International labour standards and economic interdependence

Essays in commemoration of the 75th anniversary of the International Labour Organization and the 50th anniversary of the Declaration of Philadelphia

Edited by Werner Sengenberger and Duncan Campbell
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International Institute for Labour Studies  Geneva
Preface

In publishing this reader, the International Institute for Labour Studies is following the good tradition of the ILO to use important anniversary years for review, reflection and assessment, for looking backwards and forwards. Labour standards were always a focal theme in these reviews. When the ILO reached the age of ten, a number of its eminent officials around Albert Thomas, the first Director-General, described and evaluated the progress the Organization had made since, in Thomas’ words, that moment of “daring and adventure” at the close of the First World War that gave birth to the ILO. The silver jubilee of the Organization in 1944 was again an occasion for revisiting accomplishments and considering challenges. It led to a broadening of the ILO’s mandate as promulgated in the Declaration of Philadelphia. The “golden” anniversary in 1969, a year in which the ILO was awarded the Nobel Prize for Peace, gave occasion for reviews and evaluation. Finally, the “diamond” age of 75 prompted the Director-General to put before the International Labour Conference this year the issues raised for the Organization by the challenges of increasing economic interdependence.

The opening of national economies to outside influences, and the intensified competition which this entails, provokes debate on the role of labour standards and the impact on standards. A freer flow of capital, goods and people across borders can raise awareness of mutual economic and social dependence and be a catalyst for progressive change. At the same time, it can exert pressures that threaten existing social standards. The aim of this volume is to present opinions and views on the contemporary challenges and issues posed for international labour standards, and perspectives and directions for dealing with them. The contributors are drawn in part from the groups constituting the ILO, i.e. governments, employers and workers and their organizations, and in part from the academic world. We have deliberately sought to get a wide spectrum of views, a breadth inherent in the work of the ILO over its 75 years. We have also endeavoured to achieve a broad geography of views by attempting to strike a good regional balance among contributors. The aim has been to construct an international barometer of informed opinion on the relationship between social justice and the market. The distribution of the authors in this volume perhaps reflects more than
anything else the present preoccupation with the themes in their respective countries and from their respective, professional vantage points.

Werner Sengenberger
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Part 1:

Introduction
International labour standards in a globalized economy: The issues

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I. International labour standards and competition

For three-quarters of a century the ILO has been engaged in setting and supervising the application of international labour standards. The Conventions and Recommendations of the ILO, which together form the "international labour code", may be seen as a device to channel behaviour in the labour market, both within and across nations.

Various arguments have been advanced over the years in support of international labour standards. They include: international competition; contribution to the consolidation of peace; social justice; social and human objectives of economic development; international movement of workers and goods; consolidation of national labour legislation; and source of inspiration for national action [Valticos, 1979, pp. 20-26].

While this volume touches on several of these purposes of standards, it addresses above all the role and impact of standards in regulating international competition. In this respect, international labour standards may be seen as having the twin function of:

(a) preventing destructive competition, by protecting particular groups of workers and setting minimum terms for pay and working conditions that resist the fluctuations of the labour market;

(b) and, concurrently, eliciting and promoting constructive competition, by ensuring rights of collective organization and worker participation in decision-making, improving the productivity and motivation of workers, raising aggregate demand by increasing labour
incomes, and promoting employment creation, active labour market policy and socially desirable forms of adjustment.

The capacity of the international labour code to serve as a regulatory instrument depends on the extent of ratification by national authorities; the actual enforcement and application of the norms; the sanctioning power in case of non-compliance; and the degree to which the norms match national and local circumstances. To be effective, labour standards have, inter alia, to be co-extensive with labour, product and capital markets. All actual or potential labour suppliers and demanders have to be covered to prevent the undercutting of standards by competitors.

The argument that for social progress all competitors have to obey the same rule has a long history. For example, Jacques Necker, the Swiss Finance Minister of the French King Louis XVI, was aware that the practice of work on Sundays could not be unilaterally abolished in France, but required parallel action of other European trading countries. Conversely, if a country were to abolish the weekly day of rest, it could gain an advantage only if others did not follow suit.

From the very inception of the ILO, the link between competition and labour standards played a role in its standard-setting policy. For those who worked to get the first ILO Convention adopted, which provided the 8-hour day and the 48-hour week, it was clear that this standard could only be observed if all trading countries ratified and applied it. It was argued that if some competitors failed to do so, this would handicap others by increasing — at least temporarily — their relative costs. In the section on “Labour” in the Covenant of the League of Nations, which inaugurated the ILO, it is explicitly stated “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”.

Making the geographic reach of labour standards congruent with the extension of markets may also be seen as a prerequisite for achieving the other principal objectives of the ILO (laid down in the ILO Constitution), namely avoiding “injustice, hardship, and privation” of large numbers of workers, and attaining “lasting peace through social justice”. Thus, there is an inner coherence in the key elements that form the philosophy of the ILO.
II. The progressive internationalization of the economy

The foundation of the ILO in 1919 came at the end of an expansionary wave of international trade spanning mainly the industrialized countries in Europe and North America. The volume of commerce between the trading nations increased from roughly 4 billion US dollars in 1850 to about 20 billion dollars in 1900, and 40 billion dollars in 1913. During the two World Wars the international trading system was naturally in disarray but, even in the period of peace between the two wars, the rise in trade was slow. During the 1930s’ depression, trade volumes actually shrank. A fresh acceleration in the volume of commodity exchange came after the Second World War. Between 1950 and 1990, largely due to the stability created by the Bretton Woods organizations and tariff reductions under the General Agreement on Tariffs and Trade (GATT), world output grew at an average annual rate of 3.9 per cent, and world trade grew at an average annual rate of 5.8 per cent [Kitson & Michie, 1995]. That was a threefold increase in real terms, amounting to a value of trade of about 4 trillion US dollars at the beginning of the 1990s. This growth rate was unmatched by any previous period. The rate of growth of trade in manufactured goods was about three times faster than the growth of production, leading in many countries to much higher shares of exports in gross national product, and greater interpenetration of national product markets.

Initially, most of the trade was “classic” in the sense that all or most of the value-added of goods was produced within a country. The final products were exported, and finished foreign-made products were imported. More recently, trade patterns have changed as a result of increased international sourcing and subcontracting, and the relocation of stages of production in line with local cost levels, local opportunities and other features of the business environment. Thus, today, an increasing proportion of trade is intra-firm trade. It consists of the cross-border shipping of intermediary rather than finished goods. Multinational enterprises (MNEs) shift production and employment to wherever the production context (taxes, wages, laws and procedures, industrial relations, etc.) is most suitable and the markets provide the greatest opportunities. To do so requires open capital and financial markets for the easy transfer of earnings, fast means of transport and new information and communication technology facilitating high-speed data transmission. Over the last two decades, the number of MNEs has risen enormously to 37,000 in 1992. The stock of foreign direct investment
(FDI) reached $2,000 billion in 1992, when MNEs' total sales outside their home country were $5,500 billion. MNEs now control about one-third of the world's private productive assets [UNCTAD, 1993].

The rise in the volume of trade and FDI since the end of the Second World War also reflects the increased number of nation states — more than half of the existing nation states are less than 40 years old — and the number of countries participating in the international economy. The member states of GATT, originally 27, now amount to 130.

Despite the growth in the number of trading countries, and the advent of newly industrializing economies (NIEs), the regional distribution of trade and investment has remained highly uneven. The bulk of commercial exchange occurs within the Northern Triad (the United States, the European Union and Japan). Large parts of the South, and especially sub-Saharan Africa and Latin America, play a subordinate role in the global economy. The share of inward investment in the developing countries has fallen to 24 per cent in the early 1990s from 27 per cent in the mid-1980s. From this angle, it is doubtful whether we can truly speak of "globalization".

A second reservation regarding the thesis of globalization concerns economic "regionalism". Rather than an increasingly borderless worldwide economy we see freer circulation of capital, goods and labour within regional groupings of countries such as the single European market, and free trade zones such as the ones covered by the North American Free Trade Agreement (NAFTA), the Mercado del Sur (MERCOSUR) in South America and the Asian Pacific Economic Cooperation (APEC). It remains to be seen to what extent these regional common markets and free trade areas become part of an open global economy or turn into closed fortresses.

III. Challenges posed to labour standards by globalization

While the economy has grown increasingly international and partly global, labour institutions and labour market regulation remain largely constituted on the national and sub-national level. Labour standards are legislated and controlled by national authorities. Even though the setting of national standards may be in conformity with ILO Conventions and Recommendations, and hence may attain a degree of international universality, the nation states remain sovereign in enacting their labour laws. Cooperation with the ILO is voluntary. There is no international labour
law in the strict sense, i.e. one that is entrusted with the authority of enforcing the norms throughout the world.

But legal sovereignty does not mean that nations are autonomous in their choice of social policy. The increased mobility in the capital and product markets severely constrains this choice. On the assumption that the introduction and application of labour standards are costly — think, for example of the cost of job security, social security and active labour market policy — or infringe on the freedom of firms in using labour, governments are reluctant to push forcefully for higher standards. They may even choose to reduce or dismantle standards, in order to remain "attractive" to domestic and foreign investors, and thereby retain or gain employment.

The opening of the national economies to outside influences, and the intensified competition which this entails, provokes debate on the role of labour standards. A freer flow of capital, goods and people across borders can raise awareness of mutual economic and social dependence, and be a catalyst for progressive change. At the same time, it can exert pressures that threaten existing social standards. Workers, and occasionally also employers and governments, are led to raise charges of "unfair competition", and "social dumping". It is argued that low wages, the absence of social security provisions and the denial of worker rights are used to gain economic advantages vis-à-vis countries that respect standards. If a country fails to live up to international labour standards, the effect is to force other trading nations to follow suit and reduce their own workers' rights. This could incite "a race to the bottom", a vicious cycle of social retrogression in all trading nations, which can be prevented by action ensuring the observation of standards among all competitors.

The spectre of a downsizing of labour conditions is not caused by the open economy as such, but by the substantial cross-national disparities in labour costs and other terms of employment. Based on official exchange rates, the average level of wage costs in the OECD countries is many times higher than in the developing countries. With trade and foreign direct investment increasing and spreading, the former competitive advantage of the industrialized countries is being diminished. The gap in technology and productivity and also the differences in skill levels between the North and the South is shrinking. In this situation, protectionism becomes a less effective instrument in the developed countries because it cannot prevent, and may even spur, the outflow of capital.

The international disparities in labour costs give rise to intense international controversy. There are those who wish to see a harmonization of labour standards across competing countries, for example through
social clauses in trade agreements. Others argue that the poorer countries should not be called upon to raise their standards, and must retain the labour cost advantage for their further development. Advocates of free trade have argued that international cost differences are the very cause of trade and hence the standardization of costs would destroy the motive for it.

Labour standards have been on the agenda of multilateral trade negotiations for some time (in parallel with environmental policies). The governments of some industrialized countries, the International Confederation of Free Trade Unions (ICFTU) and some of its sectoral members, have called for the inclusion of a clause in GATT that would restrict or halt the trade in goods whose production was not in conformity with basic labour standards, and ensure that the liberalization of markets is accompanied by improved rather than deteriorating conditions of work. Governments of developing countries, on the other hand, have opposed the incorporation of social clauses into GATT. They have been afraid that these would diminish their competitive advantage vis-à-vis the developed countries, and amount to disguised protectionism on the part of high-cost countries. At present, the debate is stalemated. In April 1994, eight years of negotiation in the Uruguay round of GATT concluded without a social clause. There is merely a provision that the issue will be discussed again in the World Trade Organization which will absorb GATT.

