implementation, and it offers technical assistance to allow less developed nations to gradually meet the requirements of ILS. 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 ILO standards, it is not surprising that empirical studies have not been very conclusive on the effects of ratification. 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 its bad jobs and poor working conditions. There is moreover a widespread misconception that ILS can be given effect only through legislative action. It is true of course, that standards do establish legal rules and that no social policy can be effective unless it is based on the rule of law. However, 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. 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 incorporated in the Convention 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 suitable for 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, who 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).

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, partly because the informal economy has not proved to be a transient or residual phenomenon as many development theorists, and also the ILO, had assumed. 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 sector 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 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 instituions, especially overshooting macro-economic stabilization, had their share in increasing informal activities (van der Hoeven, 2000). Informalization 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 labour standards.

In reply to critics of the ILO approach to the informal economy 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 sector 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 could run 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. Whether more net employment is created through FDI, as usually maintained by economic orthodoxy, remains an open question. There are many instances where foreign investment enterprises have crowded out the jobs of domestic firms.

### *"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 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).

Hostility to ILS based on the claim of cultural peculiarism exists most of all in Asia (see Li, 1996), but it is also prevalent in other regions of the South. One sort of criticism 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 the 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. The question is, however, whether in view of the appeal that Western consumption patterns and life styles have for most people, including those who permanently suffer from hunger, it is conceivable for a democratic country to insulate itself from the pervasive global forces and the media power that support them. 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. However, taking such a stance does not necessarily affect the rationale and also the principle of universalism of ILS. On the contrary, 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 there is a question of destitution, inequitable income distribution and risk of personal injury. 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 embodied in the relevant ILO Conventions on occupational safety and health should not be brought to bear, regardless of the cultures, customs, religion and level of income of a country? The aims of ILS are not culturally specific, nor should they be confused with particular life styles. After all, ILS are adopted by the International Labour Conference of the ILO, with membership from all over the world and a majority of delegates from developing countries.

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.

In relation to poverty, the issue is not simply the level of living standards in an absolute sense. Rather, what is at stake is the fair sharing of a firm's product, and also the sharing of the national product. Organized labour's concern has been to reach equity in personal and functional income distribution. There is hardly any country in the world where the dispersion of wages and incomes has not increased during recent decades and where the share of wages in total national income has not declined. This trend may be questioned in moral terms, as well as on economic grounds. It tends to diminish mass consumption power, thereby reducing economic growth. It also adversely affects the savings rate, which in turn may constrain investment and employment.

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 the one hand, and those who claim 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 are 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 benefits. We have objected, furthermore, to the argument that the applicability and utility of ILS are limited to particular workers, sectors or countries. Instead, ILS are universal if properly understood.

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 will leave behind the narrow confines of the logic of costs, and it will also overcome biases underlying much of the controversy over ILS. A broader approach to ILS should be placed in a framework of development. It will have to start 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 the Declaration of Philadelphia of 1944, the 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 TV sets. 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, getting promoted, or having to do dirty and dangerous work; whether the job is safe or unsafe; whether employment is secure; whether complaints and grievances can be voiced, and whether 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 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 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 forestall the need for workers, or put their capital to other uses. To balance power in the employment relationship, either public protective provisions are required, or a system of collective organization and collective bargaining. While rights of association and standards of social protection are essential in correcting the imbalances of labour market power, it is nevertheless common that even with such rights 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 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 rarely 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 action for building genuine market relations.

Worker 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. Worker vulnerability is 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 or excluded from employment.

*ILS as regulatory instruments*

If one examines the ILO Conventions and Recommendations, as well as labour standards embodied in other international agreements, one can identify three principal functions (Sengenberger, 1994). In one way or another they are designed to remedy the structural deficiencies of the labour market highlighted above.

*Participation:*

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

*Protection:*

ILS protect workers by prohibiting 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; they stipulate the setting 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 underpayment 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 the labour resources, including worker groups that are vulnerable or have special needs.

Standards of participation, protection and promotion are mutually reinforcing, both in a positive and 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. An absence of 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. On the other hand, where countries have implemented all three types of standard, they have achieved favourable social and economic results. The Northern European countries are a good illustration (Box 4.1).

Box 4.1

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

A recent ILO study found that Denmark and the other Nordic countries have effectively implemented virtually all ILS and that their economic and social performance is superior to practically all other countries. They rank at the top or near the top on virtually any social and economic indicator among the industrialized countries. 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, the highest level of income protection, the least wage and income inequality, the largest amount of spending on active labour market policy, and very high rates of taxation for financing the social standards. Their superior economic and social performance is 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 ICT penetration, and low rates of crime, corruption and other social pathologies (ILO, 2002).

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 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).

*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. 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 relayed to the national constituencies 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 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 represent national and international communicative devices for mutual transnational 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. 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 ensures that consideration is given 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. 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 inter-worker competition, to over-extend 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 *freedom to* maintain working ability throughout working life. This is an enabling freedom. 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 extends and enriches the readiness, means, and capabilities of local actors to address 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.

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 several generations, or an even wider group of consanguinity, provided mutual support. Typically, the young worked for 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 degenerate, and the need for new, state organized systems of social security arise. In recent decades, many societies, especially those with 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 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).

ILS add value not solely because they embody the collected wisdom derived from national knowledge and good labour practices. They are also 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 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". One of the famous early cases in this regard was the use of highly poisonous white phosphorus for match-making prior to World War I. Its disastrous effects on the health of workers spurred the drive for international protective labour norms and the establishment of the ILO and ILS. If because of cross-border trade and investment the nature of the labour problem is international, the remedy has to be international as well. This point is very clear in environmental issues. 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 has enormously increased. It can either be handled in a remedial fashion when damage has occurred, or 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 better 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, whereas the effects of social pollution tend to be more concentrated on the weaker groups in society.

In sum, ILS are a tool to shield countries from negative social spillovers. 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.

### 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 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.

ILS may be seen as a mechanism and instrument for attaining productive efficiency. Their economic function is help 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. They help to avoid the over-use 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. In brief, the findings were as follows: 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. In an empirical study on the impact of *statutory minimum wages,* it was concluded that concerns about harmful effects were 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 act as a further spur to growth.

A study using recent 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 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. Hence, 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 pursue self-interest and make individual "rational choices". It is necessary to overcome what has been termed the "prisonners' dilemma" (See Box 4.2). Prisoners' dilemmas involve a strategic decision in circumstances where the reward to each party depends on the reward to others and the choice of each depends on the choice of others.

Box 4.2

**The story of the prisoners' dilemma**

Two prisoners are known to be guilty of a very serious crime, but there is not enough evidence to convict them. There is, however, sufficient evidence to convict them of a minor crime. The District Attorney – it is an American story – separates the two and tells each that they will be given the option to confess if they wish to do so. If both of them confess, they will be convicted of the major crime on each other's evidence, but in view of the good behaviour shown in squealing, the District Attorney will ask for a penalty of 10 years each rather than the full penalty of 20 years. If neither confesses, each will be convicted only of the minor crime and get two years. If one confesses and the other does not, then the one who does not confess will go free and the other will go to prison for 20 years… What should the prisoners do? …Each prisoner sees that it is definitely in his interest to confess no matter what the other does. If the other confesses, then by confessing himself this prisoner reduces his own sentence from 20 years to 10. If the other does not confess, then by confessing he himself goes free rather than getting a two-year sentence. So each prisoner feels that no matter what the other does it is always better for him to confess. So both of them confess guided by rational self-interest, and each goes to prison for 10 years. If, however, neither had confessed, both would have been in prison for only two years each. Rational choice would seem to cost each person eight additional years in prison (Sen, 1986).

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 optimal factor combination in accordance with relative prices. The standard economic model tends to view production in a rather mechanical way, without regard to the social foundations of productivity. As in a meat grinder, capital, labour and materials are put in 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.

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. Collective agreements make business conditions predictable and accountable. Employers know their labour costs and other terms of employment at least for the duration of the labour contract, and equally important, they know the terms of their competitors. 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. "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 international, national, sectoral and enterprise level – where agreements can be fitted to the specific issues and circumstances 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 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.

Box 4.3

**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).

There is ample evidence of favourable economic outcomes from national-level and sub-national 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, the 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 4.4). In Europe, national social dialogue in countries such as Austria, Denmark, Ireland, and Netherlands succeeded in generating economic recovery and reaching very low levels of unemployment. Instead of deregulation, new regulations and policies negotiated between the social partners and the government were responsible for an increase in adjustment capacity and the revival of employment (Auer, 2000).

Box 4.4

**A success story: 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).

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, is ab-solutely essential.

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. Yet, 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). An ILO study found that in countries with a low degree of coordination in collective bargaining, 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).

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 (measured by Freedom House index) (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, derived from the non-substitutability of their skills, perishable products or otherwise, in opportunistic ways. 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. They have more or less 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 better understood 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).

*Worker security enhances labour market flexibility*

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 of financing security provisions.

