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Globalization Versus Labor Standards?

Hey hey, ho ho, globalization has got to go!

—Protesters in Prague, Fall 2000

I know what they are against but have no sense of what they are for.

—Trevor Manual, South African finance minister, Prague, Fall 2000

Seattle, 1999. Prague, 2000. Quebec, 2001. Washington, 2002. Dark-suited officials watch as helmeted police confront young, colorful protesters chanting opposition to globalization, the International Monetary Fund, the World Trade Organization, and the World Bank. The protesters demand global protection for workers and the environment equivalent to that provided for investors and intellectual property owners. Meanwhile, behind closed doors, policymakers discuss the need for multilateral trade agreements monitored by little-known international organizations run by "faceless bureaucrats." Labor and other human rights are fine, in their view, but should not get in the way of promoting growth through free trade and markets.

The battle between the proponents of a global economy with rules to guarantee free trade, capital mobility, and intellectual property rights and the proponents of global standards to protect labor and the environment has replaced the struggle between communism and capitalism over the best way to deliver the benefits of economic development to people around the globe.[1]

More than the substance, the styles and approaches of the contestants on the front lines are in stark contrast. The critics of economic globalization

1. On the debate over how to reconcile trade and environmental goals, see Esty (1994).

mount campaigns against companies whose suppliers abuse workers and "take trade to the streets" in protests against neoliberal economic agreements and institutions (Aaronson 2001). The nongovernmental organizations, trade unions, and human rights activists that support them have few resources and no authority to make policies. The only way they can make their case is through public opinion and political pressure. They are guerrillas in the public arena.

The policymakers that promote globalization, by contrast, have government, international, and corporate resources behind them. They have the authority to develop trade policies and to administer the structural adjustment and financial stabilization programs that they view as in the world's interests. They are powerful figures in the global economy, with billions of dollars to leverage their policy prescriptions.

Given the relative resources of the two parties, the battle over labor standards should be no contest. Not only do globalization enthusiasts in government and international economic institutions administer laws and policies, they can also force countries to take their orthodox economic medicine or face severe financial strictures. By contrast, the advocates of labor standards and critics of the current form of globalization have only moral suasion to carry their message to the public and street protests to force those in power to listen to their complaints.

But what looks like a one-sided contest has in fact been more even. The advocates of standards helped to derail negotiations on a Multilateral Agreement on Investment in 1998 and to stall the planned launch of a new round of trade negotiations in Seattle a year later. By refusing to go away and let officials make decisions behind closed doors, standards advocates have rearranged the agenda for the discussion of globalization. All of a sudden, the World Bank is talking about inclusion and local "ownership" of the programs it funds. All of a sudden, the International Monetary Fund is stressing that one of its main goals is poverty alleviation. If nothing else, the advocates of standards have forced international economic officialdom to pay attention to the effects of its policies on poor people in less developed countries (LDCs).

The activists have also impelled multinational corporations to develop codes of conduct and to accept some social responsibility for their actions. The activists have inspired consumers to ask for fair trade coffee and to worry about the labor conditions behind the production of their favored brands of sneakers and clothing. And spurred by activist pressure, 175 members of the International Labor Organization (ILO) agreed in 1998 on four "fundamental principles and rights at work" that all countries, regardless of their level of development, should respect and promote:

- freedom from forced labor;
- nondiscrimination in the workplace;

- the effective abolition of child labor; and
- freedom of association and the right to organize and bargain collectively.

But despite agreement on these core labor standards by virtually every country in the world, the battle over whether and how to implement these and other labor standards in LDCs continues. Many LDC governments and firms fear that aggressive promotion of global labor standards and activist attention to such issues as living wages and working conditions beyond the core standards will reduce their competitiveness. Globalization enthusiasts believe that increased trade and foreign investment are the best means of promoting growth and welfare in LDCs and regard demands for trade sanctions to enforce standards as protectionism in disguise. They believe that growth will naturally lead to improvements in working conditions and, along with most LDC governments, they want measures to promote labor standards to remain outside trade agreements.

The advocates of global labor standards argue the opposite. They claim that without standards, globalization disproportionately benefits capital, increases income inequality, and creates a race to the bottom for workers worldwide. They fear that standard IMF stabilization policies and World Bank structural adjustment programs do more harm than good, in part because labor does not have a seat at the table when the experts hammer out the programs. They view parallel tracks for trade and labor standards as equivalent to the separate-but-equal farce of Jim Crow days in the US South. They want labor standards grafted onto trade agreements with the same sanctions to enforce these standards that apply to commercial disputes.

Evaluating the Debate

From the arguments of the two sides, it would appear that enforceable labor standards and trade are polar opposites, fire and ice, that cannot be fruitfully combined. It is either the chanting protester or the dark-suited minister of finance or trade. We reject this dichotomization of the debate. Rather than being polar opposites, globalization and labor standards are complementary ways to raise living standards in LDCs. They are intrinsically related not by some artificial grafting but by the way globalization works. The appropriate metaphor is that of Siamese twins who share vital organs and cannot be separated. One may be stronger than the other, but neither can advance without the other; and the effort to separate them endangers both.