In his report to the International Labour Conference in 1994, the Director-General of the ILO claimed a role for the ILO in this debate, and provided a policy framework within which a solution to the issue of trade and labour standards may be sought. Reaffirming the principles of multilateralism, voluntarism and cooperation, he said the ILO should not endeavour to legislate the equalization of labour costs, but should expect countries to improve their labour protection from the additional wealth generated by the growth of trade. In essence, a quid pro quo between the North and the South in this matter could include the renunciation by the North of unilateral trade restrictions in return for the commitment of the South to make progress on essential labour standards. For the latter, the ILO could provide technical assistance and financial support could come from international trade itself [ILO, 1994].

In discussing the validity and significance of the notion of social dumping, three sets of interconnected questions need to be addressed. First, what is the actual importance of wages and other components of (nominal or unit) labour cost for a country’s or region’s international competitiveness? What is their weight relative to other factors, such as labour force quality, the physical infrastructure, social and political
stability and other “created assets”? Second, what is the impact of labour standards on economic performance? It would certainly be misleading to consider only the cost of standards. To come to a realistic assessment, the costs of standards have to be balanced against their benefits. There is reason to believe that the net effect of standards is beneficial to productivity, competitiveness and adjustment [Sengenberger & Campbell, 1994]. Depending on how the “economics” of standards is perceived and understood, globalization can have positive or negative effects on the further spread of standards. If it is believed that standards simply add to local production costs and deter investors, they are likely to be curtailed. If they are viewed as an asset, they are likely to proliferate. Third, even if labour standards were not “economic”, should they not still take precedence over purely economic aims, or should there not be at least a “balancing” of economic and social progress? Are standards not a means of “civilizing” production and markets?

IV. Collateral challenges to labour standards

Globalization is not the only contemporary challenge posed to labour standards. Moreover, the actual impact of globalization is by no means fixed or pre-determined, but is contingent on other features which characterize the present international economic and social setting.

Among the factors which constitute challenges for labour standards, and at the same time are linked to the process of globalization, are the following:

(a) high and rising levels of unemployment and underemployment in many parts of the world;

(b) rapid growth of the informal sector, not only in the developing countries but also in the industrialized countries;

(c) increasing inequalities, both within and between countries;

(d) a strong wave of neo-liberal economic policies;

(e) structural adjustment policies which are seen by many as being inimical to labour standards;

(f) the decline and weakening of trade unionism in many quarters;

(g) the spread of an individualist ethos and a pluralism of life-styles, partly related to increased inequality in the distribution of income, both within and across nations.
All these interconnected trends pose, in one way or another, serious challenges to the viability, and the further development, of labour standards. For instance, large and increasing cross-national disparities in productivity, income and wealth make it impractical, or at least difficult, to impose worldwide uniform substantive standards, such as a common minimum wage, minimum age for employment, minimum standards of safety and health, and maximum hours. At the same time, elementary labour standards, such as effective organizations of workers and employers, collective bargaining, tripartite consultation and concertation, active employment and labour market policy, etc. are important vehicles for diminishing the disparities. Obviously, we face a dilemma: a problem of circular and self-reinforcing causation of the lack of common standards, and unequal development.

V. Social justice and the market

The collapse of the communist world was interpreted by some observers as the "end of history". In this view, the systems contest between centrally planned economies and Western market economies ended in favour of the latter.

The question that remains is what we mean when we talk about the "market". Basically, two opposite concepts of the market are available: (i) the unregulated or self-regulating, laissez-faire notion of the market governed by the unfettered forces of supply and demand, and motivated by the fear of hunger and the hope of monetary gain; and (ii) the regulated, socially constrained or controlled notion of the market which requires institutions to make it work and function properly, and maintain social cohesion. The dichotomy between "free trade" and "fair trade" can be seen as variants of these two concepts of markets.

The debate about the market is of critical importance for the assessment of the role and impact of labour standards. Its outcome will be decisive for answering the question whether standards, and labour institutions in general, are seen as a "help or hindrance" to economic development [Freeman, 1992]. A good deal of the criticism of standards is informed by orthodox economic theory which has enjoyed a renaissance during the 1980s. From the perspective of this orthodoxy, standards are viewed as an interference in the (natural) market process, leading to distortions in the price-setting and market-clearing mechanisms, impeding efficiency, creating suboptimal allocation of labour and other production factors, the waste of resources through rent-seeking, the stifling of
competition, the deterrence of investment and constraints to economic growth and the expansion of employment. Consequently, labour market deregulation through the relaxation or elimination of standards should remedy the improper functioning of markets.

The alternative view holds that the market is inexorably embedded in the larger society [Polanyi et al., 1957], and hence there will inevitably be values, norms, rules and customs linked to the market. From this angle, there is no labour market without rules, and the critical issue is not whether to have rules but what kind of rules and who creates them. How democratic is the rule-setting and rule-application? Are they subject to joint agreement or unilateral imposition? Are they created on an individual basis or a collective one?

It follows that there is room for labour standards only within the institutional concept of the market. There is no basic conflict between social objectives, such as social justice, and economic development; moreover, there is no primacy of economic policy over social policy. Many witnesses can be called to testify to this, starting with Albert Thomas, the first Director-General of the ILO, who stressed that the social realm would have to take precedence over the economic [ILO, 1931, p. 12]. The Declaration of Philadelphia of 1944 states the principles that all human beings have “the right to pursue their material well-being and their spiritual development in conditions of freedom and dignity, of economic security and equal opportunity”, and that all economic and financial policies have “to be examined and considered in the light of this fundamental objective”. Moreover, the Declaration reconfirmed the notion that labour is not a commodity and the labour market does not function like a commodity market. More recently, under the impact of intensive international competitive pressure, we have been reminded that free trade is not an end in itself, but a means to raising living standards worldwide.

VI. Is there a cycle of progress in international social policy?

The opposition between “market-centred” forces and “social-minded” forces existed throughout the nineteenth century, and continues up to the present day, with the relative strength of the two varying over time. For the creation of the ILO and the setting of international labour standards a comprehensive coalition of interests, a broad consensus, was required. In 1919 there appeared to be one of those great moments in history
which achieved a broad-based consensus among conflicting groups. The ideas and principles that were written into the “labour” part of the Treaty of Versailles had gradually been conceived in the course of the nineteenth century by a rather diverse constituency. In the main, it comprised the emerging labour movement, far-sighted employers, and social philosophers and lawyers, in the then newly industrializing countries of Europe and North America. The motives behind these impulses were certainly different. There were those for whom better working and living conditions of the working class constituted a value in itself, and hence needed no further justification; those who saw in improved labour conditions an economic utility, such as better performance and higher returns to capital investment, or an easier, or more effective, way of resolving industrial conflicts; for others, the dampening of the worst excesses in working life was a prerequisite for preventing social unrest and social upheaval; and finally, there were those who saw in labour agreements a means of stabilizing the existing political order, and the prevailing distribution of power.

While the coincidence of such motives was sufficient to produce protective labour legislation on the national level, still another ingredient was required for bringing about a social pact at the international level. That was the “insight” into the “interdependence” of the economic development and prosperity of nations. Again, the intellectual and institutional antecedents of this notion date back to the nineteenth century, but it was only after the First World War that they led to the moment of “daring and adventure” [Thomas, 1921, p. 11] that gave birth to the ILO. “Many states were obliged, under irresistible pressure, to adopt laws like the eight-hours law, which before the war was almost universally declared impracticable...” [ibid.]. Thomas also describes how, fairly soon after the spell of euphoria for social conciliation and generous reforms at the first ILO conference in Washington in 1919, a period of backlash set in, dampening the chances for ratification and implementation of the first standards. Thus, in relation to the eight-hour day, the fear of production losses and of a consumer boycott in protest against standard-induced high product prices deterred national decision-makers from putting the norm swiftly into practice.

Another period favourable for standard-setting was after the Second World War when, with the depression of the 1930s and the political disaster of the war fresh in mind, policy-makers were ready to join together in order to contain destructive competitive forces. By contrast, for the last 15 years we have witnessed a slow-down in the process of ratification of ILO Conventions and serious abuses of standards. In the anniversary year 1994, the Committee on the Application of Standards
expressed its great concern about the gravity of failures on the part of a growing number of countries to respect constitutional obligations dealing with labour standards. On the other hand, it was encouraging to hear many Ministers of Labour at the 1994 International Labour Conference pledge to pursue their countries' support for ILO standards.

The particular historical moments of progress provoke the question whether it takes "common suffering" from social or political catastrophe to generate the level of awareness and readiness for action in the field of international social policy. Do things have to become so bad, or — in the language of the economist — do negative external social effects of economic activities have to accumulate to a point where social explosion or implosion occurs or becomes imminent, to bring the actors to reason and make them agree on social accords? Or is it conceivable, and under what preconditions is it likely, that preventive action could be taken? Is there a cycle of political-economic forces at work which fosters standards in some historical phases more than in others? Do periods of intensified competition caused by waves of internationalization of the economy lead businesses and politicians to take a more short-term, cost-centred, parochial posture, thus creating a climate conducive to international agreement and cooperation in social policy? And does this proceed up to the point of damage when the tide turns again in favour of international agreement?

While these questions merit careful study, it seems clear that international social policy is highly "demanding" in the sense that it simultaneously requires social consensus and cooperation within and across national borders. If there is some truth in the cyclical nature of advancement in labour policy we may expect that, from the present drive of globalization forces, a period more conducive to labour standards could emerge. Presumably, the new setting will not be like the status quo ante prior to the onslaught of the present internationalization, but will look rather different. The idea is to prepare ourselves for that event, and develop ideas and directions for the development of labour standards that will be congenial to the new environment.

VII. The organization of the volume

The volume is structured in the following way. This introductory chapter is followed by a historical review of the Declaration of Philadelphia and the new momentum it provided for international social policy (Part 2). In Part 3, four essays written by economists address the
question why we should have labour standards and how they can contribute to economic development. Whilst three of the papers reflect contemporary economic thought, one of them dates from 1927. We included this to demonstrate that at that time the economic problem behind labour standards was not altogether different from what it is today. Part 4 presents papers that provide an account of the nature and latitude of challenges for standards which observers note in view of increasing global economic interdependence. Under the heading of “universality and flexibility” we group, in Part 5, those contributions which focus primarily on the question whether the setting and application of standards should be different in developed and developing countries. Labour standards in selected regions and countries are analysed in Part 6. The essays portray the diversity, but also common policy issues, across vastly different states of development and institutional arrangements. Part 7 contains essays on the theme of labour standards and international trade which reflect the main arguments put forward by employers, workers and academics for and against a social clause in trade agreements. Finally, in Part 8, the editors of the volume have written a brief epilogue that highlights some important messages and recommendations embodied in the essays.

Bibliographical references


Part 2:
A historical review

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I. Introduction

On 10 May 1944, the General Conference of the International Labour Organization adopted the justly-famous Declaration of Philadelphia that catalogued the promises that had been made to the world’s peoples by the Allied leaders during the Second World War. The framers of the Philadelphia declaration gave comprehensive form to the principle set forth in the 1941 Atlantic Charter signed by Winston Churchill and Franklin Delano Roosevelt. Post-war government policies, the British and United States leaders had pledged, would be aimed at “securing for all [countries and peoples], improved labor standards, economic advancement, and social security... [as well as] freedom from fear or want”.

The Philadelphia declaration, which set the ILO on a new path, was adopted at a time when the universality, legitimacy, and even the survival of the ILO were open to serious question. In defining the mission of a renewed ILO, the Philadelphia declaration adopted a far more daring and ambitious set of objectives for the organization than had been the case in the inter-war years. The ILO’s new look in 1944 was not, however, simply a gamble in the dark. At the end of the Second World War, organized labour and its allied political parties, whether socialist, communist, democratic or labourite, enjoyed an unprecedented degree of social, economic and political power and influence. Labour’s enhanced legitimacy and moral authority stemmed, in large part, from the disasters
wrought by unrestrained capitalism, colonialism, militarism and fascism over the three decades that followed the outbreak of the First World War.