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. A secure worker is more willing to take risks. 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 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 contradictory. “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 protection, and to some extent income protection, produce adverse labour market effects. The most comprehensive empirical study 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. At the same time, 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. 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. This may explain the inequality in protection, which is not the fault of protection as such, but which results from insufficient coverage of the labour force. The policy implication then would not be to remove the existing protection, but to extend it and complement it with income protection. Such a conclusion would be consistent with experience in Argentina where employment protection was dismantled in the 1990s without stopping the demise of the Argentinean labour market.

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 some degree, firms can also 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. In fact, the standard economic wisdom has almost totally neglected the extent of the adaptation of workers and jobs that accrues from continuous small organizational and personnel changes within an enterprise or establishment. These adaptations make up the bulk of the total volume of labour market adjustment. 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 is 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. Instead, job stability has 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 the location of the previous job. So, they find a new job quickly, or else they drop out of the labour market. Unemployment benefits permit a longer job search and thus 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 by Karl Polanyi (Polanyi, 1944) as a significant step towards civilizing the labour market. 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 the 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 also introduce a degree of rigidity 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 evolved from the codification of rules that 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 cushioning 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 from 26 per cent to 17 per cent (Eurostat, 2001).

### *ILS, 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. The larger the dispersion in wage and income distributions the better will the markets function. 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. At times, preoccupation with the economic rationality of existing inequality leads conventional economists to odd conclusions. For example, the rapid growth of East Asian economies has been attributed to wide gender earnings gaps not justifiable by productivity but resulting from discrimination against women. It was argued that if women were able to raise their wages relative to those of men the result would be a decline in export competitiveness and a slowdown in the country's growth rate (Blecker and Sequino, forthcoming).

Large social inequalities, within and between countries, are often more the outcome of unequal power than economic necessity or functionalism. The unfettered "free market" works by economic strength. The richer agent with the most reserves imposes its 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).

Conventional economic wisdom about inequality can be questioned on theoretical and empirical grounds. A recent survey of empirical research found no robust, statistically significant relationship between income inequality and economic growth (Kucera, 2002), but links between the two may 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 make the previously 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 neo-classical economic 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 demanding exorbitantly high earnings and fringe benefits regardless of whether they cause the company to succeed or fail.

An indispensable means to make the distribution of income and employment more equitable is to help balance power relations in the labour market through collective organization (enabled by freedom of association and the right to collective bargaining), but 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 wide collective bargaining coverage, wage and income inequality will be less, independent of supply-demand relations in the labour market. Empirical studies have shown that unions compress the wage distribution (for a survey of pertinent studies see Aidt and Tzannatos, 2002). 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 0.3 per cent, while countries with a low degree of coordination had an average Gini index of over 0.45 (ILO, 2000e). Consistent with this finding recent World Bank surveys 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 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.

One of the largest untapped potentials for stepping up the rate of economic growth is to provide equal opportunity and treatment between women and men in employment and occupation by eliminating discrimination (in accordance with ILO Convention No. 111) and by ensuring equal pay for work of equal value (in line with ILO Convention No. 100). A study by the World Bank revealed that 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 rate of economic growth in South Asia from 1960, and a 100 per cent higher rate in Sub-Saharan Africa (King and Mason, 2000). The source of higher growth in a regime of equal opportunity is obvious. It allows the fuller use of available talents, know-ledge and skills, and increases the effort that workers are willing to make when they feel fairly treated.

*Making economic openness socially acceptable and sustainable*

International trade and cross-border capital flows are an important instrument of development. Yet, 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 and employment. 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-initiated 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 as 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 latest *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. 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.

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 decisive 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 clearly 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. 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.

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, 2000).

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).

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 balance, the studies on the relationship between trade, respectively FDI, and ILS revealed positive links between ILS, especially core standards, and trade and FDI performance. 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, the evidence suggests that practising labour standards are more likely that countries will 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. The findings do not preclude the possibility that there are individual countries with good trade performance but lacking compliance with core ILS, or that there are 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 high FDI inflows.

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. Trade union studies have persistently documented violations of freedom of association and other fundamental ILS in these zones (ICFTU, 2002). Furthermore, the studies 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 will also depend on the presence or absence of institutions, e.g. trade unions, which file charges of violations. There are also indications that investment strategies vary in relation to economic sectors. For example, low-cost strategies appear to prevail in labour-intensive industries, such as garments and footwear. Qualitative case studies of countries or economic sectors should comple-ment the econometric research to examine the links between ILS, trade and investment in greater depth.

In relation to the main arguments in this section, it is important to state that the findings are consistent with the view that high labour costs are not a deterrent to investors because they can be compensated by high productivity and other economic benefits. More specifically, there is no evidence that trade union strength is an obstacle to a country's successful international economic integration.

*Links between ILS and the level of employment*

Employment is central to any development effort. It endows individuals with a sense of 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, the employment problem has intensified over the past decades in most parts of the world. Apart from lost output and income, widespread unemployment has wider social and political impacts. It leads to delinquent and deviant behaviour, especially among the young. It aggravates crime, prostitution and violence, ethnic and religious conflicts. 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 degradation and premature deaths (Ghai, 1999).

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 excess labour is available, it will be difficult to raise the level of wages, and there is little 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, 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 re-establish standards. Encroaching on one area of ILS tends to weaken others, producing a vicious circle of cumulative erosion.

A shortage of employment 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, prison labour, low real wages and lack of social security tend to increase the supply of labour; this causes real wages to decline further, raises the poverty level and increases child labour even more, ending in a self-perpetuating trap of surplus labour and low labour standards.

The promotion of standards requires more expansionary economic policies and better 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).

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).

To attain employment growth on a world scale requires a basic revision of economic and social policies which 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. 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, 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, firstly, 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. While in the big wave of international capital movements prior to World War I, 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 is directed to the most developed, not the developing countries. Secondly, by nourishing economic and political stability, ILS can help to create more space for expansionary macro-economic policy. 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 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 in poorer countries and thus facilitate the task of poverty reduction, employment generation, provision of social services and environmental sustainability. Nevertheless, in most developing countries, but not only there, domestic development remains a 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) 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. 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 provide 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 unless and until countries have reached a higher state of development, or have emerged from mass poverty, should be rejected. The logical conclusion of the orthodox extreme that does not even tolerate flexible and successive application of ILO Conventions, is that there should be no normative labour standards at all. 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, 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 thus lays the foundation for higher social standards. Even the application of costly standards make good economic sense if a wider set of considerations is brought into the picture. Countries should not be encouraged to 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". Their role in economic development is increasingly recognized. 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 development 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, measured in purchasing power parity, does not necessarily signal high aggregate utility. It includes the consumption of goods and services, but it also involves the costs of negative externalities, such as spending to redress stress and health problems that result from poor working conditions, outlays for education and training to keep worker skills in line with changing demands, and also spending on the prevention or detection of crime that often has social roots. In addition, working life may have costs which escape the standard indicators, such as lack of time for the family, 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 that encompasses diverse concerns and interests has been strongly emphasized by Amartya Sen (Sen, 2000). He argues that the analysis of development issues and policies has to encompass diverse interests. The need for trading off one worker concern against another, or 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 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 often see as inevitable, or inexorable, tradeoffs 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 forcefully 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 the conventional cost-productivity nexus 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 the 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 ILS? One answer was given by Ajit Singh a while ago: "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 also ask why many industrialized nations are reluctant to advance standards forcefully. Why are some countries even tempted to degrade 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 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.

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 ratification of ILS, especially the fundamental standards, 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 selfdeclared 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 governance. It requires nothing short of a global social contract. It is fair to say that in many places 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 overcoming them and advancing standards.

## a) Major Obstacles

*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, 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 – as is more often the case – it can be in the eyes of national or sub-national authorities who wish to gain inward investment and orders. The 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 very low wages 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 for deciding on the destination of FDI (Hatem, 1997).

Another source of frequent resistance to the adoption or augmentation of ILS is the prevailing business creed of employers, and also complacency, inertia 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 carry the extra cost of installing protective devices. Finally, 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 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 experience. 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. The Minister then took measures to ensure that the same device was used everywhere.

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 disadvantages have largely vanished.

Yet, economic globalization offers a new pretext for indulging in 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 sovereignty 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 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 many of the policies and actions of the international financial institutions (IFIs), OECD and many national governments.

One of the standard claims that representatives of developing countries make against linking ILS to trade is that it amounts to "disguised protectionism" on the part of first world countries. Richer nations 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, Western industrialized countries – and also newly emerging economies – have resorted to import restrictions and heavy subsidization to protect and promote various economic sectors. Yet, where this happened, the charge should not be laid at the door of ILS. On the contrary, as explained in Chapter 4, protectionism of this kind tends to happen in the absence, not in the presence of ILS. The argument of hidden protectionism may 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.

The argument of disguised protectionism use to avoid ILS 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 to low wage countries. In many 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 and the phase-out of the Agreement on Textiles and Clothing at the end of 2004 will further intensify competition between developing countries. As a WTO member, China enjoys most favoured nation status, and with its vast pool of low wage labour it will be able to undercut virtually all other countries in labour-intensive manufacturing goods. Increasingly, a low wage/low standard strategy will not work for these countries because Chinese wages are lower still (Polaski, 2002).