We regard it as natural for the expansion of trade to result in more attention to working conditions in LDCs and to create a demand in advanced countries for improved and enforceable global labor standards. As long as consumers care about the workplace conditions underlying the items they consume and look askance at products made under poor conditions, increased trade with LDCs will arouse concern about labor conditions in LDCs and create pressures to improve them. Contrary to the fears of globalization enthusiasts, improvements in labor standards in LDCs can increase the benefits of free trade to workers in these countries and expand the constituency for improved market access for the goods these countries produce.

The key to this virtuous circle is consumers' willingness to pay higher prices for goods demonstrably made under better working conditions. Activist groups play a critical role as intermediaries in this circle—by informing consumers about labor standards and engaging their moral sentiments, and by pressuring the world trading community to give a greater share of the benefits of trade to LDC workers.

It is also natural that increased trade with low-wage LDCs, and increased international capital mobility, should concern workers and trade unions in advanced countries. Low-wage workers in advanced countries lose relative to high-wage workers and capital when trade and capital flows increase between their country and LDCs. This is what standard trade theory leads economists to expect, and the evidence supports this expectation.[2] Thus it is not surprising that apparel workers in North Carolina are upset by imports produced by underage girls or migrant laborers in LDCs who work in abysmal conditions unprotected by their own country's labor laws. Nor is it surprising that union negotiators, when faced with threats to relocate production to countries where union organizers are routinely beat up or fired, do not look favorably on trade without labor standards.

In addition to responding to these concerns, those seeking to hew to the line of unfettered globalization face two challenges. First, enthusiasts have undermined the case for globalization by overselling the benefits and glossing over the weaknesses of free trade and capital mobility. Because a good number of countries have followed IMF and World Bank rules without experiencing miraculous growth while others have succeeded by following interventionist policies that run counter to IMF and Bank prescriptions, it is unconvincing to argue that orthodox economic policies and globalization are the only ways for countries to develop.[3]

2. Cline (1997) provides a comprehensive review of the literature on the impact of trade on wages and inequality in advanced countries and, like most analysts, concludes that the impact has been modest. Kletzer (2001) provides a detailed analysis of the costs of job loss in import-competing sectors.

3. Orthodox policies advocated by international financial institutions typically include the privatization of state-owned enterprises, trade liberalization, reduced subsidies for consumption goods such as food and energy, increased flexibility in labor markets, and

Second, the negotiation of enforceable international rules to protect intellectual property owners and foreign investors, but not the owners of labor, makes the imbalance in global governance too blatant to ignore. If capital needs international protection from potentially corrupt and rapacious government officials, surely so does labor.

Contrary to arguments by opponents of standards, moreover, raising labor standards in LDCs does not mean imposing advanced country rules on recalcitrant countries. The problem of low standards in LDCs is not that these countries fail to care about the well-being of their workers. Most LDCs have laws mandating decent labor conditions. And most of these countries also have signed ILO conventions that commit them to global labor standards.[4] Except under authoritarian regimes, which repress independent unions for political reasons, the problem of low standards often stems from a lack of capacity to enforce labor codes. The ministries that are supposed to monitor labor laws are weak bureaucracies with limited resources. Instead, the best enforcers of standards are likely to be workers themselves, operating through a collective organization; but unions are also generally weak in LDCs, outside a few limited sectors.

Labor standards are a way to balance the interests of workers and capital within countries and in the world economic system. This balance, in turn, is an essential element in building public support for continued globalization. It is also possible to improve the implementation of global labor standards without imposing "Northern" values on LDCs or undermining their comparative advantage. The first step in doing so is to distinguish between standards that can be applied universally and those that must vary with income level.

Core Standards and Cash Standards

The ILO declaration on fundamental principles has largely ended the debate about whether there are universal labor standards other than a ban on forced labor. The four core standards in the ILO declaration pertain to the rules that govern labor market transactions. They are comparable to the rules that protect property rights and freedom of transactions in product markets, which most economists view as necessary for market economies to operate efficiently. And just as universal property

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public budget surpluses. When countries face debt repayment or balance of trade problems, these policies are designed to shift resources to traded goods sectors. For example, the South African Growth, Employment, and Redistribution (GEAR) program did all these orthodox things—but has thus far failed to deliver improvements in income per capita.

4. On average, 149 of the ILO's 175 members have ratified each of the eight core conventions, and 86 have ratified all of them.

rights and freedom of market transactions do not imply identical laws or market institutions among countries, universal core labor standards do not imply uniformity in the details of protections or in implementing institutions.

There is little controversy over two of the four core standards. First, prohibiting forced labor has not been controversial since the US Civil War. And second, prohibiting discrimination based on gender, race, ethnicity, or religion has had no adverse effects on the United States or other economies and has potentially improved economic performance by increasing the pool of workers and skills for jobs throughout economies.