Like the leaders of the ILO, in 1944 trade unionists possessed an expansive and ambitious vision of their future role. In the 16 months that followed the Philadelphia ILO meeting, top labour leaders held two international conferences in an effort to shape the post-war world. Uniting across a multitude of barriers, the trade unionists who gathered in London and Paris in 1945 were acutely aware of their historical responsibilities: to convert the United Nations' promised global social charter into the reality of a better life for the world's working people.

II. Setting the stage: Labour as a global actor (1945)

The year 1995 will be the 50th anniversary of the end of the Second World War. The defeat of the Axis powers by the Allies in this cataclysmic conflict established the diplomatic, intellectual, political and discursive contours of the world we knew until the break-up of the Communist bloc between 1989 and 1991. The years from 1944 to 1946 were a hopeful, even Utopian time, in which expectations were high for the establishment of a new, more just, world order.

The signs of change were everywhere in the aftermath of the Second World War. Racism and anti-semitism stood discredited in the cold, blinding light of Auschwitz and Buchenwald. The principle of conquest with its "natural" corollaries of colonial expansion and imperialistic exploitation seemed grotesque, dangerous and inhuman after Hitler's New Europe and Japan's Asian Co-Prospereity Sphere. Stripped of its moral sanction, the centuries-old system of European colonialism entered its final crisis with weakening mother countries facing a rising tide of struggle in the colonies. At long last, the peoples of the colonial and dependent countries were coming into their own in the world arena.

Moreover, the Second World War had followed on the heels of the Great Depression. This had further shaken the philosophical and political foundations of the magical elixir of laissez-faire capitalist progress already challenged by the First World War and its sequel in the Russian Revolution of 1917. In 1945, capitalism seemed far from an unalloyed success after the economic failures of the 1930s. Few were willing to resign themselves to capitalism's "natural" side effects such as boom and bust cycles, unemployment and underemployment, lack of social pro-
tection, exploitation of the weak by the strong, and national, racial and
class oppression.

Nor did capitalism seem the economic system best adapted for politi-
cal democracy, given the partiality to fascism shown by so many of the
rich and powerful before the war. Hatred of trade unions and leftist and
working class parties, whether social democratic or communist, seemed
the path to dictatorship in the light of the experiences of Italian fascism,
German Nazism and Japanese militarism. In the emerging century of the
common man, talk of socialism and communism no longer seemed so
unrespectable nor so extreme.

The Second World War was also the culmination of a series of
innovations in governmental practice with the forging of an expanded
role for the state in social and economic spheres. This new vision of
statecraft was accompanied by the elaboration of a doctrine of rights that
was radically different from nineteenth century liberal capitalist notions.
What had been viewed as the fundamental right in the nineteenth
century, the right to private property, was now at best equal to a newly-
enshrined concept of human rights.

To the purely negative freedom of classic liberal capitalist theory,
freedom from the state, was added the freedom to certain rights and
human entitlement gained through the state. Nor were such rights con-
ceived strictly as individual in nature. Increasingly, human rights took on
a collective or general character and were no longer seen as purely
political or procedural in nature. Even in capitalist countries, statesmen
pledged themselves to provide a broad range of social and economic
rights and guarantees, an "Economic Bill of Rights" as they were called
by Roosevelt in his January 1944 State of the Union address.

The shift to the left was clearly reflected in the two unprecedented
world labour conclaves of 1945 that brought together the top union
leaders from 53 countries and dependencies, from colonies and mother
countries, from the USSR, Great Britain and the United States, and from
Communist-led, avowedly Christian and even pro-capitalist trade union
movements.

Even a perfunctory reading of the verbatim debates of these meetings
offers fascinating insights into that world and ours. The meeting was full
of subtle and not-so-subtle conflicts: tensions between Arab and Jewish
labour in Palestine; between African delegates and South African
representatives; between British colonial subjects in India and the West
Indies and their British "class brothers"; between the pro-Soviet Lublin
Poles and their anti-communist opponents; between the minority of
women delegates and their male compatriots; between peoples of colour
and the dominant whites; and between the representatives of the
"undeveloped" world and the "developed" world, as they were called at the time.

Although the language differs, it is remarkable how the issues debated by these labour leaders in 1945 are still relevant today. The discussions were permeated by debates, open and concealed, over the relationship between national and social liberation and between formal and substantive equality. How do we guarantee democratic control over transnational actors such as the "international trusts and cartels"? How do we prevent wars of aggression and punish those who wage them? What is required to make rights secure? What is democracy itself? And what should be the attributes of a democratic state as opposed to a fascist or Nazi one?

The debates made clear the immensity of the challenge facing any effort to unite organized working people on a world scale. How are national interests to be interpreted in the light of global or international interests? Does the working class have an international commonality of interest? Can one be forged? And if so, how? How were such common interests to be determined across ethnic, religious, racial, regional, national and ideological boundaries? Recognition of the difficulties was tempered, however, by the certainty that the stakes were too high in 1945 to allow failure. Indeed, the conviction that conflicts must be conciliated was central to the unitary dynamic that marked the meetings and the struggle against the Axis powers.

Debate at the London meeting in February 1945 centred around the advisability of setting up a united world labour body. With a key role being played by United States leaders of the Congress of Industrial Organizations, the conference agreed to found a World Federation of Trade Unions later in the year. In the interim, they set out to win a formal role for the world trade union movement in the post-war institutional order of the soon-to-be-founded United Nations.

Yet, labour's ambitions met with an unexpected rebuff at the founding conference of the United Nations in San Francisco in May 1945. In the first sign of the undercurrents that would soon rip apart the Big Three, the request for a formal union role in the Economic and Social Commission was rejected by Great Britain and the United States. It was unnecessary, they argued, since the tripartite ILO, the only surviving institution of the League of Nations system, could take the place of direct labour participation.

Although checkmated in San Francisco, the vast majority of the world's union leaders were unwilling to give up their dream of labour unity and went on to found the World Federation of Trade Unions in Paris in October 1945. The WFTU soon split apart under the pressures
of the Cold War, but the 1945 meetings that led to the original WFTU made a major contribution to strengthening the International Labour Organization. Labour’s demand for direct representation in the international system helped not only to guarantee the ILO’s survival but served to deepen and broaden its mandate and functions in the late 1940s. Indeed, ILO Convention No. 89, on Freedom of Association and Protection of the Right to Organize, was adopted in 1948 as a direct result of efforts by the “rump WFTU” and its Soviet backers to force labour rights on to the agenda of the United Nations.

III. The Pope’s divisions: On the role of ideas in history

Although the Second World War was called a people’s war, it remains unclear what importance, if any, we should accord to such ideas in understanding the conflict. We thus return to the perennial debate about the role of ideas in history. In the nineteenth century, it was generally agreed that history was determined by great ideas that motivated great deeds undertaken by great men. In this model of historical explanation, the formal political discourse that characterized an era was given pre-eminence along with the men who created and/or acted upon those ideas. In the twentieth century, by contrast, the role of ideas and individuals has been downgraded to at best secondary importance in favour of a new emphasis on the broad social, economic and political tendencies and structures that are believed to express themselves through the thoughts and deeds of men and women, both famous and obscure.

Yet the debate about the importance of ideas in history is far from over: should ideas be viewed as everything or nothing in explaining human history? An exchange between Winston Churchill and Joseph Stalin at the Potsdam conference in August 1945 can serve to illuminate the issues under debate. Discussing the territorial contours of post-war Europe, Winston Churchill is said to have remarked that the Pope would not be happy if Catholic Poland fell into Communist hands. To this, Stalin replied with a query: “How many divisions does the Pope have?”

This anecdote about the Pope’s divisions is an expression, in its crudest form, of the proposition that the ideas and words of historical actors lack substance as causal factors in history. Intangibles such as discourse, it is argued, matter little if at all in a hard-nosed calculus of the “real factors of power”. With its icy realism, Stalin’s quip continues to be credible because it speaks to our recognition that too often power in its
most naked form is the supreme determinant of historical outcomes and, sadly enough, of that which comes to be viewed as "right" and "truth".

Thus, in 1945, the moral authority and popular legitimacy of the Catholic faith in Poland counted for little in determining the fate of soon-to-be sovietized Poland. Yet the comparison between the Pope's lack of coercive power and the might of Stalin's Red Army clearly looks different since the fall of communism in Poland in 1989. In this context, the debate about the importance of ideas appears to have been resolved with a triumphant demonstration of the enduring power of Catholic faith, of right over might, of "mere ideas" over brute power.

Before coming to any premature conclusions, however, it behoves us to examine the origin and historical ramifications of the anecdote about the Pope's divisions. As far as can be determined, the exchange is apocryphal and entered the historical record as an improvised oral comment by President Harry Truman during a speaking engagement in late 1948. Indeed, the attribution of this quote to Stalin at Potsdam has been denied, privately at least, by a leading United States participant in the conference.

Thus, the anecdote owes its origin and initial popularity to the polemical exigencies of waging the Cold War. Stalin's alleged comment was used to epitomize the crude materialist calculation that was thought to characterize the atheist Soviet Union and its Marxist-Leninist leaders. Yet even the Communist tradition, however much attuned to power, had always viewed "ideology" as the supreme political weapon. Lenin, for all his materialist orthodoxy, wrote that "ideas become a material force in history when grasped by the millions". Given the high value Marxists attach to "materialist" factors, Lenin's statement clearly demonstrates that he, too, recognized that ideas were a fundamental factor in modern mass politics.

As the example of Poland in 1945 or 1989 suggests, we tend simultaneously to undervalue and overvalue the power of ideas on a purely ad hoc, case-by-case basis. By failing to distinguish degrees or circumstances, we miss the point being made by Lenin and a host of other twentieth century observers: that ideas play their largest role in historical periods marked by intensified mobilization on a mass scale. A successful revolution or victory in a modern "total war" depends upon setting in motion tens of millions of people. Although coercion is fundamental under such conditions, naked force is insufficient if not accompanied by compelling discourse that captures the hopes of millions. Only in this way can leaders justify the monumental sacrifices being demanded of the population. To do so, the official discourse must make present suffering inseparable from a compelling vision of a better future world.
If true, one can then grasp the challenge that the Second World War presented to governments on all sides. A truly global disaster, the war was a massive world-wide slaughter that was made possible only by humankind’s most treasured advances in scientific and technological knowledge and organization. Far surpassing the 20 million lives lost in the First World War, the Second World War cost 50 million lives, one-half of them civilians: 20 million deaths in the USSR, 5.8 million in Poland, 4.5 million in Germany, 3 million in China, 2.3 million in Japan, 1.5 million in Yugoslavia, and more than a half million each in seven other European countries. The United States, perhaps the only true “winner” of the war, lost only 330,000 lives, fewer than the Russians who died during the German siege of Stalingrad alone.

Twice in a little over a quarter-century, the self-proclaimed centre of world civilization had destroyed itself in a paroxysm of violence and destruction. Is it any surprise that exaggerated claims made on behalf of the modern, scientific and industrialized world rang so falsely not only to Europeans but to the world’s “backward peoples”? Asked by an English reporter for his opinion on western civilization, Gandhi paused for a moment’s reflection and replied, “That would be a good idea”.

The political imperatives were especially strongly felt because the Second World War was a “total war” in which entire societies, civilians and non-civilians, were pitted against each other across the globe. Under such conditions, the mobilization of intellectual, moral and spiritual resources was fundamental to victory, in addition to the more obvious material and economic factors. To achieve this, propaganda was carried out by all sides on a scale and with an intensity never before seen. Unlike in previous wars, governments now had at their disposal the tools of mass communication, especially radio, which made it possible to reach hundreds of millions, both the literate and the illiterate.