Political priorities to the detriment of labour standards can also be observed in developed countries. For example, compared to the Federal Reserve Bank of the United States the European Central Bank tends to indulge in excessively restrictive monetary policy, arguing that this is necessary to contain inflation. The policy is there to achieve monetary stability and nothing else. On top of monetary restriction comes fiscal restraint even in periods of economic slump. In effect, Europe gives preference to the goal of price stability, rendering economic growth and employment as inferior objectives. Obviously, this compromises the interests of those whose job opportunities depend on aggregate demand.

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 made better 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 $20^{th}$ 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 the 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 crisis 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*

Today, unfortunately, 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. Their mandates and competencies overlap, their policies are not always consistent and their programmes and actions frequently lack coordination. There is still a good deal of "sectorialism" in the multilateral system. 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 Economics who look after trade promotion, and by the Ministers of Labour 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 (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 administrative capacities 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 grave 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, cannot ensure anything like an undistorted, untrammelled labour market.

In recent years, the IFIs have become more concerned with the social dimension of globalization. The Bank has paid more attention to social policy issues, especially to the fight against poverty through the so-called Poverty Reduction Strategy Papers (PRSP). In eighteen countries full PRSPs have been endorsed since the progress began in late 1999, and it expects to endorse a total of 40 by the end of 2003. The PRSP process is supposed to be owned by the national governments of the countries concerned, with civil society involvement. In reality, however, national and international trade unions have complained that they have frequently been excluded or only superficially consulted in the process.

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 was not accorded the same 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). The IFIs have come to adopt a friendlier position towards ILS. This holds for some of the basic ILO standards, less for the non-core Conventions. 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. The evidence on the freedom of association and collective bargaining standard seems less conclusive and the Bank is currently undertaking analysis work in this area" (World Bank, 1999). Since October 2000, the WB's stated policy position on core labour standards has further improved. The Bank now claims that it supports *all* of the core standards. On substantive ILS, however, the WB and the IMF continue to show reservation or opposition. For example, its policy stance on labour market flexibility is not generally in harmony with ILO policies. It does not favour unemployment insurance schemes in developing countries and its reservations about minimum wages persist. Similarly, although the IMF does not consider labour market policy its core area of policy, this does not prevent Fund staff from advising against centralized wage negotiation, minimum wages, and wage indexation even where real wages have fallen sharply.

While the World Bank's stance on core labour standards has become more positive, its commitment to furthering worker rights varies a great deal across its various departments and échelons. Views on ILS within the organization are not always consistent. One year after the World Bank stated that "the principles embedded in the core labour standards can contribute to the World Bank's development mission […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 necessarily 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 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. Again and again, the IFIs promised to consult and involve the trade unions in the design and execution of structural adjustment programmes (and later on the PRSPs), yet in practice it has happened to a rather limited extent.

Obviously under the impression of private sector failures, including the spate of financial scandals and collapses of large corporations in the U.S. and elsewhere, the IFIs appear to have nuanced their policies towards the privatizing the public sector. They no longer view the private sector as unconditionally good and the public sector as generally bad. While before they favoured squeezing public employment, the IMF and the World Bank nowadays suggest that the social sectors (education and health care) should be excluded from budgetary cuts (van der Hoeven, 2000). The IMF has argued for wage increases and other measures to raise productivity in the African civil service (IMF, 1999).

At their First Ministerial Conference in Singapore in 1996, the members of the World Trade Organization (WTO) made a commitment to respect the fundamental ILO standards. The Conference designated the ILO as the competent agency among the international organizations for the setting and monitoring of international labour standards. The recent 4th WTO Ministerial Conference held in Doha in November 2001 reaffirmed the declaration of Singapore of 1996, but failed to make any further commitments in respect of the link between trade and core labour standards demanded by the trade unions. For a long time the OECD was unenthusiastic about ILO norms, but the policy stance today is more in tune with the core ILS, possibly as a result of the abovementioned 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 changed somewhat in favour of fundamental ILS. But this does not mean that these organizations are now wholehearted supporters of labour standards. Joseph Stiglitz, winner of the Nobel prize in economics in 2001, believes that the neoclassical economics which informs a good part of the policies of the ICIs and OECD, and partly also of the regional development banks, 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).

*Absent or Weak Labour Institutions*

Trade unions are still the main 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? It is clear that trade union action, e.g. through collective bargaining, needs to adjust to the globalizing market. Any union negotiator has learned that a collective labour contract is likely to fail in its desired impact of setting an effective floor to wages and working conditions unless it covers all competing units. Efforts have been made to reach international labour agreements, and have even 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. There is an expanding number of so-called "global framework agreements" negotiated between a multinational company and an international trade union secretariat concerning the international activities of that company. Framework agreements establish minimum labour standards and a process of social 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 cooperation in the areas of worker training, information, gender equality, trade union rights and employment. In the meantime, 15 more international framework agreements between transnational companies and global trade union federations have been concluded (ICFTU, 2002b; Toerres and Gunnes, 2002). On the whole, however, collective bargaining, like labour institutions and labour market regulation in general, is still very much an intra-country affair.

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. On the other hand, many employers' organizations have noted an increase in membership over the past few years (ILO, 2000b).

Certainly, effective trade union influence cannot be measured merely by the rate of organization, but it remains a fact that the trade union movement has fallen on hard times. In many developing countries, trade union organizations have limited influence. One reason for this is the rapid expansion of the informal economy in which the trade unions have hardly set foot (in spite of some recent successes). In some countries, like Pakistan, unions are legally prevented from organizing workers in the informal sector. In many developing countries trade unions are not trusted or not tolerated by governments or employers. The denial of civil liberties pre-empts freedom of association. 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*)*.

The suppression or control of workers' organizations hampers the improvement of 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. As a result, investment in the labour force will remain scanty, hours tend to be long and working conditions poor.

In multifarious ways, globalization has contributed to the organizational difficulties which trade unions face. For example, 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 the expansion of small firms and production units in which trade unions are normally less represented. The spread of international product markets has widened the exit option for mobile capital. Plants 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).

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. 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.*

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, counter-cyclical 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 ICT 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, such as foreign language skills. 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 representation and organization is in place, at the regional as well as the global level. The International Confederation of Free Trade Unions (ICFTU) and the World Confederation of Labour (WCL) operate on a worldwide scale. There are regional organizations such as the European Trade Union Confederation (ETUC), the African Trade Union Congress and the Inter-American Regional Organization of Workers. The sectoral trade unions have formed International Trade Secretariats (ITS), now called Global Union Federations (GUFs). 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. Moreover, they 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 Bank and the Fund have made a commitment to regular dialogue with the international trade union movement. Since 1999, three 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 – as well as the employers' organizations – has also 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).

Finally, the scope of ideological identity and political synergies between the trade union movement and political parties, especially of the socialist and social-democratic complexion, seems to have declined. Governments formed by such political parties are less inclined than they were to commit themselves to trade union goals. Governments, more than worker organizations, are in the grip of global forces, or believe they are. They appear to suffer from the inability to act in the concerted fashion necessary to build the counterforce to big business at the international level.

## b) An Enabling Framework for the Promotion of ILS

Figure 5.1 maps a propitious institutional setting for attaining national labour conditions that satisfy 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.

Figure 5.1:
**An Enabling Environment for Observing ILS**

| **Normative framework** | | **Cognitive, political and institutional setting** | | **Economic performance** |
|---|---|---|---|---|
| ILS ➡ NLS | ➡ | Knowledge about ILS<br>Political will/political priorities<br>Strengthening labour institutions<br>Policy integration and coordination<br>Administrative capacity and competence | ⬅ | Level of productivity<br>Wage and income distribution<br>Level of employment (Surplus Labour)<br>GDP growth |

⬇

**Actual labour conditions**

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. In fact, one recent study found no significant statistical links between the ratification of ILO Conventions and the level of wages, the incidence of child labour, civil liberties and occupational safety (Flanagan, 2002).

There are several explanations for the fact that ratification does not directly show up in improved labour performance. First, as indicated above, ratification is not the only means to comply with ILS, and give effect to them. Secondly, as already pointed out, 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 once adopted if standards were made obligatory. Unlike the WTO, which already comes near to acting as a global Ministry of Trade, 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 punish violating countries by excluding them from international trade, have failed. In effect, the ILO can resort only to moral sanctions. In quite 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. Reports have already appeared 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 a future report will deal with the Elimination of Discrimination in Respect of Employment and Occupation (June 2003).

*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 move faster than the rate of productivity improvement, if cost-push inflation is to be avoided. Studies have shown a close correlation between wage levels and productivity levels over time and across countries (e.g. Flanagan, 2002). But income distribution is not immutable. But income distribution is not immutable. And often wages are in fact set arbitrarily. They equate with productivity only at the level of the firm, not necessarily at the level of the individual (Dessing, 2002). Furthermore, 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. However, 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 chapter, while productivity improvement is the mechanism for making higher wages possible, applying labour standards is an important source of productivity improvement. Hence, in the end they serve as a lever to raise the level of welfare. We have also 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, this feasibility can be raised by the growth-enhancing impact of standards and income redistribution.