The third, however, if it meant universally applying an immediate ban on child labor, would be more problematic, because working children usually come from the poorest families and often work because economic circumstances force them to do so. But there is broad agreement on the goal of eventually eliminating child labor, and a consensus has formed around the ILO approach of targeting the "worst forms" of child labor. ILO Convention 182, adopted in 1999, defines the forms of child labor that should be eliminated immediately: forced labor, labor in illicit activities, such as prostitution and drug trafficking, and "work . . . likely to harm the health, safety or morals of children."[5]

The fourth core standard, freedom of association and the right to collective bargaining, is the most controversial. It lies at the heart of the debate over more vigorous enforcement, because the freedom to form unions and negotiate with employers increases the power of workers relative to that of the state or businesses. But by giving workers a mechanism for raising and negotiating solutions to workplace problems, this freedom actually becomes the foundation for addressing all other labor standards. This is particularly true in LDCs, whose governments often lack the resources to enforce their own labor codes.

Moreover, giving developing-country workers a "voice at work" can reassure consumers and reputation-conscious foreign investors that conditions are minimally acceptable. And implementing this fourth standard offers a defense against demands from activists in advanced countries for excessive living wages or expensive working conditions that could reduce LDC competitiveness. If local workers and employers freely negotiate wages and working conditions, that agreement should take precedence over any outside claims about appropriate levels of pay and conditions.

Some analysts, though not opposing freedom of association in principle, regard unions in LDCs as elitist, corrupt, rent-seeking institutions

5. Convention 182 is being ratified at the fastest pace in ILO history, with 135 ratifications in just four years, and it may become the first universally ratified convention in ILO history. By contrast, as of the end of 2002, 123 of 175 members had ratified Convention 138 (setting a minimum age for work), the lowest rate of any of the core conventions.

that will reduce the country's growth prospects, and thus they oppose unions in practice. In some LDCs, unions fit that image. But these also are usually countries where politicians, policymakers, and firms are also elitist, corrupt, and rent seeking. In such countries, the solution for unions, as for other actors, is the same: exposure to competition and democratic reforms to ensure that they are accountable, in this case to their members.

In other LDCs, unions are a force for democracy and the protection of property rights. For instance, since the late 1990s, Zimbabwe's trade unions have been the main opponents of Robert Mugabe's dictatorship and its land seizures. Unions were also a leading force in the campaign against apartheid in South Africa. The Solidarity trade union was a major force in toppling the communist leadership of Poland in the 1980s. Because transparency, democratic accountability, and competition are central goals of globalization enthusiasts, their goals and those of labor standards proponents are consistent and mutually supportive.

Going beyond the four ILO core labor standards, a wide array of other standards are of concern to activists and consumers around the world. These protections and benefits are called *cash standards* because they mandate particular outcomes—such as minimum wages, working hours, and health and safety conditions—that directly affect labor costs, and thus also potentially affect trade competitiveness. The level of these cash standards depends on the level of economic development, because rich countries can afford higher minimum wages, shorter working hours, and greater investment in workplace safety.

Yet differentiating core and cash standards is far from sharp. Some analysts argue that cash standards such as health and safety conditions should be included in core standards because poor health and safety can threaten workers' lives.[6] In fact, some improvements in health and safety—such as unlocking exit doors, installing fire extinguishers and fans, and providing clean water—might cost a firm less in the short run than, for instance, eliminating discrimination or child labor.

However imperfect the distinction, core standards are currently at the center of the debate over enforcing labor standards at the global level and including them in trade agreements. Proponents view these standards as the basic framework of rules for labor market transactions in the global economy and believe that better compliance with them, especially freedom of association and bargaining rights, will lead to improvements in other standards. Still, because consumers and some activists feel strongly about some cash standards—particularly whether workers receive decent wages and work in conditions that do not threaten their health and safety—these standards are often included in corporate codes of conduct. For the foreseeable future, this division between international agreements

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6. For more on the debate over which labor standards should be in the core, see, e.g., Freeman (1996), OECD (1996), Fields (1995), and Portes (1994).

that focus on core standards and unofficial codes that include some cash standards is likely to continue.

Do Globalization and Growth Make Labor Standards Unnecessary?

Granting the existence of a broad, rhetorical commitment to the legitimacy of the core labor standards, the debate continues over how much effort to put into implementing labor standards and, in particular, whether to link them to trade. Globalization enthusiasts believe that increased trade and foreign investment will produce economic growth benefiting the bulk of the population in poor countries and eventually leading to improvements in working conditions. Standards advocates, by contrast, believe that globalization by itself will leave many workers behind and may cause a "race to the bottom" as countries compete by repressing unions and failing to improve or enforce labor laws. The rhetoric on both sides is heated, but the issues are factual. Does globalization increase growth rates in poor countries? Are its benefits spread broadly among the populace?

There is little question that growth reduces poverty. In cross-sectional comparisons, the absolute level of poverty is invariably inversely related to GDP per capita, which is indicative of the long-run impact of growth on poverty. Statistical analyses show that countries with faster growth rates typically have more rapid declines in poverty than those with slower growth rates (Dollar and Kraay 2002). This has been true even in countries where inequality has increased, such as China and India (Bhalla 2002).