Given the events that followed 1945, it is worth considering whether talk of the Second World War as a people’s war against fascism and for democracy was mere propaganda and demagoguery. Yet promises and ideas themselves have an impact if enough people act upon them. In other words, there are consequences that flow from the fact that so many tens of millions of working and middle class people believed in 1945 that the war had in fact been a people’s war for a more humane and social world. Under such conditions, their dreams had the potential of becoming a powerful material force in politics. The end of the Second World War, in other words, was a moment when the possibility of a better future lay buried in the heart of the present.

In a very real sense, the Cold War was designed to check this momentum for change. And the story of the Cold War era, which has
now thankfully come to an end, is one in which the promises made so
solemnly in 1945, at a moment of horror, tragedy and possibility, were
broken harshly and categorically by all sides. The world’s peoples, in
other words, were robbed of the world we were owed. To understand
this unfulfilled social contract is a key to self-knowledge and to changing
the fate of our world in the future.

IV. Fighting for the ideals of the United Nations

The Second World War and its immediate post-war sequel must be
examined as an exceptional period that contained other futures besides
the Cold War. Freed from the exigencies of that conflict, it should no
longer be necessary to view this brief moment of hope merely as an
illusory interlude before things returned to their “normal” state of
ideological, diplomatic and military conflicts between East and West. In
other words, we should reject the convenient excuses that were seized
upon by leaders of both sides during the Cold War to justify their
thoughtless squandering of the opportunities 1945 offered to the world’s
peoples.

We should start fighting to regain the ground won in 1945 and lost
thereafter. In the view of the common dangers facing the world today,
we need a spirit of struggle based upon an acceptance of pluralism and an
appreciation of the powerful impact of unity. To quote Frederick
Douglass, the great nineteenth century Afro-North American abolitionist
and former slave, we must remember that “the whole history of the
progress of human liberty shows that all concessions yet made to her
august claims have been born of earnest struggle... If there is no struggle,
there is no progress. Those who profess to favor freedom, and yet
deprecate agitation, are men to want crops without ploughing up the
ground, they want rain without thunder and lightning. They want the
ocean without the awful road of its many waters”. 
Part 3:
The economic rationale
for international labour standards
International labour legislation
in the light of economic theory

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Abstract

The subject of Professor Feis's article is given an especial interest by its close connection with the question whether the regulation of labour conditions by international action is either legitimate or desirable. In recent years comment has often turned on the apparent contradiction between the object of such regulation and the conclusions of the "classical" economic theory. If, as the current economic doctrine teaches, the standard of living in any country depends upon a series of influences which are essentially national in origin, is there in fact any reason to suppose that the conditions of life and labour of the working classes can be improved by some form of joint international action? Is there any possible way of reconciling the two conflicting points of view — the one holding that international competition is the essential lever for raising each country to its highest level of prosperity, the other that international competition depresses labour conditions and creates hardships which can only be remedied by international action?

In trying to answer these questions the author examines, in the light of the classical theory, the intrinsic value and possible effects of the principles laid down in Part XIII of the Treaty of Versailles. The analysis is marked by freedom from preconceived ideas and dogmatism in any form; the comparison of the two seemingly contradictory opinions provides an opportunity for a kind of stock-taking of the whole question,

1 This is a slightly abridged and edited version of the original article, published in the International Labour Review, Vol. XV, No. 4, April 1927.
covering all its aspects and its nearer and remoter forms. The result is neither a defence nor a criticism, and still less a system; it is simply the outcome of the reflections of an impartial economist on the numerous questions which have presented themselves for solution. The aim of the article is not so much to reach a clear and decisive conclusion as to show the complexity of the problem and stimulate the reader to devote further thought to it himself.

I. Introduction

The economic theories presented in the "classical" texts explain that the workers of different countries receive very different wage returns in some countries from those in others, and that the conditions in which they work and live also vary greatly. The existence of these differences of income and condition emphasized in these texts is undisputed. It is also a part of the generally accepted body of economic theory that the conditions of the work and life of the wage earners in any country depend primarily upon the real income of the country; that even making allowances for possible variations in the sharing out of the product within any country, hours of work will be long, wages low, and the conditions burdensome if the total real income of the country is low in relation to the number of inhabitants, and that the opposite conditions will prevail when the economic effort of the country is more effective. In short, economic theory presents and strives to account for a great contrast in the economic lot of the workers of different countries, and regards this contrast as in the main ineradicable.

The movement to improve conditions of labour on an international scale by international action appears in some respects to run counter to these conclusions. That movement, as represented by the work of the International Labour Organization, is engaged in an effort to stimulate national action, in accord with international agreements, towards the achievement of a universal minimum standard of satisfactory labour conditions. Or, as stated differently by the Director of the International Labour Office:

The new feature introduced by the Peace Treaties consists in the fact that equitable labour conditions established by national law or adopted by means of International Conventions are henceforward to constitute an inevitable condition and a natural necessity with which industrial employers must reckon in the same way as they reckon with geographical factors.
This purpose of creating a minimum world-wide standard of satisfactory labour conditions inspires the work of the Organization. It is implied in the Preamble to the Constitution of the Organization, and certainly both employers and trade unionists in the countries where labour conditions are better than elsewhere customarily hold the view that substantial uniformity or equality of conditions forms the only just terms of international competition, and seek to create that uniformity by international action.

II. The economic doctrine about competition and trade

This paper is written to examine a set of closely connected questions:

(a) whether this difference of doctrine between widely accepted economic theory and the effort to regulate labour conditions by international action is a real or only superficial difference;

(b) to explain how such difference as may be real has arisen;

(c) to examine in the light of both sets of doctrines the possible economic gains and losses which may result from such action;

(d) to indicate the problem by which countries possessing different conditions of labour are faced by projects of international labour regulation, and the benefits and losses they must calculate;

(e) to analyse briefly the efforts of the International Labour Organization to take into account the possible losses and difficulties that might arise from its action, and still to carry out its main purposes.

These purposes require first of all a brief restatement and reconsideration of certain relevant economic doctrines which bear upon the problem raised by international action for the purpose of improving labour conditions. The restatement will be brief, and run in accordance with the system of assumptions and ideas as presented, say, in the books of Alfred Marshall (and to be understood, therefore, as presented by him, as only an introduction to the complex actuality of contemporary society). It is limited to those points of economic theory which present themselves only when international action is under consideration, as apart from those which present themselves when the contemplated action is only on a national scale. Thus, for example, it does not touch the controversies bearing upon the value of legislation as a means of regul-
lating labour conditions; for these arise whether action is on a national or an international scale.

The established economic doctrine holds that the productive activities of the people of each country are, under conditions of economic freedom, devoted to those industries and occupations which will yield the largest volume of valuable goods and services. This conclusion is expounded by its authors only as a rough approximation to the truth, and should not be taken as a defence of complete laissez faire. A grave modification arising out of the inequality of wealth and income in each country is always admitted, as well as many other qualifications arising out of special circumstances. But the main argument remains and is, for one thing, the centre of the free trade position; advocates of economic regulation have to prove that regulation is necessary to overcome some obstacle to effective production, or that some important non-economic end must be served, as, for example, when a country subsidizes its merchant marine.

This economic theory can be explained simply. There is a strong tendency for those who direct industry, who have land and capital, and employ labour, to use them in the ways which promise the greatest return. Further, in any particular use of these means of production two forms of competition must be met — internal and external. The internal competition is that of different industries and enterprises seeking the use of the limited supplies of land, labour, and capital. The highest bid for each tends generally to prevail, and the highest bid, the doctrine runs, comes from those who can employ the desired means of production in directions yielding the largest volume of valuable goods and services. External competition tends to extend the same effect further. As a result of this competition, in the absence of tariffs and other obstacles, the economic energies of each country are used in those industries which are carried on with the "greatest comparative advantage" as compared with the same industries in other countries. Such goods (and, to a much lesser extent, services) as can be procured more cheaply abroad than at home are imported, and paid for by exports requiring smaller outlay than the goods procured. Hence it is concluded that international competition, by leading to international specialization, increases the real income of all peoples. This is the result indicated by general economic analysis; it will therefore have to be enquired at a later point why the opposite opinion is so strongly held — the opinion that international competition is injurious to the economic life of a country and depresses labour conditions, and therefore creates a need for international regulation of these conditions.
How great the total volume of valuable goods and services secured by the inhabitants of any country may be in relation to the number of inhabitants, the same body of economic doctrine goes on to explain, depends on many things. Chief among these are the natural resources of the country, its supply of capital and the human energies, talents, organization, and technique possessed and used in production. The volume of production and standard of living in any country depend upon the mingled effects of all these influences. The part played by any one cause or circumstance is always impossible to measure. Who can tell, for example, whether the high level of production and real incomes in the United States arises most from its varied, rich, and accessible natural resources, its immense domestic market, the mastery of machine technique, or the hopefulness, boldness and energy common among American workmen and businessmen, to mention only a few of the contributory causes? Since this is so, any explanation and judgement of the causes of the actual difference of productive effectiveness between different countries must be tentative and incomplete, and vary from instance to instance. Among these causes of difference a line is commonly drawn between those arising out of natural and physical conditions and those connected with human character, habits, and abilities. The significance of this line of division has been changed by the constant increase in human knowledge and changes in industrial technique. It is natural to believe that differences of productive effectiveness traceable to variations in human qualities, habits, and knowledge can be modified more easily and quickly than those due to variations in natural resources. Yet that has become by no means certain in many cases and instances. Both sets of causes are complex and infinite in variety. Some are immutable, some may be modified with relative ease. Correct and confident judgement in any case requires more knowledge and acumen than most men have; hence the constant conflict of opinion and prescription. Efforts to improve industrial conditions in any country are always at work. In view of the constant growth of population the struggle is one of life and death.

The difference in the productive effectiveness attained in different countries (I am still summarizing the "classical" economic doctrines) is the primary cause of the contrasts in the conditions of life and labour of the wage earners in these countries and is, indeed, ordinarily measured by these contrasts. The relation between production and standards of living and work is evident and important. But it is not fixed or automatic; it is impossible to tell, within limits which may differ from time to time and from country to country, just what standard of working-class living can be attained under any given state of productive effectiveness. The question of what set of labour conditions may be maintained within any
country is therefore always a matter of some difficulty to determine, and can only be settled by a course of bargaining and experiment. The process of sharing out the product of industry in every country always involves such bargaining and experiment, and sometimes industrial conflicts. The custom and morality of our industrial system leaves it open to each individual or group to secure as great a return in the form of conditions or income as their position in the work of production and their bargaining strength make possible. In each country, whether economic effort results in the making of many goods or few, whether the goods be rice grains or electrical refrigerators, all groups carry on a continuous effort to maintain or improve their income and conditions. The assertions and demands which are the most highly organized and dramatic are those of the industrial workers' whose effort in most countries has developed into broad political and economic programmes designed to modify economic institutions and practices. The state, when it intervenes to regulate labour conditions, thus steps into an involved situation in which it is impossible to tell just what conditions may be supported by its industry, and can only hope to make a roughly correct judgement of the possibilities.

So much by way of restatement of the general conclusions of economic theory concerning the use and distribution of the economic energies of each country, and of the matters which determine existing conditions and standards. It is, of course, incomplete, and gives no attention to the countless shades of difference of opinion on many of the points considered. Still it may serve as a restatement of "classical" economic doctrine upon the salient points of the economic situation in the midst of which the effort is being made to improve conditions of labour throughout the world by international action.