*Requirements of Governance:*

Neither "labour law" nor "economic law" strictly determine 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 requirements 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 our *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 conceptualization and findings of research. A high proportion of the existing body of academic studies has been informed by orthodox economic models. Their preoccupation with market distortion means that that there is a systematic bias against standards, so that such studies do not do justice to ILS. Broader and better conceptualization of international labour standards is urgently needed to correct the bias (see Box 5.2).

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. One may be that 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 issues 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. A second, related reason could be that – perhaps as a result of relatively short election cycles – politicians accord precedence to issues from which they expect short-term success over the more long-term issues of durable development which may require sacrifices or unpleasant decisions, and where returns may be delayed. Parochial opportunism and short-termism tend to reduce the chances for standards.

The advancement of ILS demands continuity, sustained effort and loyalty to principles. It is necessary to respect international agreements even when they appear to run counter to national 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

Box 5.2

**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 are playing 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 available.

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.

The adverse impact on ILS stemming from the short-termism of government action in relation to election cycles can be countered by the greater continuity of civil society, especially the workers' and employers' organizations that are not subject to the political cycle.

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 also important because in their absence collective bargaining is not feasible. It is not by chance that ILS have progressed most in Northern Europe where we find high rates of organization both among workers and employers. It is also not by chance that these countries have seen hardly any encroachments into labour standards in the era of globalization.

The strengthening of the trade union movement may be the single most important factor for the observance of ILS. As shown above, economic globalization is a major underlying cause for the absence or weakness of trade unions in some parts of the world, and for their declining influence on others. 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. If it is true – as demonstrated in Chapter 4 – that collective worker organizations are a crucial, indispensable factor in economic development then the viability of trade unionism is 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 and to ensure that collective organization can be vital enough to balance the power structure in the labour market that is important for its functioning. As also shown, beyond their immediate role in the value-adding economic process, unions have a wider role in social peace, social cohesion and political stability.

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 5.3).

Box 5.3

**Extending trade union impact through alliances**

Trade union strength at the national and international level can be enhanced by the formation of alliances with other 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. In Sweden, for example, 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 4.3 per cent of the labour force, the state cannot provide basic services and NGOs are an important actor. In a number of countries the role of civil society for advancing ILS, including cooperation between trade unions and other NGOs, has already been established. In the campaign for progressively eliminating child labour in the soccer ball industry in Sialkot in Pakistan, a cooperative attempt initiated by the ICFTU included manufacturers, trade unions, 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 in regard to policies and action for the unemployed, the poor and the excluded groups (Baccaro, 2001; Baccaro, 2002). In this regard, 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).

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. 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 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. Furthermore, they continue to show reservation if not opposition to a number of non-core ILS. 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 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).

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. The interests of the rich and powerful countries generally prevail, especially in the Bretton Woods organizations. Although developing countries are deeply affected by the decisions of the international financial institutions they have little power in their decision-making. 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). If the South is to get a bigger voice in the Bretton Woods organizations, the existing voting power in favour of the wealthy nations will have to be replaced by more equal country representation.

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, which is the goal of ILO Convention No.122, is essential for progress on any of the international labour standards. Employment promotion will not succeed without macroeconomic policies, which in the age of global economic integration inevitably require internationally coordinated management to raise global demand. 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 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. Securing 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. The Zambian working population was swamped with cheap imported garments but because of the demise of its domestic economy people had no money to purchase the imports.

Finally, the effective application and monitoring of ILS requires adequate *administrative capacity and competence*. Conventionally, the administration of ILS-related policies and practices has been the obligation of state or para-statal institutions, such as the public labour market administration, the social security administration, public caring institutions and the public 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 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. While the private sector can undoubtedly have a useful role in this area, 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 ILS-supportive services.

For the reasons explained above, 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 capacity. 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) Incentives and Disincentives

Even with an enabling political and institutional framework in place, two issues remain when it comes to fostering ILS. One relates to the appropriate means of action. Should compliance with ILS be achieved by using incentives or disincentives in international policy? This question will be taken up in the present section. The following section deals with the choice of actors. Who should be responsible for advancing ILS?

With regard to the means of action for complying with ILS, preference should be given to a 'development-centred' approach that seeks to establish a favourable national environment through the exchange of information and experience, technical cooperation and the building of transnational mutual trust. These are appropriate means to exploit the problem-solving facility of ILS. But what to do if a government is not willing to participate in the cooperative approach? What to do if serious infringements of fundamental rights at work are instigated or tolerated and a government or other player is totally unwilling to cooperate and refuses all other means of action? Such a situation arose, for example, in Myanmar where forced labour was used for many years, and the government did not respond to calls from the ILO to cease the practice. This prompted the ILO in 2000 to apply Article 33 of its Constitution asking the governments of its member countries and international financial organizations to review their relationships with Myanmar, and if necessary to sever them. In fact, there is now an almost total ban on loans for the country.

In principle, international action to solicit or enforce compliance with ILS can use incentives and disincentives. One can make trade preferences, international aid, credit and procurement conditional on the observation of ILS, and reward complying countries with favourable treatment, such as trade preferences. Or one can restrict market access to countries that violate basic ILO Conventions. Whichever option is used a multilateral approach is preferable because it has greater moral force than unilaterally applied measures. The interests of smaller countries seem to get a fairer hearing in a multilateral setting.

The use of social conditionalities in the form of trade preferences has increased in recent years. The U.S. Generalised System of Preferences (GSP), which was inaugurated in 1974, was amended in 1984 to allow duty-free access for selected products from countries provided that the exporting country respects internationally recognized worker rights. These include the core ILS and "acceptable conditions of work related to wages, hours and health and safety" (Harvey, 1996). 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. In January 2002, the European Union adopted a New Generalized Scheme of Preference that doubles the tariff reduction for countries that respect core labour standards. Such benefits can be withdrawn when there is evidence that the beneficiary commits violations of standards, such as slavery, forced labour or the export of products manufac-tured in prisons. The OECD Development Assis-tance Committee's Poverty Guidelines adopted in 2001 now include a clause on labour rights as part of assistance.

The system of preferences has 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 benfits 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). 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. Recently, countries including Jordan, Singapore and Chile approached negotiations with the U.S. with a stated willingness to include labour terms in bilateral agreements (Polaski, 2002).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. Also, 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 the Bangladesh garment industry were dismissed but as there were no alternative jobs available to them they staged a demonstration demanding to be given their job 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).

Linking trade with labour standards has generally been legitimized by the fact that the success of competitive strategies and labour policies in any single country depends on the policies of its trading partners. Therefore, labour policies must be integrated and coordinated with bilateral and multilateral trade policies and negotiations. As the ILO has no effective sanctioning mechanism in case of violation of its Conventions, trade sanctions have been demanded to enforce compliance. The most conspicuous move in this regard has been the attempt to establish a social clause in Article XIX of GATT/WTO that would exclude countries not respecting core ILS from access to trade. Except for a forced labour clause in GATT, the sanctioning device has not been adopted by the multilateral system so far. A majority of developing countries and employers have opposed it, on the grounds that it is subject to abuse as a protectionist ambush. Nevertheless, individual country governments, the European Parliament, national and international trade union bodies, and NGOs have continued to call for trade-linked ILS. For example, the International Confederation of Free Trade Unions (ICFTU), in its world conference in 1996, called for a social 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.

Apart from the question of opposition from developing countries and employers, social clauses in trade agreements will not reach economic sectors outside the export industries, where labour conditions are frequently more precarious. Furthermore, why should social conditionalities in international action be limited to trade? Why should incentives and disincentives in relation to ILS not be linked to public capital flows? In fact, a large potential for international ILS-supporting action opens up with regard to investment policies, and some steps have recently been taken (see below).

A widely applicable mechanism for reinforcing the observance of standards is provided by making public aid and investment conditional on compliance with ILS (and also environmental standards). The opportunities are vast. The World Bank could 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 are 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 Fund establish within their organizations trade union advisory committees modeled after TUAC in the OECD.

### 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. In view of the weak enforcement power of ILO and the limited resources of ILO and national governments, it has increasingly been felt that other actors should bear responsibility as well. Among them are private enterprises and NGOs.

During the last ten years, social criteria have increasingly been used in private sector investment, above all by multinational companies. Frequently, NGOs and consumer groups have put pressure on transnational enterprises to accept more responsibility for working conditions among their overseas suppliers and subcontractors. They have been instrumental in introducing or supporting *labeling* practices for export products. Prominent examples of sector-specific codes or labels include "Rugmark", a foundation concentrating on child labour in the carpet industry, and "The Clean Clothes Campaign", an international NGO network focusing on the improvement of working conditions in the global garment industry. The "flower label" guarantees that Columbian growers of flowers care for working conditions and the environment. Protective measures include equipment that has to be used when applying pesticides, 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 (van Liemt, 2002).