If the evidence also showed that proglobalization policies systematically produced growth, globalization enthusiasts would have a strong case. But the evidence that openness to trade and investment, without other economic and political reforms, can raise growth rates is hotly debated. In general, removing trade barriers improves the allocation of resources in a country, lowering prices for consumers and raising living standards. The improvement in static efficiency resulting from increased trade is a one-shot spur to output, rather than raising the growth of output per capita. Trade affects the rate of growth only if it increases the growth rate of labor or human capital or other capital or encourages technological innovations that increase productivity.[7]

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7. Cooper (2001, 8) lists five ways in which globalization can increase economic growth: by raising national saving rates and thereby investment; by reducing the price of investment goods, which allows a given level of national savings to finance additional investment; by encouraging increased flows of productive foreign investment on a sustained basis; by encouraging people to upgrade their skills; or by allowing for technological or knowledge spillovers from foreign producers to domestic producers. But even these

Because data do show that trade is positively correlated with economic growth, many trade economists have tried to demonstrate empirically that trade and growth are causally linked.[8] It has proven difficult, however, to find robust and compelling evidence that the linkage is causal, or that it results from free trade policies. Studies showing positive links between various measures of trade policy openness and growth have been subjected to extensive scrutiny and have been shown to be sensitive to the particular openness measure chosen.[9] For instance, in examining several openness indicators, Yanikkaya (forthcoming) finds trade barriers to be positively related to growth, particularly for LDCs, although those countries appear to benefit from trade with the United States. And when researchers doing cross-country analyses vary the other explanatory variables, in particular adding proxies for institutional quality, the connection between trade and growth invariably weakens.[10]

In the face of weak cross-country evidence, many globalization enthusiasts cite China and India as the two star performers demonstrating a positive relationship among globalization, growth, and poverty reduction. But Rodrik (2000) notes that growth in both China and India accelerated before those countries opened their markets to imports and foreign investment. In addition, the contribution of openness versus industrial policies in the success of the "East Asian miracle" economies remains the subject of debate. Initially, the World Bank put forth Hong Kong, Singapore, South Korea, and Taiwan as economies that relied on global markets for their success. But independent researchers, such as Alice Amsden (1989) and Robert Wade (1990), have documented the trade and industrial policy interventions that Korea and Taiwan (as well as Japan earlier) had used in achieving their growth spurt—some of which would be difficult to replicate under current international trade rules.[11]

More damaging to the globalization and growth story are situations in which today's globalization success turns into tomorrow's economic

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give only a one-time boost to the rate of growth. Srinivasan and Bhagwati (1999) note that different assumptions in other growth models allow for other dynamic links between trade and growth. Empirical evidence of these theoretical effects has been elusive, however.

8. Among others, see Frankel and Romer (1999) and Dollar and Kraay (2001).

9. Levine and Renelt (1992) find that a variety of openness measures are weakly and nonrobustly related to growth. Harrison (1996) similarly finds that some measures of trade are positively related to growth but others are not. Rodriguez and Rodrik (2001) summarize and critically evaluate several analyses linking trade policy measures of openness to growth.

10. Rodrik, Subramanian, and Trebbi (2002, 1) argue that the quality of institutions "trumps everything else" in explaining variations in income levels around the world.

11. For a summary and skeptical assessment of industrial policies in the region, see Noland and Pack (2003).

basket case. For example, in the late 1990s, Argentina was a poster country for globalization, lauded by the IMF for opening its capital and goods markets and maintaining macroeconomic stability. Two years later, Argentina could not pay its debts and suffered a major economic crisis.

Along with questioning whether globalization contributes to growth in general, critics also question whether its benefits are broadly shared. Trade theory predicts that low-skilled workers in labor-abundant LDCs will gain from trade while highly skilled workers will lose, thereby reducing inequality. But the facts are often otherwise. Dollar and Kraay (2001) report that, on average, in 23 globalizing countries poor people gained proportionately from growth. But their detailed results show that inequality (as measured by Gini coefficients) rose in 10 of those countries, in 4 it barely changed, and in 9 it fell. Two of the most prominent globalizers in recent years, Chile and China, were among those with large increases in inequality.[12]

Detailed case studies of the links among trade, foreign investment, and inequality in several Latin American countries other than Chile also show that inequality increased as they reduced trade barriers and opened to foreign investment.[13] Some analysts argue that outsourcing could be responsible, because the low-skill activities that moved out of higher-wage advanced countries required *relatively* highly skilled workers in LDCs where they relocated (Bardhan 2000, 8–9; Feenstra and Hanson 2001). At the same time, inequality has fallen in South Korea and remained low in Taiwan, both of which markedly increased their trade as they grew.

The safest generalization from this research is that the impact of trade on growth and inequality depends on country-specific institutions and conditions. Latin American countries were highly unequal before they undertook liberalization, whereas the East Asian economies had relatively narrow income distributions, in part because of earlier land reforms and investments in education. Globalization does not trump local factors and the institutional and policy environment in which globalization takes place. This opens the door for labor standards to serve as a market-strengthening institution that can address inequality and help to resolve conflicts that might otherwise impede growth.