III. The purpose of international labour legislation

Joint international action for the improvement of labour conditions is being carried on by the International Labour Organization. This institution was created by the Treaty of Versailles and its constitution is contained in Part XIII of that Treaty. The first section of the Preamble indicates the reasons for its creation:

Whereas the League of Nations has for its object the establishment of universal peace, and such a peace can be established only if it is based upon social justice;
And whereas conditions of labour exist involving such injustice, hardship and privation to large numbers of people as to produce unrest so great that the peace and harmony of the world are imperilled; and an improvement of these conditions is urgently required: as, for example, by the regulation of the hours of work, including the establishment of a maximum working day and week, the regulation of the labour supply, the prevention of unemployment, the provision of an adequate living wage, the protection of the worker against sickness, disease and injury arising out of his employment, the protection of children, young persons and women, provisions for old age and injury, protection of the interests of the workers when employed in countries other than their own, recognition of the principle of freedom of association, the organization of vocational and technical education and other measures;

Whereas also 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;

The High Contracting Parties, moved by sentiments of justice and humanity as well as by the desire to secure the permanent peace of the world, agree to the following: ...

It may be observed in passing that the creation of a permanent institution to concern itself with labour conditions on an international scale was the product of experience which seemed to indicate its need, and not the product of theory. Those interested in the improvement of industrial conditions in various countries had more than once found that a desired change in labour conditions was hindered by the possibility that the same industry in some other country might secure a competitive advantage as a result of the change. This possibility is always present when the contemplated improvement involves a possible increase in production costs. The idea of resorting to joint international action is, therefore, natural in such contingencies. That is the train of thought which led to the creation of the International Labour Organization. Its connection with the League of Nations lies in the fact that differences in conditions of labour have been in the past a source of international antagonism. We are familiar, for example, with the mingled fear and dislike invoked among the workmen of the United States and Europe by the bugaboo of the competition of the work of the Far East carried on under much poorer conditions. How often still, for further example, are the workmen of French, British, Italian, and German export industries confronted with each other's conditions as the chief reason why some desired improvement could not be attained. Such is the competitive experience which went to the making of Part XIII of the Peace Treaty. By the workman
and often by the employer, international competition is usually regarded as a force depressing his conditions.

But the preceding economic reasoning indicates that this view cannot be accepted as an accurate and complete statement of the effects of international competition. The general analysis, on the contrary, tended to indicate that international competition and exchange was an important means of increasing the real income of the nations engaged in it; it emphasized the fact that international competition tended to bring it about that the economic energies of each country were turned in the directions that would yield the greatest volume of valuable goods and services. The difficulties encountered by countries arising out of changes in the international competitive situation are regarded as only transitional, and incidental to the attainment of a new position of equilibrium by which all countries will benefit. That doctrine, when rigidly stated in the classical texts, further implies that the more advanced standards of the more productive countries cannot in the long run be affected deleteriously by the competition of countries having lower standards — the standard of each resting upon the productive effectiveness of each competing country.

Can these opinions be reconciled? I believe so. The first view is that naturally entertained by particular groups of workers and employers as producers; they see their jobs or their economic power often menaced by foreign competition. The second view is the natural one when thinking of the people of a country as consumers, to whom international competition and exchange bring goods and resources on better terms than if no such competition occurred, and thus increase their real income. In the classical doctrine it is this viewpoint which is maintained and put in the forefront. That classical analysis assumed, for the purposes of its enquiry, that the workmen and capital within a country could quickly change their occupation, quit an industry where foreign competitors were proving able to undersell, and enter another industry which possessed a greater comparative advantage — the whole benefiting by the change. The opposition to international competition, the desire to regulate by international action the labour conditions in which it takes place, arises from facts and tendencies contrary to that assumption. It is dominated by the fact that within highly industrial countries the mobility of labour and capital — their capacity to shift themselves about from one industry to others under the pressure of competition — is slow, painful, and incomplete. Whole masses of men seem either unwilling or unable to shift their occupations in the older industrial countries in which few valuable natural resources remain unexploited. Only in countries undergoing rapid industrial expansion does a great shift in the employment of the means
of production occur without serious difficulty. Despite all obstacles those influences which are recognized and summarized in the "principle of greatest comparative advantages" tend to assert themselves, but only slowly, overcoming the inertia of human beings, and bringing direct suffering in their courses. An example of all these difficulties, exceptional in intensity, is to be found in the coal industry in recent years. That vital industry has been characterized by overproduction since 1921 and the situation, instead of remedying itself in accordance with the main anticipations of classical doctrine, has grown worse. There has been little shift of men or resources into other industries, but instead an intense international combat in which each nation has tried to hold its place by special means.

The British tried a subvention. The Dutch, who were losing a florin a ton, immediately exacted a subsidy from their Government... In Germany, Belgium, Yugoslavia, and Czechoslovakia the Governments lowered their freight rates or applied discriminating tariffs to foreign coal. Holland, Poland, and Spain have tried tax exemptions, export bounties, and state purchase at high figures [Eastman, 1926].

Under these conditions, somewhat different from those contemplated by the main body of economic theory, and viewing the matter from the point of view of the workers as producers and receivers of pay for production, international competition — and particularly shifts in the terms of international competition — may be and often is a force which tends to lower real wages and depress the conditions of labour in particular industries over considerable periods of time. This result ultimately ceases. A shifting of men and resources from the depressed industries to other industries ultimately results. And all the while, this international competition may be of benefit to all consumers not affected by the depression. But under existing circumstances, with organized working men slow to move, with huge quantities of capital fixed in form, these international adjustments are slow and carry serious consequences, amounting at times to industrial disorganization, as in Great Britain in 1926. To those directly affected it appears, and with considerable truth, that their wages and conditions are governed not so much by the level of industrial effectiveness within the country, as by the fluctuations in the terms of international competition to which they are subject. Their loss — in its direct and indirect effects — seems to, and sometimes may actually, outweigh the consumer's gain.

The effects that may be produced in a period of unusual tension and fluctuation in industrial competition are exemplified by the course of wages in different British industries between 1914 and the end of 1925.
Percentage increase of weekly time wage rates on 31 December 1920 and 30 June 1925, as compared with August 1914

<table>
<thead>
<tr>
<th>Industry or occupation</th>
<th>Time wages per cent of wages in August 1914</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December 1920</td>
</tr>
<tr>
<td>Exporting industries</td>
<td></td>
</tr>
<tr>
<td>Coal mining:</td>
<td></td>
</tr>
<tr>
<td>Yorkshire</td>
<td>175</td>
</tr>
<tr>
<td>South Wales</td>
<td>190</td>
</tr>
<tr>
<td>Iron mining:</td>
<td></td>
</tr>
<tr>
<td>Cleveland</td>
<td>200</td>
</tr>
<tr>
<td>Cumberland</td>
<td>200-300</td>
</tr>
<tr>
<td>Iron and steel smelting, rolling, etc.:</td>
<td></td>
</tr>
<tr>
<td>North of England</td>
<td>241</td>
</tr>
<tr>
<td>Scotland</td>
<td>242</td>
</tr>
<tr>
<td>South Wales</td>
<td>Varied</td>
</tr>
<tr>
<td>Pig iron manufacture:</td>
<td></td>
</tr>
<tr>
<td>Cumberland</td>
<td>300-350</td>
</tr>
<tr>
<td>Cleveland and Durham</td>
<td>225-300</td>
</tr>
<tr>
<td>Engineering:</td>
<td></td>
</tr>
<tr>
<td>Ironmoulders</td>
<td>123</td>
</tr>
<tr>
<td>Labourers</td>
<td>210</td>
</tr>
<tr>
<td>Shipbuilding:</td>
<td></td>
</tr>
<tr>
<td>Platers</td>
<td>123</td>
</tr>
<tr>
<td>Labourers</td>
<td>208</td>
</tr>
<tr>
<td>Cotton industry</td>
<td>160</td>
</tr>
<tr>
<td>Wool textile industry:</td>
<td></td>
</tr>
<tr>
<td>Time workers</td>
<td>216</td>
</tr>
<tr>
<td>Chemical manufacture:</td>
<td></td>
</tr>
<tr>
<td>Labourers</td>
<td>224</td>
</tr>
<tr>
<td>Boot and shoe manufacture:</td>
<td></td>
</tr>
<tr>
<td>Men (heel building, etc.)</td>
<td>127</td>
</tr>
<tr>
<td>Sheltered industries</td>
<td></td>
</tr>
<tr>
<td>Building:</td>
<td></td>
</tr>
<tr>
<td>Carpenters</td>
<td>152</td>
</tr>
<tr>
<td>Labourers</td>
<td>225</td>
</tr>
<tr>
<td>Railway service:</td>
<td></td>
</tr>
<tr>
<td>Engine drivers</td>
<td>126-130</td>
</tr>
<tr>
<td>Goods porters</td>
<td>215-247</td>
</tr>
<tr>
<td>Tramways:</td>
<td></td>
</tr>
<tr>
<td>Drivers</td>
<td>140</td>
</tr>
<tr>
<td>Conductors</td>
<td>157</td>
</tr>
<tr>
<td>Printing:</td>
<td></td>
</tr>
<tr>
<td>Hand compositors</td>
<td>162</td>
</tr>
<tr>
<td>Baking:</td>
<td></td>
</tr>
<tr>
<td>Fore hands</td>
<td>135</td>
</tr>
</tbody>
</table>
This extract from the Report of the Committee on Industry and Trade gives the rate of percentage increase of weekly time wages in two groups of industries — the first group directly subject to international competition, the second group largely protected from it [Survey of industrial relations, 1926]

The incidence of international competition since 1920 is apparent. The comment of the Committee on this question [ibid., pp. 14-15] is pertinent to our subject and in accordance with the general trend of the preceding analysis:

The figures quoted tend to show not only that money rates of wages in the so-called "sheltered" employments exhibit a greater percentage increase since 1914 than in the exposed trades, but that the average levels of wages in many of those employments, both for skilled and for unskilled workers, are now materially higher than those generally prevailing in occupations which most nearly correspond to them in the more exposed trades... Broadly speaking, it may be said that no industrial occupation is wholly "sheltered" in the sense that the remuneration appropriate to such occupation is in the long run independent of the world forces of supply and demand. Even if its products are not in direct competition with those of other countries, there are other channels, direct or indirect, through which competitive forces will make themselves felt... But these levelling forces require a comparatively long period to produce their full effect, whereas in trades directly exposed to foreign competition the price at which the competing article will capture or fail to capture the market imposes immediate and obvious limits on the prices which can be charged and consequently on the resources available for wages and profits... An exposed industry responds immediately to changes of economic conditions; in the case of a "sheltered" industry there may be a "lag" of months or even years between such changes and the eventual readjustment... In ordinary times the difficulty is but a limited one, but in times of great and sudden changes of prices and conditions... the want of proportion between the remuneration of the exposed and "sheltered" industries may be and has in fact been substantial.

It is out of these circumstances that the support, theoretical and actual, comes for the regulation of international competition by international agreement upon labour conditions. Countries find that they cannot face the misery and disorganization that arise from an unfavourable shift in their competitive position, and the organized workers strive to combat the worsening of their conditions. A measure of stability is sought by means of international agreement. It may be argued with force that the countries should, on the contrary, strive to encourage and aid mobility of their labour and capital within their boundaries. There can be no doubt that countries in which great mobility exists are better off. But the older industrial countries and the over-populated countries find this a counsel of perfection. For them it is virtually impossible to find
fresh employment quickly for the tens or even hundreds of thousands of workers that may be engaged in a single industry. Besides, in most countries, circumstances have compelled the enactment of unemployment insurance and other legislation which tends to lessen the shifting of workers, and brings a fresh problem to the budget when serious unemployment occurs.

It is in these important differences of circumstance, prevailing rather than exceptional as far as post-war Europe is concerned, that a reconciliation with the classical economic theories must be sought. Under these conditions the gains and losses from unrestricted international competition are not so simply assessed; and likewise the good and bad results of interfering with that competition by means of international labour agreements are not to be judged simply and solely in the light of the unqualified conclusion that "in the long run" unrestricted international competition leads to the production of the largest possible volume of valuable goods and services in each country. They are to be judged by weighing a more complex set of possible good and bad results.