Multinational companies have established corporate *codes of conduct* and *auditing protocols* that determine whether firms in their production networks actually comply with those codes. Some companies have voluntarily set up ethical codes to improve their image, or to deflect criticism about anti-social conduct. The ethical practices of enterprises could still be expanded and improved. It is conceivable 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" (Sabel et al., 2000) 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. The demand for companies to report every year the way they are meeting their social responsibilities, and respecting ILS, has already been agreed in the "Global Compact", This was set up between the UN, global employers and global unions following the World Economic Forum in 1999. More than 500 enterprises are participating so far.

Social behavioural codes could be adopted by more multinationals, especially those outside Europe and North America. The social performance of international production chains could be made more transparent through better reporting and monitoring. Codes should be designed and operated so as to reach contractors downstream in the production channels. The potential effect of that measure 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 production 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, only 33 per cent of the labour codes of multinationals refer to freedom of association, and no more than 50 per cent refer to freedom from discrimination (ILO, 2000a). There is a substantial risk that privatizing the definition and control of labour standards may cause dilution in ILS application. Codes of conduct should not be used as substitutes for the legal regulation of standards. Compliance with ILO standards could be ensured by arranging for the involvement of relevant actors, including trade unions and NGOs, in setting up the codes, and through independent verification and monitoring and adequate complaint procedures. The international trade union movement has developed guidelines for union involvement in private-sector codes of conduct (ICFTU, 2002b). The final responsibility for the proper application of private codes of conduct should remain with the company.

There is enormous scope for the proliferation of what is today called "ethical investments", including regard of ILS. For example, the pension funds, which make up a significant part of international capital flows can be used to specify social criteria for investment. In some countries, e.g. in the U.S. and the Scandinavian countries, trade unions have used their influence to steer pension funds in this direction. 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.

The diversification of agents dealing with labour standards has been criticized on grounds that the coherence of standard setting, and 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 right in particular instances to be set according to the interests of the most powerful actors. "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, one should not in principle deny the right of actors other than the ILO and national governments to monitor ILS. In fact, new actors have arrived on stage partly because the conventional supervisors lack capacity. In view of the phenomenal rise of transnational corporations in the last quarter of the 20th century, it is hard to imagine that without their cooperation ILS can be imparted to the world economy. A broadening of the constituency dealing with standards should be welcomed. As said, the diversification of stakeholders becomes a problem where it leads to a dilution of ILS, or where private codes of conduct are used as a device to supplant public regulation. Appropriate independent monitoring and verification (auditing, inspection) can go some way to prevent the degradation of ILS.

The social conduct of transnational enterprises can be enhanced by guidelines based on international agreements. At present, two such instruments are available: The 1976 ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy; and the OECD Guidelines for Multinational Enterprises, most recently revised in 2000. While the ILO instrument covers all 174 member countries, the OECD guidelines include the 30 member countries of that organization, plus Argentina, Brazil, Chile and the Baltic States. They apply also to business operations worldwide. Application 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, they differ from unilateral company codes of conduct. A user's guide for trade unions developed by OECD's Trade Union Advisory Committee supports the monitoring of the rules.

UNCTAD estimates the number of transnational companies at about 63,000 today, and their foreign affiliates at about 690,000. Trade within and between companies represents about one- third of total exports. If social conduct in these companies 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. National governments and international organizations bear the ultimate responsibility for social progress in both nationally and internationally operating firms.

# 6. Conclusions

Global progress in economic and social development has not been satisfactory in recent decades. It is true that 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 somewhat, 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. 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, contagious financial and economic crises, 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 economic convergence between countries emerges from international trade and investment. In reality, however, the development gaps have widened rather than narrowed. Nevertheless, it would be a grave error to blame economic interdependence and integration as such for the grim results. The reason for divergent development is 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 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 or enforce 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. Economic globalization will not yield more beneficial outcomes without them. 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. ILS also cover substantive standards of social protection, such as social security and occupational health and safety, and standards of promotion concerning employment and human resource development.

In many countries ILS are not respected or not implemented. There are even serious violations of fundamental worker rights. 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. They also 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. There is no statistical evidence 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 not tenable. There is no sound financial reason for failing to observe the fundamental standards, and countries can also afford to observe the substantive standards if these are kept in tune with local economic capabilities. In many instances, arguments that standards would be too costly for poor countries do not 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. The ILO norms prescribe minimum wages and minimum social benefits, but they do not stipulate that these should be at the same level for all countries. Minimum wages, occupational health and social provisions should be compatible with local circumstances and economic feasibility. Where ILS are observed few protectionist sentiments are expressed. 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 lower limit to wages and other terms of employment, and they *promote constructive competition* by inducing firms to improve their performance through better human resource development and management, and through cooperation. 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 used to see in the industrialized countries before they adopted protective legislation and collective bargaining. We witness the same downward spiral operating in many developing countries today. 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 through government regulation 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 and make it available for general use. They 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. Poor and short-sighted management remains one of the greatest obstacles to higher labour standards. Significant objections to ILS originate in the dogmas of neo-classical economics, which have become the economic orthodoxy. It clings to a narrow and distorted 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 misses, or misjudges the important issues of power in market relations; it underplays the need for regulation and stability to 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. 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 other 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 international agencies have taken a more positive stance on the fundamental ILS, but they still have reservations about many substantive standards. 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. The mere threat of leaving existing locations is sufficient to change the bargaining power equation in their 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. Their reach has been limited so far.

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 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.

The primary thrust for promoting ILS should be to provide *incentives* for various actors to comply with ILS standards. Such incentives, including preferential treatment in trade and investment policy for countries and enterprises respecting ILS, should be formulated and provided on a multilateral basis. Punitive action, such as trade sanctions, should be used as a last resort in case of persistent violation of core labour standards. The diversification of actors responsible for applying standards should be generally welcomed. 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.

# References


Aidt, Toke; Tzannatos, Zafiris (2002), *Unions and Collective Bargaining. Economic Effects in a Global Environment.* The World Bank. Washington, D.C.

Alston, Philip (2001), *The Role of International Labour Standards within the Trade Debate: The Need to Return to Fundamentals,* European University Institute, Florence, unpublished paper.

Auer, Peter (2000), *Employment Revival in Europe. Labour Market success in Austria, Denmark, Ireland and the Netherlands,* International Labour Office, Geneva.

Auer, Peter; Cazes, Sandrine (2000), *The Resilience of the Long-Term Employment Relationship: Evidence from Industrialized Countries.* In: International Labour Review, Vol. 139, No. 4., ILO, Geneva.

Baccaro, Lucio (2001), *Civil Society, NGOs, and Decent Work Policies: Sorting Out the Issues,* Discussion Paper 127/2001. Decent Work Research Programme, International Institute for Labour Studies, Geneva.

Bakvis, Peter (2002), *Labour Standards and Development,* Presentation to the World Bank Conference on Development Economics, Oslo, 25 June 2002.

Bhagwati, Jagdish (1994), *A View from the Academia,* In: U.S. Department Of Labor, Bureau of International Labour Affairs: International Labor Standards and Global Economic Integration: Proceedings of a Symposium. Washington, D.C.

Berger, Stefan; Harasty, Claire (2002), *World and Regional Employment Prospects: Halving the World's Working Poor by 2010.* ILO Employment Paper, 2002/38. Geneva.

Mishel, Lawrence; Bernstein, Jared; Schmitt, John (1999), *The State of Working America.* ILR Press, Ithaca, N.Y.

Betcherman, Gordon (2002), *An Overview of Labor Markets Worldwide: Key Trends and Major Policy Issues,* World Bank, Washington, D.C.

Blecker, Robert A.; Seguino, Stephanie, (Forthcoming*), Macro-economic Effects Of Reducing Gender Wage Inequality in an Export-Oriented Semi-industrializing Economy,* In: Review of Development Economics.

Bourguignon, Francois and Christian Morrison (1999), *The Size Distribution Of Income among World Citizens.* Delta and University of Paris, Paris.

Bronfenbrenner, Kate (2000) Uneasy Terrain: *The Impact of Capital Mobility on Workers, Wages and Union Organizing.* Report Submitted to the U.S. Trade Deficit Review Commission. New York State School of Industrial and Labour Relations, Cornell University, Ithaca, N.Y., September 6, 2000.

Brown, Drusilla K. (2000), *International Trade and Core Labour Standards: A Survey of the Recent Literature,* Labour Market and Social Policy, Occasional Papers No. 43, OECD Directorate for Education, Labour and Social Affairs, Paris, 6 October, 2000.

Card, David; Krueger, Alan B. (1995). *Myth and Measurement: The New Economics of the Minimum Wage.* Princeton: Princeton University Press.

Chen, Shaohua, and Martin Ravillon (2000), *How Did the World's Poorest Fare In the 1990s?,* Policy Research Working Paper, World Bank, Washington, D.C.