12. The Gini coefficient, which is a measure of income inequality that goes from 0 for perfect equality to 1 for maximum inequality, increased from 0.46 in 1971 to 0.58 in Chile and from 0.32 in 1980 to 0.403 in 1998 in China (Rodrik 1999, 14; Dollar and Kraay 2001, table 4).

13. See Harrison and Hanson (1999), Hanson (2003), Revenga (1995), and Robertson (2000) on Mexico; Robbins (1994) on Chile; Robbins and Gindling (1999) on Costa Rica; and Green, Dickerson, and Arbache (2000) on Brazil.

Do Labor Standards Undermine Comparative Advantage?

Although it is rarely acknowledged, globalization enthusiasts and their activist critics do have something in common. The flip side of labor activists' concerns about a race to the bottom is the concern of developing-country governments and globalization enthusiasts that higher labor standards could reduce growth by threatening the trade prospects of poor countries. The enthusiasts fear that raising standards to global levels would also raise costs so high that they would destroy the comparative advantage of many LDCs in the global marketplace.[14] The evidence suggests that both sets of concerns are exaggerated. Globalization with low standards is not stimulating a race to the bottom for workers worldwide, and universal core labor standards would not be so costly as to undermine less developed countries' comparative advantage in low-wage exports.

The first point that needs to be emphasized is that promoting global core standards does *not* mean forcing LDCs to adopt advanced-country standards. Nor does it imply uniform systems of industrial relations. The application of core labor standards differs widely among advanced countries, and the ILO conventions defining the core standards allow for broad flexibility in implementation. Second, cash standards cannot be uniform across countries, but many of them could be raised at relatively low cost, as many multinational corporations are finding as they implement codes of conduct in factories around the world. In addition to corporate codes, governments could realize significant benefits from better enforcement of their national labor standards, especially in the areas of health and safety. Let us first consider each ILO core standard.

Forced labor and child labor increase the supply of labor and could be used to increase low-wage exports, but both are uncommon in export industries (ILO 2001, 2002). Thus, taking action against them would have little impact on international comparative advantage. Taking children out of factories and enrolling them in schools could even increase productivity in the longer run by building human capital. Enforcing this standard would also remove the danger of a consumer backlash against companies or countries caught engaging in forced or child labor practices even sporadically.

The effects on trade of discrimination and repression of unions are conditional and depend on the sectors and environment in which they occur; they are also more common than child and forced labor in many parts of the world. In theory, discrimination alters trade, depending on the relative intensity of discrimination in traded goods compared with other sectors. If firms in an export sector discriminate against a particular

14. For a review of the literature on these issues, see Brown (2000).

group of workers, this reduces the labor supply to that sector, which should lower production and exports (Maskus 1997). In this case, a reduction of discrimination would increase exports and trade.[15] By contrast, discrimination concentrated in the nontraded goods sector increases the supply of labor to traded goods and thus increases trade, so adhering to nondiscrimination would reduce trade.

In many LDCs, discrimination discourages female employment outside of sectors requiring less-skilled work in low-wage industries, such as clothing, footwear, and toys. In Bangladesh, for example, young women are overrepresented in sewing jobs and underrepresented in jobs requiring more skills in apparel factories and in all other sectors of the economy. Manufacturers reportedly prefer to employ women in sewing jobs because they are more docile, less likely to join unions, and more likely to accept low wages, in part due to discrimination in other sectors (Paul-Majumder and Begum 2000). The result is a large supply of female workers in that sector, which lowers prices and increases production and exports of clothing relative to what would happen otherwise. In short, discrimination outside the export sector benefits the consumers of export goods at the expense of disadvantaged groups.[16]

A similar analysis could be done of the impact of unions on trade, depending on the sectors in which they are strongest. More important, the effects of unions on unit labor costs also depend on whether or not productivity increases enough to offset increased wages (Freeman and Medoff 1984). Although the effects of unions are indeterminate a priori, governments and employers fight hard to keep workers from forming independent unions in much of the world. In some countries, such as China, the motivation is political, to prevent any challenge to the government's hold on power.

In other countries, the motivation is the economic fear that unions will raise costs and reduce production in low-wage, low-productivity activities. For instance, Bangladeshi government officials, employers, and foreign investors have long resisted US and ILO pressure to allow unions into its export processing zones (EPZs), for fear that this would deter investment and lower exports. Pakistan also restricts union rights in EPZs, and Malaysia discourages unions in its foreign-investor-dominated electronics sector. Even in the absence of formal government restrictions, unionization rates might be low in EPZs because wages and working

15. If import-competing firms discriminate, this will give imported products an advantage, and imports will increase, which in turn may require increases in exports to keep the trade account balanced.