IV. Expected gains and losses from international labour legislation

The prevention of misery and the avoidance of industrial disorganization, which under existing conditions in many industrial countries would not bring its own quick end in accordance with the classical theory, are the economic ends sought in international action dealing with labour conditions. This effort thus becomes, in my interpretation, above all an effort to secure some measure of stability in relative labour conditions. Some economic loss may — nay, it can be said, will — result from this regulation of international competition. This loss may be in several directions: first, many consumers may have to pay somewhat more for certain products; secondly, the workers and capitalists of certain countries where the general level of industrial effectiveness is low may find themselves unable to enter certain industries which they could carry on under unrestricted international competition and which would yield higher returns than some already in existence; thirdly, the lack of freedom to revise standards may produce unemployment in some directions and countries, while avoiding it in others. These losses may be serious. But considering the present conditions of industry the gains may sometimes outweigh them — gains in the way of protection of the higher standards already obtained in some countries, in the partial stabilization
of the conditions of competition, in the creation of the necessity of finding new means of competitive effectiveness, in the possible avoidance of industrial strife. It is to be expected that the losses would be minimized by the anxiety of each country to guard its own interests before entering any international agreement.

The correctness of this opinion becomes more likely when it is reflected that in the absence of all international agreement it is possible for a temporary change in circumstances in any one country, say a temporary industrial depression, to affect seriously the standards in competing industries in other countries. The trade unions of each country, in particular, feel that the conditions which they have secured are always in danger of destruction even by the temporary difficulties experienced in other lands, even by the fluctuations in trade union strength abroad. Hence their firm support for international action and their tendency to disregard the economic losses they may suffer as consumers — and in some cases, if the terms of the Conventions do not fall within the productive capacity of their country, as producers.

I wish to develop somewhat further the possible losses and gains — dangers and advantages — of international labour legislation. A number of possibilities, half in the realm of fact, half in the realm of policy, require consideration. First, it must be observed that if a country establishes a minimum standard of labour conditions as part of a joint agreement, it thereby becomes more difficult for any new industry to arise within that country merely because it happens that it can benefit by conditions of labour especially low even for that country. In other words, it may help to prevent "sweating": it makes it more difficult for an industry to arise in a country merely because it can take advantage of the bargaining weakness of particular bodies of workers; it stimulates the effort to employ the same labour more advantageously and with better methods of production. In the event, however, that no adequate alternative employment exists for the groups of workers affected, the result will be unemployment.

The preceding line of thought may be carried a step further and applied to the competitive relations of different countries. If international agreements establishing minimum conditions of labour are ratified by those countries in which conditions are now very much poorer than in the more effective industrial countries, the result will be to prevent the further expansion of industry in these countries unless and until they can meet this standard. The countries where conditions are poorest have as yet relatively few industries competing in the international market. By international action terms would be created for the possible future growth of competition with those countries where higher standards have
already been achieved. That, in my opinion, is an advisable step for the world, although certain immediate economic losses will result, and these losses might fall most heavily on those countries in which conditions are already poorest.

So much by way of estimating the differences of doctrine between orthodox economic theorists and advocates of international labour legislation, as regards the effects of unregulated international competition. Another point of difference between the two schools lies in their difference of emphasis upon another set of possibilities. This set of possibilities is represented by the belief that joint action through a permanent organization such as the International Labour Organization, in the work of which governments, workers, and employers participate, might in itself do something to create the economic conditions making an improvement of labour conditions possible. There has been the hope that continued discussion and effort carried on through the International Labour Organization would sharpen the consciousness of labour conditions, arouse greater cooperative effort within each country to improve them, and, by improving industrial relations and encouraging thought and action, produce an increase of productive effectiveness within each country. The possibility cannot be weighed apart from the whole state of industrial relations and methods existing at any given time and place. Akin to this possibility is another which undoubtedly has figured in the thoughts of the labour supporters of international action. That is the possibility that the promotion of joint action by such a body as the annual Conference of the International Labour Organization would give moral strength and prestige to the workers of each country in their effort to secure as large a share of the product of industry as possible; in other words, that joint action may be an aid to securing conditions really permitted by the general productivity of a country, but not established until forced by events. On this possibility, also, generalization is of practically no value. The result may be economically sound or unsound according to circumstances. In one direction, however, it has considerable importance. Economic history tends to show that when the conditions of labour within a country are extremely poor, they tend to perpetuate themselves. This may be traced to a number of causes — the force of tradition, the weak bargaining power of extremely poorly paid workers, the deterioration of strength and character, the tendency towards poor management of a cheap labour supply, the extent of family labour, and the high birth rate characteristic of poorly paid industrial wage-earning groups. Joint action seeking to create a world-wide minimum standard of conditions may act as a counter force and be the beginning of an effort to overcome the self-perpetuating situation. This result is not by any means assured —
but it is among the possibilities. The necessary increase in human effort and cooperation may or may not be forthcoming under compulsion. The size of the population may or may not continue to grow at so rapid a rate compared with natural resources as to defeat all effort at improvement — huge masses seeking work at any price, and the habitual economic misery such as exists in the Oriental countries. But international action is one of the few available means of stimulating the effort. The main body of economic theory does not contemplate it, does not recognize it as among the basic influences which may determine standards of work and living in the long run; on the other hand, it does not completely reject the possibility.

V. Consequences of international labour legislation

Some further possible consequences of international labour legislation are revealed by considering the position in which countries possessing at present different standards of labour conditions find themselves placed in the face of international action designed to establish a universal minimum standard.

The position of countries in which the conditions of labour are already better than elsewhere is a simple one (at least as regards those particular questions in which this established superiority is clear and permanent). They anticipate a protection of their relative position in international competition. They should tend, furthermore, to become the promoters of an international interest — real or presumed. That international interest is based on a humane, semi-ethical judgement that there is a standard of working conditions and welfare which is necessary in the modern world for the proper development of human character and satisfaction of basic human wants; it is defended by the conviction that wherever such a standard has been attained it should be protected, and that where it has not been attained it should be developed. This judgement as to international interest therefore holds that those countries which have attained higher standards should not be compelled to sacrifice them to a competition which is effective merely because it is based on very poorly paid labour working under very poor conditions — as has already been stated, this result could only be temporary, but nevertheless serious. It asserts that countries where standards are poor should carry the burden of improving them before they enter into international competition, that industries and industrial activity should not be permitted to migrate to places where conditions are poorest. Naturally this
reasoning tends to be congenial to trade union organizations throughout the world.

In support of this judgement the parallel of national legislation, creating minimum standard conditions throughout the whole of a national territory is often cited. But this parallel has little force. For within any one country there are neither customs barriers nor immigration restrictions, and there is a much freer movement of goods, capital, and labour than between countries. All parts of a country may therefore be required to meet a minimum standard with less fear of economic suffering or less chance of injustice than in the case of international action. And, on the contrary, the existence of tariff and immigration laws greatly weakens the moral argument for the international observance of minimum standards. It weakens the moral duty imposed upon the countries where conditions are poorest to meet some world standard since they enter into international competition. Our general reasoning indicates that these countries may sometimes risk an economic loss to themselves if they do participate in joint action. On the other hand, such joint action may act as a moral, social, and technical spur to these countries, helping them to improve their conditions of labour.

The difficulties facing those countries which, in order to participate in any joint effort, are called upon to modify their standards (as embodied in legislation) more than other countries, are apt to be genuine and serious. Great and permanent improvement of conditions must mainly rest upon an improvement of industrial effectiveness. The need of paying for purchases made abroad will constantly defeat the effort to improve labour conditions beyond the levels permitted by this industrial effectiveness — difficult as these may be to determine in theory. Obviously, the disposition and ability of each of these countries to undertake such changes will be determined largely by the economic fortunes of the country — by whether their workmen are fully employed, industry growing in effectiveness, industrial leadership energetic and progressive, or the contrary, trade unionism strong or weak. We have observed the numberless combinations of causes, human and physical, circumstantial or immutable, which account for the lowness of their existing standards. An improvement of these standards may sometimes be undertaken with relatively little fear if the facts be correctly judged; the economic position may be prepared for it or easily improved by determination and industry. At other times such countries may face well-nigh unconquerable obstacles to the successful maintenance of higher standards, to the attempt to approach the better conditions prevailing in other countries; any effort may be doomed to failure by causing un-
employment, by non-observance of enacted legislation, by worsening the lot of some groups of wage earners in the effort to improve that of others. The economic limits are ever present and important; a loss not only to these countries but to the countries which sell to them will result from attempts to ignore them.

It is not necessary to go over again the grounds on which the opinion is based that the effort to improve conditions should be made whenever a reasonable chance of successful achievement exists — the possibilities of making industry more effective or increasing the share of the product going to the workers without doing corresponding economic harm elsewhere. These are important possibilities in this rapidly changing, complex economic world, in which we are all conscious of the fact that our technical knowledge and human talent is enough to make production so much more effective than it is at present. Yet they are often only vague and frequently turn out to be visionary. Still, it is within the domain of these possibilities that the hopes of those lie who believe it possible gradually to create by international action a general minimum standard of conditions, good enough to satisfy to some extent the aspirations embodied in Part XIII of the Peace Treaty — even in countries where conditions are now poorest. The economic limitations are to be tested. Because of them the work of the International Labour Organization must become an educative, conciliatory influence, adding to practical knowledge, moulding human attitudes and relations, if the Organization hopes to make any progress in its aims. If it turns into a mechanical Convention-dragging agency it will be dead.

VI. Issues of choice for international legislation

In the existence of economic obstacles, in fact, is to be found a great part of the explanation of some features of the agreements formulated by the International Labour Organization up to the present. The States Members, even if their action is not made cautious by the caution of the employers, even if the will exists to participate in international action dealing with labour conditions, must feel their way slowly about the economic difficulties they may face. Gathered together in conference the representatives of governments, workers, and employers of each country always find that they have numerous courses of action open to them, each course of action shading into the next by small degrees. The time of the Conference is spent chiefly in trying to decide which course of action shall be undertaken. It is possible to indicate only a few of the
broader types of possibilities. The Conference majority of two-thirds may endorse terms which represent conditions better than those prevailing even in the countries where economic effort is most effective — terms designed to satisfy social ideals at once; if that is done it is very likely that the resulting agreement will secure extremely few ratifications and have no effect. Or the terms embodied in the Draft Convention may represent some improvement over existing conditions in countries where they are poorest, but not mark any improvement in most countries; in which case the process of ratification will probably move smoothly in most countries, but the conditions established still fall below the minimum expectations of the workers in the more industrially effective countries. Or the Conference may after many meetings contrive to find a compromise between the two types of agreement — a constant compromise of detail, which should mark, if put into force, some improvement of conditions in almost all countries, yet not be such as to exclude completely the ratifications of countries where existing conditions approach the poorer levels. Such is usually the course pursued. Most of the draft agreements formulated by the Conference propose some improvement of existing conditions in most countries, perhaps even in all countries — still, only a small improvement; most of them also, as we shall see, leave the way open for exceptions and hold over the hope of agreement upon many points where the difference of economic conditions in different countries proves too great an obstacle. These agreements are almost always opposed with determination by the employers' representatives, and supported by the workers' representatives as being much below their wishes but the best immediately attainable. These opposed views find expression in opposite theories of the aims of the Conference. This process of compromise may be regarded as exploratory manoeuvres carried on within the area of uncertainties left by economic observations. They are the push and tug of opposed interests and hopes, of caution and of boldness.

VII. Should international action be aimed at uniform standards?

If the preceding examination of the economic problems brought up by international action dealing with labour agreement, and of the methods by which the attempt to reach agreement is carried out, is correct, it is plain that the establishment of a uniform standard of conditions is unattainable; or rather, it is plain that the only uniform
standard that might be attainable would have to be within reach of those countries where the level of production is extremely low, and such standards will never find embodiment in international agreements. It may be asked, therefore, whether the attainment of uniformity is essential to the achievement of the aims of international action, and whether that is the only just basis of agreement. A natural assumption to that effect is often made in conference discussion. There would seem to be no sound economic or ethical basis for that opinion. The economic results of such a policy have already been discussed; and (since national barriers such as tariff and immigration laws are enforced, and as long as it is generally held that a country’s economic policy should be based first of all on national interests irrespective of international effects) only an extremely weak ethical duty can be assigned to those countries where the standards are lowest, except the duty of these countries towards their own workers.