Cline, W. R. (1997), *Trade and Income Distribution*, Institute for International Economics, Washington, D.C.

Cooke, W. N. and Noble, D.S. (1998), *Industrial Relations Systems and US Foreign Investment,* In. British Journal of Industrial Relations, 36:4.

Collier, Paul; Dollar, David (2002), *Globalization, Growth and Poverty,* World Bank, Washington, D.C.

Cornia, Giovanni Andrea (1998), *Liberalization, Globalization and Income Distribution,* Working Paper No. 157, WIDER, Helsinki.

Crozier, Michel (1963), *Le Phénomène Bureaucratique,* Paris, Seuil.

Damiani, Octavio (2002), *Effects on Employment, Wages, and Labour Standards of non-Traditional Export Crops in Northeast Brazil,* In: Latin American Research Review, 2002 (Vol. 38, No. 1).

Denmark, Ministry of Foreign Affairs (1996), *Conditions for Social Progress: A World Economy for the Benefit of All.* 1996 Copenhagen Seminar for Social Progress, Copenhagen.

Dessing, Maryke (2001), *The Social Clause and Sustainable Development.* Resource Paper No. 1, International Centre for Trade and Sustainable Development. Geneva.

Dessing, Maryke (2002), *The Impact of Trade on Employment in 18 Less Industrialized Countries: An Econometric Analysis.* Canadian Journal of Development Studies.

Dessing, Maryke (2002), *Imlications for Minimum-Wage Policies of an S-shaped Labour Supply Curve.* Journal of Economic Behavior and Organization.

Deutscher Gewerkschaftsbund; IG Metall, Friedrich-Ebert Stiftung (2002), *Weltweit gegen Sozialdumping,* Frankfurt/Main.

Diawara, Mamadou (2000), *Globalisierung, Entwicklungspolitik und lokales Wissen. Warum technokratische Ansätze zum Scheitern verurteilt sind.* In: Neue Züricher Zeitung, 11 November, 2000.

Doelvik, Jon Erik; Torres, Liv (2002), *Globalization, Work, and Labour Standards,* Report Prepared for the Norwegian Ministry of Foreign Affairs. Oslo (unpublished).

Donahue, Thomas R. (1994), *Workers' Rights in the Global Village: Observations by an American Trade Unionist,* in: Sengenberger, W. and Campbell, D. eds. (1994), International Labour Standards and Economic Interdependence, International Institute for Labour Studies, Geneva.

Evans, John (2002), *The Implications of Globalization for the Trade Union Movement – and the Growing Response,* In: Fabian Global Forum, www.fabianglobalforum.net.

Fashoyin, Tayo (2001), *Barbados: Fostering Economic Development through Social Partnership.* ILO Infocus Programme on Strengthening Social Dialogue, Working Paper No. 1, ILO, Geneva, October 2001.

Feis, Herbert (1927), *International Labour Legislation in the Light of Economic Theory,* In International Labour Review, No. 4, 1927. ILO, Geneva.

Fields, Gary (1990*), Labour Standards, Economic Development and International Trade,* In: Herzenberg, S., Perez-Lopez, J-F. (eds.), Labour Standards and Development in the Global Economy, Washinton, D.C., United States Department of Labor.

Fichter, Michael; Sydow, Jörg (2002), *Using Networks Towards Global Labour Standards? – Organizing Social Responsibility in Global Production Chains.* In: Industrielle Beziehungen, Vol.9, 4.

Flanagan, Robert J. (2002), *Labour Standards and International Competitive Advantage,* In: Robert J. Flanagan and William B. Gould (eds.), International Labour Standards: Globalization, Trade and Public Policy, Stanford University Press, Palo Alto.

Freeman, Richard B. (1992), *Labour Market Institutions and Policies: Help or Hindrance to Economic Development?,* In: Proceedings of the World Bank Annual Conference on Development Economics. Washington, D.C., World Bank.

Freeman, Richard B.; Oostendorp, R.H. (2001), *The Occupational Wages and the Data File,* In: International Labour Review, Vol 140, 4, Geneva

Gabriel, Phyllis; Liimatainen, Marjo-Riitta (2000), *Mental Health in the Work Place,* International Labour Office, Geneva.

Galli, Rossana (2001), *The Economic Impact of Child Labour,* Discussion Paper 128/2001, International Institute for Labour Studies. Geneva.

Galli, Rossana; Kucera, David (2002*), Labour Standards and Informal Employment in Latin America.* Discussion Paper XXXX, International Institute for Labour Studies, Geneva.

Ghai, Dharam (1999), *Some Proposals for and Employment Strategy for Human Development, Poverty Eradication and Environmental Regeneration,* In: Development. The Society for International Development, Sage Publications, London and New Delhi.

Government of Ireland (2000), *Supporting Voluntary Activity.* Stationary Office. Dublin. Great Britain. Royal Commission on Trade Unions and Employers' Associations, 1965-68 (1968), *Report, Cmnd. 3623,* London.

Ghose, Ajit (2000), *Trade Liberalization, Employment and Global Inequality.* In: International Labour Review, Vol. 139, 2000/3, Geneva.

Hansen, G.H. (2001), *Should Countries Promote Foreign Direct Investment ?,* UNCTAD, G-24 Discussion Paper Series, No. 9, February 2001.

Harvey, Pharis J (1996), US GSP Labour Rights Conditionality: *"Aggressive Unilateralism" or a Forerunner to a Multilateral Social Clause?"* In: Labour and International Economy, Interantional Institute for Labour Studies, March 1996, Geneva.

Heckman, James; Pagés-Serra Carmen (2001), *The Cost of Job Security Regulation: Evidence from Latin American Labor Markets.* In: XXXXX

Holzmann, Robert and Joergensen Steen (2001), *Social Protection Sector Strategy: From Safety Net to Springboard,* World Bank, Washington, D.C.

ICFTU (2000), *Globalising Social Justice: Trade Unionism in the 21st Century,* World Congress Report, Durban, April 2000.

ICFTU (2002a), *Behind the Wire: Anti-Union Respression in the Export Processing Zones.* Brussels. ICFTU-Website.

ICFTU (2002b), *The International Trade Union Movement and the New Codes of Conduct,* ICFTU-Website.

ILO (1972), *Employment, Incomes and Equality: A Strategy for Increasing Productive Employment in Kenya.* Geneva.

ILO (1997), *World Labour Report 1997-98: Industrial Relations, Democracy and Social Stability,* Geneva.

ILO (1997a), *The Machinery, Electrical and Electronic Industries in Numbers: First Discussion Regarding the Establishment of a Database.* Prepared by Olivier Mutter. INDUSTR., Geneva.

ILO (1998), *Report on Labour and Social Issues in EPZs,* Geneva.

ILO (1998a), *Assessment of the feasibility of the introduction of an unemployment insurance scheme in Thailand.* Geneva. (Mimeo).

ILO (1998b), *The Impact of Flexible Labour Market Arrangements in the Machinery, Electrical, and Electronic Industries.* Geneva.

ILO, Bureau of Workers Activities (1999), *Trade Unions and the Informal Sector: Towards a Comprehensive Strategy.* Background Paper to the on Trade Unions and the Informal Sector, Geneva, 18-22 October 1999.

ILO (2000a), *Your Voice at Work,* Global Report under the Follow-up to the ILO Declaration on Fundamental Principles and Rights at Work. Geneva.

ILO (2000b), *Organization, Bargaining and Dialogue for Development in a Globalizing World,* Governing Body, Working Party on the Social Dimensions of Globalization, November 2000.

ILO (2000c), *Framework for Studies on Integrated Policies to Achieve a Wider Sharing in the Benefits of Globalization.* Governing Body, Working Party on the Social Dimension of Globalization, November 2000.

ILO (2000d). *World Labour Report 2000. Income Protection and Social Security In a Changing World.* Geneva.

ILO (2000e), *The Shipbreakers,* ILO video, Geneva.

ILO (2000f), *Organization, Bargaining and Social Dialogue in Globalizing World,* Geneva.

ILO (2001), *Reducing the Decent Work Deficit: A Global Challenge,* Report of the Director General, International Labour Conference, 89th Session 2001, Geneva.

ILO (2001a) *Report on the Operation of the Termination of Employment of Workmen (Special Provisions) Act,* 1971 (unpublished)

ILO (2001b), *Life at Work in the Information Economy,* World Employment Report 2001, Geneva

ILO (2002a), *A Future Without Child Labour.* Global Report Under the Follow-Up of the ILO Declaration on Fundamental Principles and Rights at Work, Geneva.

ILO (2002b), *Decent Work and the Informal Economy.* Report No. 6, International Labour Conference, 90th Session 2002, Geneva.

ILO (2002c), *Global Social Trust: Investing in the World's Social Future: Results Of a Feasibility Study.* ILO, Financial, Actuarial and Statistical Services, Social Protection Sector, Geneva.

IMF (1999), *World Economic Outlook,* May. Washington, D.C.