16. Dollar and Gatti (2000) and Klasen (2000) provide empirical evidence on the links between gender discrimination and growth, income inequality, and development. The case studies and a summary of the report, *Engendering Development,* are available at the World Bank's Web site, www.worldbank.org/gender/prr/index.htm (May 7, 2003).

conditions are generally better than in alternative jobs.[17] But by denying labor organizers access to EPZs and by blacklisting workers who seek to organize unions, governments and employers do not allow workers to choose whether to unionize—a violation of the freedom of association.[18]

Looking beyond the core standards, many of the cash standards that unions or activists want to raise would not be so costly as to threaten comparative advantage. Consider the following list of common complaints about working conditions in LDCs:

- dark, crowded, hot, noisy workplaces;
- no emergency exits or fire extinguishers;
- inadequate or no time to go the toilet;
- no canteen or place to eat;
- abusive supervisors who strike young workers;
- below-minimum-wage payments;
- an absence of written contracts;
- compulsory overtime;
- sexual or other harassment of workers; and
- late or short wage payments.[19]

How expensive would it be to remedy some of these problems? Providing emergency exits or lights in a workplace or fire extinguishers or giving workers security from sexual or other harassment or the right to go to the toilet should be relatively inexpensive. And such improvements might induce greater effort from workers, offsetting at least part of their modest cost.

Other standards, however, can have a considerable cost for the producer. Nike spent millions making its Indonesian factory safe from chemical fumes. But spread over thousands or hundreds of thousands of items, increases in the unit cost and the price of the final product are likely to be modest. Improvements that a firm publicizes widely, moreover, could

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17. An International Labor Office (1998a) survey found that unionization rates in EPZs were often lower than in the rest of economy; see also US Department of Labor (1989–90).

18. The ILO points to the spread of wildcat strikes and other evidence of labor unrest as evidence that a worker demand for more or better representation exists in the EPZs. If lower unionization in EPZs were simply a matter of worker preference, the governments and employers would not have to enact policies that make union organization more difficult than in the rest of the economy.

19. For specific examples, see Varley (1998, chapter 4) and Chan (2001).

give it a marketing advantage with consumers concerned about workplace conditions in the products they consume. To meet the requirements of codes of conduct, firms should raise the standards that are least expensive to implement before moving on to more expensive ones.

However, a firm's cost-benefit calculations cannot be determinative. Violations of labor standards, be they national or global, or breaking laws on minimum wages or hours worked, might add to one firm's profits but could reduce national productivity. Child labor and forced labor can lead to lower costs and increased output and exports of low-skill, low-wage goods in the short run. But they will reduce the human capital of future workers and could spur a consumer backlash. A firm whose bad safety conditions cause injuries to workers may be able to replace the injured workers without bearing any of the cost. But the injuries are an adverse spillover to the rest of society, which will pay for the injuries through reduced productivity, higher health expenses, and the nonmonetary misery of the workers and their families. A study on gender equality by the World Bank (2001) argues that, though discrimination may boost labor-intensive exports, its negative effects on national well-being impede development overall.

Researchers have tried to detect potentially adverse effects of higher labor standards on economic outcomes through cross-country studies of the type often used by globalization enthusiasts to measure the effects of trade on growth. These studies suffer from many of the same weaknesses that afflict the trade and growth studies, including poor measures of the key explanatory variable (standards compliance, in this case) and the possibility that important explanatory variables have been omitted.

The greatest barrier to empirical analysis of the effects of labor standards is the absence of comparable cross-country information on compliance. The usual measure is the number of (core or total) ILO conventions that a country has ratified. Because countries with relatively high standards, such as the United States, may adopt only a few conventions, whereas others may adopt many conventions but not implement them, the ILO conventions are a weak measure of standards compliance.

Some studies use an index developed by the OECD (2000) that purports to measure compliance with the freedom of association standard. However, this index is inherently subjective and covers only 76 countries, nearly half of them advanced. There are no measures of discrimination across countries, though it would be possible to develop rough proxies for gender discrimination for some countries. But even if there were ideal measures of standards, the wide range of other (potentially more important) economic and social differences among countries would make it hard to pin down the adverse effects of standards—if any existed.

With these caveats noted, these studies have some interesting results. In general, the studies find no link or positive association between the level of labor standards and economic growth and no consistent relation with labor costs; none of them supports the allegation that foreign direct investment seeks out countries with low standards or that the aggregate exports by such countries are higher.[20] Some do find a link between relatively lower standards and exports of low-wage textiles and apparel, but these results are not robust and may suffer from problems of multicollinearity and omitted variables.[21]

Finally, the World Bank, which has traditionally viewed unions ambivalently at best, published a survey of more than 1,000 studies of the economic effects of unions that concluded there is "little systematic difference in economic performance between countries that enforce [freedom of association and the right to organize and bargain collectively] and countries that do not" (Aidt and Tzannatos 2002, 4). The survey shows that what unions do varies, depending on local institutional and legal arrangements and the competitive environment in which they operate.[22] When product markets are competitive, as is likely with free trade, unions have limited scope for raising wages. When product markets are monopolized and there is little transparency or accountability, unions will often behave as firms do in such an environment, lobbying, pressuring, fighting to retain monopoly rents for themselves. The union, or firm, is simply responding rationally to the incentives it faces, and the real problem lies in the noncompetitive market structure. In general, however,

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20. Two OECD studies (1996, 2000) using the index of compliance with freedom of association (FOA) and bargaining rights found no link with economic growth, real wages, trade, or investment. Kucera (2001, 33), who developed his own measures of compliance with the core standards, also reports no "solid evidence" showing a link with labor costs or foreign direct investment. Flanagan (2002) comes to similar conclusions looking both at links between economic outcomes and standards at a point in time and links between outcomes and changes in standards over time, but he uses as his measure of compliance the more questionable number of convention ratifications. Rodrik (1996) and Morici and Schulz (2001) use measures of child labor and the OECD FOA index, respectively, and find no link between compliance and foreign direct investment, though they do find a correlation between low standards and low labor costs.