Economic analysis reveals no essential need for uniformity; nor will the absence of uniformity in itself defeat the aims of joint action. Even if uniformity of minimum standards were attained, the difficult situations sometimes created by international competition would not necessarily be less than they would otherwise be. What is needed, and what may not be out of the range of achievement, is, first, a tendency towards general improvement, a tendency on the part of each country to improve conditions of labour as much as its industrial effectiveness may permit; secondly, substantial equality and stability of minimum conditions as between countries where the levels of industrial effectiveness are substantially equal; and thirdly, the gradual pressure on States where conditions are poorest to approach the standards existing elsewhere, so that industrial activity may not gradually shift into the areas where conditions are worst. In some such moderate policy as this lies the hope of avoiding some of the worst effects of international competition, while preserving most of its gains.

VIII. Universality versus particularity of standards

If it were possible, it would be illuminating to study the history of the action of the States Members of the International Labour Organization in regard to the projects for agreement which have been before the annual meetings of the Conference, and the Conventions and Recommendations adopted by the Conference. That study would throw light upon the economic calculations of each State, and reveal clearly how the effort has been made by each State to participate in joint action for the
improvement of labour conditions and yet to avoid the economic difficulties. It would show why and where the effort has been made to limit or stabilize the force of international competition, and how difficult and even inadvisable that is in many circumstances. But that would be a task of difficulty and endless complexity. Only one phase of it can be attempted now. It is possible to trace out roughly and generally the way in which the States Members have tried, in framing their agreements, to find terms of agreement which represent some improvement of conditions in many countries and some modification of the rigour of international competition, within the limitations of economic facts and frequently conflicting national interests. That study shows that the rule of uniformity of conditions has been found partially applicable, especially as between the chief competing countries in Europe, and that, on the other hand, other rules and arrangements have been substituted for it in many instances.\(^2\)

In the third paragraph of Article 405 of Part XIII of the Peace Treaty, the following paragraph is to be found:

In framing any recommendation or draft convention 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 the modifications, if any, which it considers may be required to meet the case of such countries.

Article 421 of the same Part of the Treaty reads as follows:

The Members engage to apply conventions which they have ratified in accordance with the provisions of this Part of the present Treaty to their colonies, protectorates and possessions which are not fully self-governing:

(1) Except where owing to the local conditions the convention is inapplicable, or

(2) Subject to such modifications as may be necessary to adapt the convention to local conditions.

Article 427 of Part XIII may also be quoted in this connection:

The High Contracting Parties, recognizing that the well-being, physical, moral and intellectual, of industrial wage earners is of supreme international

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\(^2\) A useful distinction may perhaps be drawn between matters of principle (e.g. freedom of association, existence of social insurance plans) and matters of direct economic measurement and actual standards (e.g. hours of work). The principle may be universally applicable, the standard not so — but the reverse is also possible. I owe this distinction to J.R. Richardson of the International Labour Office.
importance, have framed, in order to further this great end, the permanent machinery provided for in Section I, and associated with that of the League of Nations. They recognize that differences of climate, habits and customs, of economic opportunity and industrial tradition, make strict uniformity in the conditions of labour difficult of immediate attainment. But, holding as they do that labour should not be regarded merely as an article of commerce, they think that there are methods and principles for regulating labour conditions which all industrial communities should endeavour to apply, so far as their special circumstances will permit.

In these texts there appears adequate constitutional recognition of the fact that uniform conditions may in many cases be inadvisable and impossible of attainment. To learn what has actually happened, it is necessary to enquire what process has taken place under these constitutional texts.

First, as has been stated, serious controversy has arisen at each Session of the Conference over the precise standard of conditions to be embodied in the proposed agreement under discussion. It was to be expected that it would often be debated whether the conditions provided should be actually or very nearly within immediate attainment on the part of countries having comparatively poor conditions, or so decidedly above existing conditions in those countries as to make their acceptance and enforcement a considerable risk and strain, though still below the conditions prevailing in the countries of greater industrial effectiveness. The decision in many instances runs in the latter direction. But in many instances, also, the controversy has concerned itself rather with the question whether the conditions prescribed should not mark an improvement over existing conditions even in the countries of comparatively high existing conditions, such as those of Western Europe. That is due to the comparatively great strength and prestige of the trade union movements in those countries. These trade unions have been most reluctant to see standards embodied in Conventions that did not mark decided improvement over the conditions under which they, themselves, were working. These trade union movements have held the hope of procuring the ratification of their own countries, even though the countries where existing conditions were comparatively low could not be expected to ratify. In short, the labour representatives of the various countries have not often been afraid of tipping the balance of international competition against themselves. This attitude is based partly on the deeply held trade union conviction that it is virtually always possible for workers to receive a larger share of the product than they are actually receiving without doing economic harm. In short, labour representatives have wanted the Conventions to be of assistance to them in their distributive contest, and have
been willing to rest on the hope that similar improvements of industrial conditions in other countries would keep the international competitive position unchanged. The economic hazards of realizing this programme have already been discussed. The employers' representatives of each country have usually taken a position of opposition to the labour demands and views, and have tended to seek conditions relatively easy of establishment which also might improve their competitive position. Sometimes they have supported a small measure of improvement, sometimes declared that economic difficulties made any improvement impossible.

A tendency towards group feeling and cooperation within the Conference has probably led the employers' representatives of some countries to oppose terms which might not have caused any serious additional production expense to them, but might have that effect in other countries. Behind such action lies the hope of reciprocal support. The same tendency to group support and bargaining exists among the workers' representatives. The result of the whole process is compromise under influence of the government representatives, sometimes on terms little or no better than the existing situation in many Member States, sometimes better than those in most or all Member States. To try to describe fully and accurately the level reached would require an immense detailed investigation. Seldom or never have the terms of agreement passed by the Conference majority (two-thirds) been pitched down to the lowest range of those existing. But no guarantee of ratifications exists, of course, and the process of ratification in many instances has made difficult progress.

Certain other features of the agreements reached by the Conference require consideration as part of the same subject. In the case of several important Conventions a special standard lower than the main standard is provided for countries which could not possibly reach the main standard. The debates of the Conference show that this arrangement was made only with reluctance. An instance of such special provisions is to be found in the Hours of Work Convention of 1919, wherein a special regime different from the general one of the Convention is specified for Japan and British India, and it is furthermore provided that "The provisions of this Convention shall not apply to China, Persia and Siam, but provisions limiting the hours of work in these countries shall be considered at a future meeting of the General Conference". Special provisions of a similar character to that of the illustration just given are to be found in the Conventions concerning the employment of women during the night, the minimum age for admission of children to industrial employment, the night work of young persons employed in industry,
and the minimum age for the admission of young persons to employment as trimmers and stokers.

All the differences of regime specified in the Conventions up to the present apply only as between certain countries of the Far East and the other Member States. The general idea that all the other Member States must and can prove themselves capable of having minimum conditions equal to those of the Conventions has prevailed. Smaller differences were involved. Still, the attainment and enforcement of the general terms of these Conventions will mean a different measure of change in different countries. A real economic problem may be involved with the possibility of genuine economic loss; it will be solved only if and as the countries with the relatively poor conditions improve their productive effectiveness.

The specification of exceptional terms for certain countries is not the only way in which heed has been taken of the differences in economic position which form an obstacle to uniformity. The Conference under its constitutional powers is authorized to embody its agreements in either of two forms or instruments, for submission to the judgement of the competent authorities of the States Members. These two forms are known as Conventions and Recommendations. Conventions, once ratified, are strict documents: a ratifying country gives a pledge that its national law will be brought into conformity with the terms of the Convention and so maintained for the period of the Convention. Recommendations, on the contrary, never become international treaties, and do not require that States give any international pledge. Each State Member is under the same obligation to submit Recommendations to the competent authority for such action as that authority may decide to take, as in the case of Conventions. But no international obligation is assumed. Each country may carry out the terms of a Recommendation piecemeal and partially rather than completely, and remains legally free to change its legislation as and when it pleases. Furthermore, the terms of a Recommendation are usually drawn very broadly, and leave open a broad field of discretion as to the standard to be established, in contrast to the main principle of a Convention. The Conference has put its agreements in the form of Recommendations when dealing with matters in which joint action is necessary, but in which (a) the obstacles to uniformity of standards are so great as to make even near approach to uniformity unrealizable; (b) the alternative means of carrying out a given purpose are numerous and traditionally different in different countries; for example, as regards the organization of factory inspection. Because of the characteristics of Recommendations, this form of agreement raises far less serious economic problems than do Conventions. But they are a very weak form
of joint action, amounting at most to a moral stimulus to action and, at worst to a pious wish. For they offer no such guarantee and security as is found by States Members in the relative precision and irrevocability of Conventions.

It is important to observe, however, that even in the Conventions it has often been found necessary to avoid the insertion of precise and rigid terms on many points if any real hope of ratification was to be entertained. On various points of the matters covered by the Conventions, no precise standard is defined within the Conventions. The method used is to provide that the conditions to be established as regards the point in question are to be decided in accordance with national legislation. This procedure was followed, for example, in the matter of determining the rates of compensation for industrial accidents and occupational diseases. This leaves the way open for States Members to ratify the Convention, though the conditions established in some respects or parts may differ from those maintained in other countries. It leaves these points to be decided by each country. Or in other words, when this formula is used, the States Members of the Conference virtually agree to disagree.

Lastly, it should be observed that up to the present no attempt has been made to secure international action dealing with wages. It has been tacitly recognized that the differences between the productive effectiveness and economic condition of the States Members, and the complexity of the subject, make it impossible to formulate internationally any general level — not even a low minimum. For these same reasons any future agreement reached will have to be in very general terms and weak form; for example, a recommendation to States Members to establish machinery to determine minimum wages for the poorest paid occupations.

These have been the main methods by which, up to the present, economic difficulties have been reckoned with in the effort to reach international agreements, by which the attempt is being made to limit the possible downward pressure of international competition without sacrificing its advantages. To try to measure the success of this effort is beyond the scope of this paper.

**IX. Conclusions**

The preceding analysis does not lead to many clear-cut conclusions. But a few tentative and general ones may be drawn.
(1) The conclusion of economic theory, that the main effect of international competition is beneficial to all countries affected by it, is sound. Its main constantly working effect is to increase the income of all countries participating in it.

(2) The general doctrine does not give proper weight to certain effects of international competition which may be destructive and serious. These arise from the fact that the basic assumptions of economic theory do not always correspond closely to some of the existing facts of economic life. Many of those industries which are most subject to international competition operate on an immense scale, have great fixed plants, and employ up to hundreds of thousands of workers who can find employment in other directions only with difficulty and when the country is in a state of industrial activity or expansion. Hence shifts in the competitive situation of different countries may produce serious depression in labour conditions, particularly in the export industries, below the standards supportable by the productivity of some or all of these countries. These effects may be of considerable duration, and indirectly may prove a serious set-back of the whole industrial situation within a country.

(3) Such agreements may be a means of securing important economic gains for all concerned:

(a) They may prevent a depression of working conditions and industrial disorganization, especially in the export industries, from being produced by temporary circumstances and fluctuations in one country.

(b) They may prevent such depression of standards resulting from the fact that in one or several countries particular grades of labour are "sweated", taking into account the level of industrial effectiveness within these countries.

(c) They may prevent a drift of industry to those places where labour conditions are poorest, at the cost of great readjustments in those countries where they are better; they may lead to the establishment of certain minimum required standards in the creation of future industrial communities.