Institut de la Banque Mondiale; Bureau International du Travail (1999*), La réforme Du Travail en Afrique francophone.* Banque Mondiale, Washington, D.C.

Juhn, Chinhui; Murphy, Kevin M. (1995), *Inequality in Labour Market Outcomes: Contrasting the 1980s and Erlier Decades.* In: Economic Policy Review, 1 (1).

King, Elizabeth; Mason, Andrew (2000), *Equality and Development.* World Bank, Washington, D.C., 2000.

Kochan, Thomas A; Nordlund, Willis (1989), *Reconciling Labor Standards and Economic Goals: A Historical Perspective,* Bureau of International Affairs, U.S. Department of Labour, Washington, D.C., September, 1989.

Krugman, Paul (1994), *Does Third World Growth Hurt First World Prosperity?,* In: Harvard Business Review, 72(4).

Krugman, Paul (1995), *Technology, Trade and Factor Prices.* NBER Working Paper, No. 5355.

Krugman, Paul (2002), *For Richer. How the Permissive Capitalism of the Boom Destroyed American Equality.* In: New York Times Magazine, October 20, 2002.

Kucera, David (2001), *The Effects of Core Worker Rights on Labour Costs and Foreign Direct Investment: Evaluating the Conventional Economic Wisdom.* Discussion Paper No. 130/2001. International Institute for Labour Studies.Geneva.

Kucera, David (2002a), *Effects of Labor Standards on Labour Costs and FDI flows.* In: Labor Standards in an Integrating World Economy (Bhagwati et. al. (eds.), forthcoming.

Kucera, David (2002b), *The Effects of Wealth and Gender Inequality on Economic Growth; A Survey of Recent Empirical Studies.* Discussion Paper 136/2002, International Institute for Labour Studies, Geneva.

Kyloh, Robert, ed. (1995), *Tripartism on Trial: Tripartite Consultations and Negotiations in Central and Eastern Europe,* International Labour Office, Central and Eastern European Team, Geneva.

Langille, Brian A.(1995*), Labour Standards in the Globalized Economy and the Free Trade/Fair Trade Debate",* in: Werner Sengenberger and Duncan Campbell (eds.), International Labour Standards and Economic Interdependence, International Institute for Labour Studies, Geneva.

Lee, Eddy (1996), *Globalization and Employment; Is Anxiety Justified?,* In: International Labour Review, 135 (5).

Lee, Eddy (1997), *Globalization and Labour Standards: A Review of Issues.* In: International Labour Review, Vol. 136, No. 2, Geneva.

Lee, Eddy (1998a), *Trade Union Rights: An Economic Perspective,* In: International Labour Review, 1998/3, Geneva.

Lee, Eddy (1998b), *The Asian Financial Crisis: The Callenge for Social Poliy.* Geneva, ILO.

Lewis, Arthur (1954), *Economic Development with Unlimited Supply of Labour*, Manchester School of Economics and Social Studies, Vol. 22-2.

Li, Xiaorong (1996), *Asian Values and the Universality of Human Rights*, In: Report from the Institute for Philosophy and Public Policy, Maryland; Vol.16/2 (Spring).

Liemt van, Gijsbert (2000), [mimeo] *Some Social Welfare Aspects of International Trade*, Unpublished paper, Amsterdam, 20000.

Liemt van, Gijsbert (2002), *Some Social and Welfare Aspects of International Trade,* Paper prepared for the EU-LDC Network Website (at www.eu-ldc.org).

Lim, Linda Y.C (1990), *Singapore*, In : Labor Standards and Development in the Global Economy, U.S. Department of Labour. Bureau of International Labour Affairs, Washington D.C.

Majid, Nomaan (2001), *The Size of the Working Poor Population in developing Countries*. ILO Employment Paper No. 16, 2001. Geneva.

Marshall, Alfred (1982), *Principles of Economics*, Philadelphia, Porcupine Press.

Nayyar, Deepak; Court, Julius (2002*), Governing Globalization: Issues and Institutions*, Policy Brief No. 5, The United Nations University, WIDER, Helsinki.

OECD (1996), *Trade, Employment and Labour Standards. A Study of Core Worker Rights and International Trade*, Paris 1996.

OECD (2000), *International Trade and Core Labour Standards*. Paris.

Obstfeld, Maurice; Taylor, Allan M. (2001), *Globalization and Capital Markets*, Working Paper, National Bureau of Economic Research, New York.

Olson, Elizabeth (1999), *Americans Lead the World in Hours Worked*, New York Times, September, 7, 1999.

Oman, Charles (2000), *Policy Competition for Foreign Direct Paris Investment: A Study of Competition among Governments to Attract FDI*, OECD, Paris.

Palley, Thomas I. (1999) *The Economic Case for International Labour Standards: Theory and Some Evidence*. Reissued as AFL-CIO Public Policy Department Economic

Policy Paper, E036, Washington, D.C.

Palley, Thomas I. (2000), *Labour Standards, Economic Governance, and Income Distribution*, Unpublished Paper, AFL-CIO Public Policy Department, Washington, D.C.

Palley, Thomas I. (2001), *Labour Standards and Governance as Public Institutional Capital: Cross Country Evidence from the 1980s and the 1990s*, Unpublished Paper, AFL-CIO Public Policy Department, Washington, D.C.

Papola, Trilok Sing (1994), *International Labour Standards and Developing Countries*, In: Sengenberger and Campbell (eds.), International Labour Standards and Economic Interdependence, IILS, Geneva.

Piore, Michael (1994), *International Labour Standards and Business Strategies*, In: US Department of Labour (ed.), International Labour Standards and Global Economic Integration. Proceedings of a Symposium. Washington, D.C.

Piore, Michael (2002), *Rethinking International Labour Standards,* In: Labour and the Globalization of Production: Causes and Consequences of Industrial Upgrading (W. Milberg, ed.), forthcoming.

Polanyi, Karl (1944), *The Great Transformation. The Political and Economic Origins of our Time*. Beacon Press, Boston 1957.

Polaski, Sandra (2002), *Trade and Labour Standards: A New Approach*. Trade, Equity and Development Project. Carnegie Endowment for InternatiùŒal Peace, Washington, D.C.

Portes, Alejandro (1994), *By-passing the Rules. The Dialectics of Labour Standards and Informalization in Less Developed Countries*. In: Sengenberger and Campbell (eds.), International Labour Standards and Economic Interdependence, IILS Geneva.

Purdy, Jedediah (2002), *Die beiden Flügel der Freiheit*, In: Die Zeit, 15 August 2002.

Robinson, James (2001), *Where does Inequality Come From? Ideas and Implications for Latin America*. OECD Development Centre, Paris.

Rodrik, Dany (1999) *The New Global Economy and Developing Countries: Making Openess Work*, Baltimore: John Hopkins University Press.

Rodrik, Dany (1999a), *Democracies Pay Higher Wages*, Quarterly Journal of Economics, August.

Rutkowski, Jan; Przybyla, Marcin (2001), *Poland – Regional Dimensions of Unemployment*. Paper presented to the International Conference "Labour, Employment and Social Policies in the EU Enlargement Process: Changing Perspectives and Policy Options", Baden/Vienna, June 28-30, 2001.

Sabel, Charles; O'Rourke, Dara; Fung, Archon (2000), *Ratcheting Labor Standards: Regulation for Continuous Improvement in the Global Workplace*, unpublished paper, February 23, 2000

Sachs, Jeffrey (1996), *Globalization and Employment*. Public Lectures, International Institute for Labour Studies, Geneva, March 18, 1996.

Saget, Catherine (2000), *Poverty Reduction and Decent Work in Developing Countries: Do Minimum Wages Help?,* In: International Labour Review, 2000/3, Geneva.

Schäfer, Claus (2002), *Verteilung-Wirtschaft-Gesellschaft: Argumente für Eine Alternative zur neoliberalen "Eine-Welt-Politik*", Discussion Paper, Wirtschafts- und Sozialwissenschaftliches Institut in der Hans-Böckler-Stiftung, Düsseldorf.

Scherrer, Christoph; Greven, Thomas; Frank, Volker (1998), *Sozialklauseln: Arbeiterrechte im Welthandel*, Westfälisches Dampfboot, Münster.

Schulten, Thorsten (2001), *Tarifpolitik in Europa 2000/2001 – Erster europäischer Tarifbericht des WSI*, In: WSI-Mitteilungen 7/2001.

Sen, Amartya (1986), *Behaviour and the Concept of Preference*, In: Jon Elster (ed.) Rational Choices, New York University Press, New York.

Sen, Amartya (2000), *Work and Rights*, In: International Labour Review, Vol.193, No. 2, ILO, Geneva.

Sengenberger, Werner (1994), *Protection-Participation-Promotion: The Systemic Nature of Effects of Labour Standards*. In: Sengenberger and Campbell (eds.), (1994a).

Sengenberger, Werner; Campbell, Duncan (eds.) (1994a), *Creating Economic Opportunities: The Role of International Labour Standards in Industrial Restructuring*, International Institute for Labour Studies, Geneva.