21. Rodrik (1996) found that that more child labor was associated with higher exports of textiles and apparel in a sample of low-income countries. But Morici and Schulz (2001), using a similar model, found that the measure of child labor was no longer statistically significant when they added the OECD FOA index, which suggested that a suppression of union rights was associated with greater apparel and textile exports. In addition, when the measure of freedom of association was added, the measure of labor costs was no longer statistically significant. Finally, using basically the same data and model, we found that a measure of gender discrimination was statistically significantly linked to textile and apparel exports but that the significance of the coefficient on the union rights variable depended on the sample used and that child labor was still an insignificant factor.

22. See the World Bank's *World Development Report 1995: The Challenge of Development*, as well as Aidt and Tzannatos (2002). The evidence from these studies, as well as from the ILO, underscores the fact that adherence to core labor standards, and freedom of association in particular, does not imply harmonization to one particular model. See also Freeman (1993).

the Bank study finds that estimates of the economywide welfare losses from union wage premiums are quite small and that a high density of unionization reduces earnings inequality (Aidt and Tzannatos 2002, 7–8, 11).[23]

But the short-run cost of enforcing standards is not the only issue facing LDCs today. The coming phaseout of textile and apparel quotas in 2005 will make it more difficult for many small, low-productivity countries to compete only on price. In the new, post-quota environment, they may find that good labor conditions can be a marketing tool, both to consumers and to multinational firms that want to protect their brand names from scandal and their operations from instability.

Catch-22: Protecting International Capital and Intellectual Property but Not Labor

> *There was only one catch and that was Catch-22, which specified that a concern for one's safety in the face of dangers that were real and immediate was the process of a rational mind. [Army Pilot] Orr was crazy and could be grounded. All he had to do was ask; and as soon as he did, he would no longer be crazy and would have to fly more missions. Orr would be crazy to fly more missions and sane if he didn't, but if he was sane he had to fly them. If he flew them he was crazy and didn't have to, but if he didn't want to he was sane and had to.*
>
> —Joseph Heller, *Catch-22*

For many people, a global economic system that provides international protection for capital and for intellectual property but not for labor is a Joseph Heller *Catch-22* world. Capital is internationally mobile and can escape predatory governments and unfair legal systems. Most labor is immobile, limited by immigration rules, and cannot readily escape predatory governments and unfair legal systems. Because capital can exit to take care of itself, why not rely on market forces to protect capital? Because labor cannot exit to gain its rights, should not the global community seek stronger, enforceable international standards for labor rights? Instead, the thrust of global economic policy has been to develop rules to protect international capital because local governments and laws may be untrustworthy, leaving immobile workers to rely on the same governments whose laws foreign investors seek to avoid through international agreements.

To a trade economist, however, this state of affairs is perfectly logical. The benefits of improved labor standards primarily accrue to workers in

23. The debate over the potential costs of raising global labor standards has echoes in national policy debates. When the United States passed antidiscrimination legislation and developed affirmative action policies, some feared this would raise costs and lower efficiency. The evidence, again, is to the contrary (Holzer and Neumark 2003).

their country, with few international spillovers.[24] Agreements to promote increased flows of trade and investment, conversely, improve both national and global economic welfare. Relying solely on the exit option as protection for foreign investors results in suboptimal levels of investment compared with a situation in which governments agree to constrain themselves vis-à-vis foreign investors.

International investment agreements can also overcome what is known as the "obsolescing bargain." In this scenario, multinational firms underinvest in some countries because, even if the government initially welcomes them, the firm fears, perhaps because of past experience, that the government will change its policies in the future and render its investment unprofitable. Similarly, firms that rely heavily on intellectual property will not export to or invest in countries that provide inadequate protection against theft. This truncated market could also impede innovation.

This view of the world clearly has merit, but it ignores some important real-world problems. First, it ignores how capital mobility affects relative bargaining leverage. Bronfenbrenner (2000) documents how employers use the threat to move abroad to blunt union-organizing campaigns in the United States. And, as has been noted, some small, poor LDCs restrict unions' rights or fail to enforce labor laws for fear of losing foreign investment. This suggests a need for some rules to balance the rights of workers with those of investors. In addition, the broad arguments in favor of rules to protect foreign investment and intellectual property do not provide guidance on the details, and many observers (including some globalization enthusiasts) view the evolution of these rules in practice as troubling. Two agreements in particular—those protecting investors in North America and intellectual property globally—trigger concerns.