Sengenberger, Werner; Campbell, Duncan (eds.) (1994b), *International Labour Standards and Economic Interdependence*. International Institute for Labour Studies, Geneva.

Singh, Ajit (1990), *Southern Competition, Labour Standards and Industrial Development In the North and the South*, In: Labor Standards and Development in the Global Economy, Stephen Herzenberg and Jorge F. Perez-Lopez, eds., U.S. Department of Labour, Washington, D.C.

Smith, Adam (1986), *The Wealth of Nations*, London, Penguin.

Smith, R.S. (1979), *Compensating Differentials and Public Policy: A Review*. In: International Labour Review, Vol. 32, ILO, Geneva.

Stalker, Peter (2000), *Workers Without Frontiers – The Impact of Globalization on International Migration*, ILO, Geneva.

Stiglitz, Joseph E. (2000), *Democratic Development as the Fruits of Labour*, Keynote Address to the Industrial Relations Research Association, Boston, January 2000.

Stiglitz, Joseph E. (2002), *Employment, Social Justice, and Societal Well-Being*. Keynote Speech to the ILO Global Employment Forum, 1-3 November, 2001. ILO. Geneva.

Tévoédjrè, Albert (1980), *Armut- Reichtum der Völker*. Jugenddienst-Verlag, Wuppertal, 1980.

Taher, Abu M.; Rahman; Wahidur and Gunn, Susan (1999), *Child Labour and the Trade Debate: New Initiatives by Bangla Desh*, (unpublished mimeo).

Tendler, Judith (2002), *Increasing Wages and Work Conditions While Maintaining Competitiveness: A Research Proposal.* Massachusetts Institute of Technology, May 2002.

Thomas, Albert (1921). *The ILO – Its Origins, Development and Future*. In: International Labour Review, Geneva. January-March 1921.

Traxler, Franz; Kittel, Bernhard (1997), *The Bargaining Structure, Its Content and Performance*, Unpublished Paper Prepared for the Conference on "Economic Internationalization and Democracy", University of Vienna, December 14-15,1997.

UN Economic Commission for Europe (2001), *Economic Survey for Europe*, *No. 2*, United Nations, New York and Geneva.

UNCTAD (2000), *World Investment Report: Cross Border Mergers and Acquisitions And Development,* United Nations, New York and Geneva.

UNCTAD (2002), *Trade and Development Report 2002*, Geneva.

UNDP (2002), *Deepening Democracy in a Fragmented World: Human Development Report 2002*, New York and Oxford.

Valticos, Nicolas (1969). *Fifty Years of Standard-Setting Activities by the International Labour Organisation*, In: International Labour Review, Vol.100, No. 3, September.

Valticos, Nicolas (1996), *The ILO: A Retrospective and Future View,* In: International Labour Review, Vol 135, 1996, No. 3-4

Van der Hoeven, Rolph (2000), *Labour Markets and Income Inequality: What are the New Insights after the Washington Consensus?,* Working Paper 209, The United Nations University, World Institute for Development Economics Research, Helsinki

Vargha, Corinne (1992), *Case Study on International Labour Standards and Micro*-Enterprises promoted by the Project URT/88/007- Employment Promotion *in the Informal Sector*, November 1992 (unpublished).

Weisbrot, Mark; Naiman, Robert; Kim, Joyce (2000) *The Emperror has No Growth: Declining Economic Growth Rates in the Era of Globalization*, Center for Economic and Policy Research, Washington, D.C., 26 September, 2001.

Wilkinson, Frank (1994), *Equality, Efficiency and Economic Progress: The Case for universally Applied Equitable Standards for Wages and Conditions of Work*. In: Sengenberger and Campbell (eds.) (1994a).

Witt, Matt (1979), *Dangerous Substances and the U.S. Workers: CurrentPractices and Viewpoints*. In: International Labour Review, Vol. 118, March-April.

Wood, Adrian (1994), *North-South Trade, Employment, and Inequality: Changing Fortunes in a Skill-driven World*. Oxford: Clarendon Press and New York: Oxford University Press.

World Bank (1995), *World Development Report*, Washington, D.C.

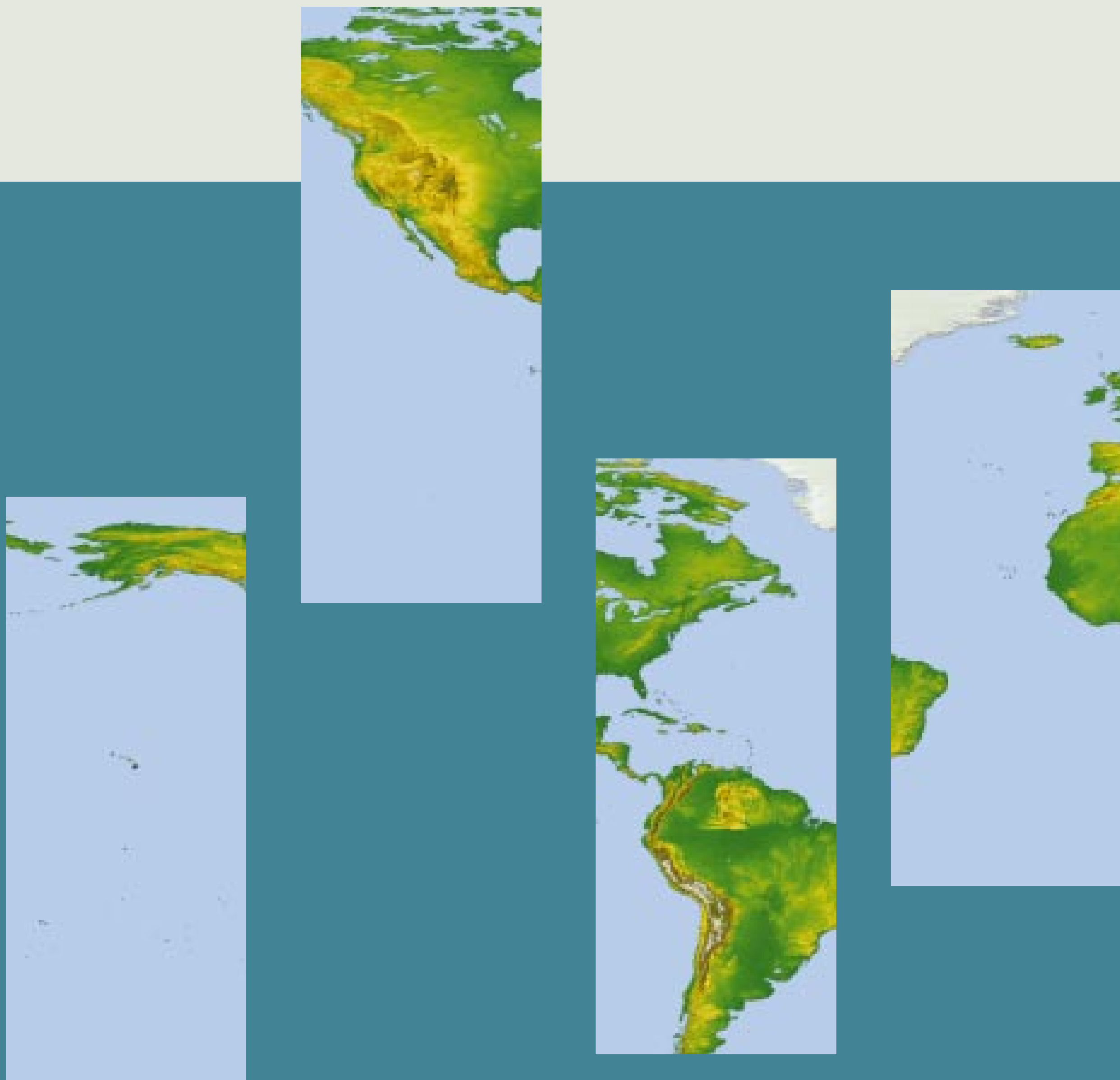
World Bank (1995), *Labor and Economic Reforms in Latin America and the Caribbean*. Washington, D.C., The World Bank.

World Bank (1999), *Core Labour Standards and the World Bank*, Background Document for ICFTU/ITS/World Bank Meetings on Core Labour Standards, January 1999, Washington, D.C.

World Bank (2001), *Core Labour Standards Toolkit for Preparing Staff. Country Assistance Strategies*, Washington, D.C.

Yeong-Soon, Kim (2001), *On the Edge of Corporatism – The Role of Womens' Associations in Promoting Decent Work*. Discussion Paper No. 109/2001, International Institute for Labour Studies, Geneva.

**Founded in 1925 as the first German political foundation, the Friedrich-Ebert-Stiftung (FES) is a private, non-profit organisation committed to the values of social democracy. The Foundation bears the name of the first democratically elected president of the German Reich, Friedrich Ebert, and seeks to preserve his political legacy: the promotion of freedom, solidarity and social justice. The Foundation pursues these aims through its programmes of political education, international cooperation, scholarships and research in Germany and abroad.**



ISBN 3-89892-156-5