Many critics believe that the North American Free Trade Agreement (NAFTA) goes well beyond what is needed to overcome the obsolescing-bargain problem. Under NAFTA's Chapter 11, multinational corporations that believe a local, state, or national government in another member country has lowered the value of their investment in a way that constitutes a "taking" of their property can sue for compensation. The definition of a taking under the agreement is much broader than physical expropriation or nationalization of property, and many of the cases have challenged environmental regulations that appear legitimate to most observers.[25]

24. Potential spillovers with respect to the environment are more obvious and more common, and the need for more balance in global governance with respect to the environment is discussed in detail in Esty (1994).

25. A number of these cases remained under review as of early 2003. But even if ultimately rejected, they clearly raise the cost to governments of regulating business, and some have argued that Chapter 11 has led to a "regulatory chill" in NAFTA member countries (Deere and Esty 2002; see also International Institute for Sustainable Development and World Wildlife Fund 2001).

An additional concern is that these Chapter 11 grievances are heard by international experts, who determine culpability behind closed doors and decide what compensation is appropriate with little public input (Barenberg and Evans 2002). By contrast, under NAFTA's side agreement on labor, complaints about freedom of association in trade sectors can trigger an investigation and ministerial consultations, but there is no provision for an independent expert committee to resolve an issue or for any sanction if a complaint is verified.[26] To many, NAFTA's investment protections go too far and its labor protections do not go far enough.

The development of the Uruguay Round of multilateral trade negotiations' Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) further underscores the inconsistencies in how global governance treats labor and other inputs. At the Uruguay Round, US negotiators and TRIPS supporters cast the international protection of intellectual property rights as a rights-based or moral issue, the problem being theft and piracy. US supporters of TRIPS insisted on putting the new rules in the World Trade Organization, even though the World Intellectual Property Organization (WIPO) exists to promote the harmonization of intellectual property policies.

The argument was that the WIPO was weak, so effective enforcement required the use of trade sanctions under the World Trade Organization. Proponents of TRIPS wanted to replace a patchwork of inadequate national laws and practices related to intellectual property with high-level protection based on international standards and to enforce the new rules with trade sanctions. Replace the phrase "intellectual property" with "labor rights," and we have the argument for labor standards: to replace a patchwork of inadequate national laws and practices relating to labor rights with high-level protection based on international standards and to enforce the new rules with trade sanctions.

The problem, again, is not the issue of protection for intellectual property rights in trade agreements, per se, but the specifics of the TRIPS agreement and whether it opens the door for labor standards. Analysis of the likely *net* global welfare benefits of the TRIPS agreement as negotiated is ambiguous.[27] There is a danger that the agreement will result in poor countries—which have little innovative activity to protect—transferring billions of dollars in royalties, license fees, and high prices to

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26. Although the agreement provides for monetary fines for violations of child labor standards or of the country's minimum-wage or health and safety laws, no complaint to date has come close to this stage.

27. Economic analysis supports the need to give temporary monopolies in the form of patents or copyrights to inventors and creators to give them incentives to innovate, but the optimal level of such protection is the subject of much debate. Renegotiation of the terms to allow poor countries to import generic drugs to treat HIV/AIDS and to address other health problems was ongoing at the time of writing.

multinational corporations in rich countries (Maskus 2000a, 184). Thus, there is an argument for including in international trade rules a narrow agreement targeting egregious trade-related violations of intellectual property rights, but not necessarily for the broad agreement with detailed, uniform rules that resulted.

Similar reasoning applies to protecting labor in trade agreements. The argument here is that "new issues" should be included in trade agreements when they improve markets and only to the extent necessary to address market distortions. Maskus (2000b) argues that the inclusion of intellectual property protection, but not labor standards, in trade agreements is legitimate because the former are more trade related than the latter.

But the choice is not all or nothing. The world would be better off if Uruguay Round negotiators had approved a narrower, more balanced TRIPS agreement. It would also be better off, in our view, if Doha Round negotiators accepted the need for a narrow agreement targeting egregious, trade-related violations of labor standards, as we recommend in chapter 4.

Implementing Labor Standards and Globalization

Contrary to the protest chant that serves as one of the two epigraphs at the start of this chapter, globalization is not going away. And contrary to the finance minister's puzzlement expressed in the other epigraph, concerns about labor standards in a more integrated global economy are real and substantive. As researchers have carefully examined the connections among trade, growth, and inequality, empirical support for the claim that economic globalization is the cure for underdevelopment has eroded. And the fear that acceding to core labor standards will cost poor countries their comparative advantage also does not stand up to empirical analysis.

Encouraging more effective implementation of the ILO's core labor standards through corporate codes of conduct, ILO technical assistance, and narrow World Trade Organization rules would help to spread the benefits of globalization more broadly. It would also eliminate any competitive advantage for firms that perceive a cost advantage in repressing labor standards and threaten or bribe officials not to enforce them.

Finally, activists and consumers will not wait for better labor standards to trickle down after decades of growth while the world trading community applies global standards to business and intellectual property rights. Globalization means that consumers and workers in rich countries will scrutinize the labor standards in countries producing consumer goods, such as apparel and footwear. Globalization versus labor standards? No, globalization *and* labor standards.