(4) On the other hand, such agreements may entail certain economic losses:
(a) By hindering certain basic changes in the conditions of competition between countries from working themselves out, they may produce higher prices than would otherwise prevail.

(b) They may make it more difficult for countries where conditions are poorest to advance industrially.

(c) 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 standards downwards so as to meet either temporary or permanent changes in their competitive situation.

(5) The soundness of international labour legislation cannot be judged solely by weighing the preceding possibilities of loss and gain. Some broader considerations must also be taken into account:

(a) The fact that there often is a genuine possibility of increasing industrial effectiveness within a country by determination, intelligence, and common effort is a sound basis for the opinion that countries have a duty to cooperate in international action in this field; it also is the basis for the further opinion that a particularly serious duty rests on those countries where conditions are unusually low to approach the more general standard.

(b) If in any country the product of industry is being shared out so that the workers are not receiving in the way of income or conditions approximately as large a part of the product as might be paid to them without doing injustice to the other participants, and without reducing future production by discouraging investment and business leadership, this tends to produce a similar result in other countries because of its effect upon comparative costs. Bargaining weakness may produce this result; international action might overcome it without a shift in the competitive conditions.

(c) The inability or unwillingness of some countries to improve labour conditions may act as a drag upon the efforts at improvement in other countries — as indicated in the preceding headings. This check can only be temporary, but is, nevertheless, of consequence.

Certain further pertinent conclusions indicated in the preceding analysis may also be summarized here.
(6) Substantial uniformity of labour conditions, even as a legal minimum, is never to be expected. Nor is there any economic reason for believing that a condition of uniformity established by legislation will result in the greatest total economic good for all countries concerned, or avoid, to the greatest possible extent, economic misery.

(7) It is in the essential nature of the aims of the International Labour Organization that it will for ever be faced with intricate conflicts of interests between workers and employers, and between different countries. It can do little more than achieve a delicate and constantly renewed balance of these interests on changing grounds, a reconciliation of them on the basis of some improvement of labour conditions wherever the economic circumstances make improvement possible.

(8) Substantial and permanent progress towards the aims of the International Labour Organization must come through uniting workers and employers in a common duty, in the determination to make improvement of conditions possible by making industry more productive. Its work must be, in that sense, primarily educational.

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Labour market theories and labour standards

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I. Introduction

Which are the labour standards that would emerge from the functioning of labour markets? Is there a trade-off between labour standards and unemployment? Why is state intervention needed? These questions lead us, necessarily, to discuss the nature of the labour market.

This essay attempts to provide answers from the theoretical point of view. The cases of advanced and Third World economies are distinguished, and some basic facts adduced to aid empirical consistency of the theories under discussion.

In order to simplify matters, I will conduct the analysis in terms of real wages and unemployment, instead of labour standards and unemployment. Hence, other components of labour standards, such as work conditions, will be assumed to be complementary to, and not substitutes for, real wages.

II. Conventional theories of labour markets

What the three main economic paradigms have said on labour markets is well known and may be summarized as follows. Neoclassical theory treats the labour market as equivalent to the potato market or the fish market, which are Walrasian markets. Labour markets always clear: no workers willing to work at the prevailing wage will be unable to find
a job. The basic problem with this formulation is that it cannot explain unemployment, which is a noticeable characteristic of observed labour markets.

Keynesian theory seeks to explain unemployment. For this purpose, it treats the labour market as a fixed-price market, that is, with “sticky wages”. Nominal wage rates are set by institutional factors, and the quantity of employment by the level of effective demand. Although this theory is able to explain unemployment, excess labour supply is not a necessity for the working of the market system. Labour markets may operate with unemployment.

Classical theory has treated the labour market as any other market within its paradigm: the price (real wage-rate) is determined by the cost of production (or reproduction in the case of labour); the quantity is determined by demand. Unemployment is the result of adding the assumption of over-population. Hence, unemployment does not arise as a logical necessity.

Under these three paradigms, labour markets would have the following characteristics: (a) unemployment is not logically necessary for the operation of capitalist society; (b) there are no lower limits to real wages, except in the classical theory. The first outcome is clearly inconsistent with the fact that all capitalist societies operate with unemployment. As Garraty said, “unemployment [is] a kind of disease of capitalism” [1978, p. 129]. As to the second point, the theory suggests that workers will perform their jobs with the same effort and discipline independent of the real wage they get. But this is clearly inconsistent with the observed fact that firms use resources to supervise their workers.

III. Modern theoretical formulations

More recent theoretical developments attempt to solve those empirical inconsistencies. Neoclassical theory has now included a new axiom: a firm will pay above the opportunity cost of the worker in order to induce greater effort in the workplace [Shapiro & Stiglitz, 1984]. If workers shirk they will be fired and will suffer an economic cost. If all firms do the same, the market wage-rate will be above its shadow price and, hence, unemployment will be created. Thus, unemployment operates as a device for disciplining workers, providing an incentive not to shirk. This makes labour markets different from the potato and fish markets.

 Seeking to explain sticky wages and persistent unemployment, Keynesian theory has now embraced the concept of “efficiency wages”.

A firm knows that labour productivity depends on the real wages paid because workers have some control over their own productivity [Solow, 1990]. The economic logic for the firm will be to set a minimum wage, which will prevent workers reducing their productivity below a desired level. If all firms do this, the efficiency wage must be set above the shadow price of labour as a means of providing workers with an incentive to perform well on the job.

Why do not unemployed workers seek to undercut this wage by offering to work for less than those with jobs? Why do not employers actively seek such workers? Solow [1990] suggests that social norms may also help explain sticky wages and persistent unemployment: a norm among workers against bidding against their fellows for jobs and a norm among employers against seeking to undercut the wages of their workers.

Finally, the Classical theory is now considering a new axiom: the extraction of labour surplus is not costless [Bowles, 1985]. The power of capital over labour requires that workers suffer an economic loss if they resist the work intensity established by the firm. This logic implies that firms pay wages above the opportunity cost of labour.

According to these new axioms, what do employers and workers exchange in the labour market? What is the nature of the labour market? The exchange does not seem to be money today for work today, as a Walrasian market assumes, but rather a promise of money and certain working conditions for a promise of work with a maximum degree of effort. Labour costs would then have two components: (a) the cost to hire labour as stock, or as a fund of services; (b) the cost to obtain the needed effort from the worker as labour power. Wages, search costs, labour standards and social benefits belong to the first category; surveillance and firing costs belong to the latter. The first cost reflects market relations; the second, relations within the firm. This dual nature of labour markets is what lies behind modern economic theories on them.

According to this view, the competitive labour market would operate as follows: three equations are needed to solve the three endogenous variables (the wage-rate, employment and unemployment). So to the conventional supply and demand equations, one additional equation must be added. It shows that the proportion of the labour supply that firms consider, would be willing to meet the required intensity of work is a positive function of the wage-rate. This equation is called the effort-extraction function in Neoclassical theory, efficiency-wage function in Keynesian theory, and labour-surplus extraction function in Classical theory. Although all theories establish the same equations, these differ in the underlying economic logic and in the exogenous variables.
In sum, modern economic theories of labour markets coincide in the following results: (a) market real wages are set above the shadow price of labour; (b) unemployment is logically necessary for the functioning of the capitalist system, because it operates as a worker discipline device. These results are logically consistent with the nature of the labour market. Accordingly, unemployment cannot be eliminated through the application of policies. Garraty's statement, "unemployment is a kind of disease of capitalism" now has analytical support.

The trade-off between real wages and the level of unemployment will depend on the particular exogenous variable. For instance, in all theories, changes in labour demand would not generate such a trade-off. An increase in labour demand would result in a higher real wage and a lower level of unemployment; symmetrically, a fall in labour demand (a recession) would have the effect of reducing real wage-rates and raising the unemployment rate.

**IV. Labour markets in the Third World**

How do labour markets operate in the Third World? Lewis [1954], in a well-known article, proposed an explanation which may be summarized as follows. The opportunity cost of wage labour would be the income from self-employment in the "subsistence sector". This sector is constituted by the peasantry in rural areas and the petty production units in urban areas. Market real wages must be higher than the opportunity cost of labour. This gap is necessary to secure workers' discipline and loyalty to the capitalist firm. Moreover, income in the subsistence sector, which is constant due to constant returns, determines real wages. In this sense, there is an "unlimited labour supply" or excess supply of labour.

However, Lewis's model could not predict unemployment. The excess supply of workers could always find a livelihood in the subsistence sector. This is an inconsistency with the observed facts in the Third World, where unemployment is significant, particularly in urban areas. The source of the inconsistency lies in his assumption that constant returns prevail in the subsistence sector, implying that this sector has an unlimited capacity to generate income.

By substituting the assumption of constant returns by diminishing returns, it is possible to derive a model that is able to predict unemployment [Figueroa, 1992]. Under this new model, the subsistence sector would have a limited capacity to generate income. So of the excluded
workers from wage employment, part would stay unemployed and part self-employed in the subsistence sector.

How are wages and employment determined in this context? The new labour market theories discussed above may also be adapted for this case. The nature of labour markets would be the same in both the advanced economies and in the Third World. However, in the Third World the supply function would depend, among other things, upon the income that workers could make from self-employment in the subsistence sector. Hence a new exogenous variable appears in the determination of wages and employment in the labour market, namely, the productivity of the units producing in the subsistence sector. Clearly, a rise in productivity levels in the subsistence sector would reduce labour supply.

Thus, for a given productivity schedule in the subsistence sector, the workings of the economic system would determine: wages and employment in the labour market; income and employment in the subsistence sector; and the level of open unemployment. In this context, both unemployment and the lower income per worker in the subsistence sector operate as the worker-discipline device in wage employment. Hence, unemployment is not necessary for the operation of the labour market. The system could function even with a rate of unemployment equal to zero.

This solution implies income inequality among workers: wage earners, with relatively higher incomes, the self-employed in the subsistence sector, and the unemployed. If we include the inequality between workers and the capitalist class, then overall income inequality will become even more significant. The workings of the labour market in a context of over-population would then explain the observed higher degree of income inequality in the Third World relative that in advanced capitalist economies. I could then say that, to paraphrase Garraty, *income inequality is a kind of disease in the Third World.*

With the use of modern theories of labour markets and the introduction of a new axiom, by which workers excluded from wage employment decide between self-employment and unemployment by evaluating the expected income from looking for a job and the income from self-employment, Figueroa [1993] has constructed a new theoretical model for the analysis of labour incomes and employment structure in the Third World. According to this model, an increase in labour demand would have the following effects: (a) a rise in real wages and wage employment; (b) an increase in income and a fall in employment in the subsistence sector; and (c) a fall in unemployment. All workers would then benefit from an increase in labour demand. Just the reverse effects would result
if labour demand decreased. No trade-offs would arise. These predictions seem, in general, consistent with the observed facts.

V. Labour market interventions

In the case of advanced economies, if labour demand rose continuously, real wages would increase and unemployment would decline. Why then would state intervention be required in the labour market? What is the need for legal minimum wages and unemployment insurance? One reason for these measures may be the fact that capitalist economies are subject to periods of recession. Hence, protection of workers would seem in order. But, according to the new theories, labour markets set endogenously their own minimum wages. Why are legal minimum wages needed? Is it because the market minimum wage is too low, or because the market does not set lower limits? If so, the theories are simply false. If current legal minimum wages were eliminated, what would be the level of the market minimum wage?

Because unemployment would rise in recession, intervention in the labour market by way of unemployment insurance programmes is totally justified. Otherwise, unemployment rates may go beyond what is socially tolerable.

In the Third World, a fall in the demand for labour (a recession) reduces both real wages and wage employment in the labour market, increases unemployment, and reduces income per worker and raises employment in the subsistence sector. State intervention usually includes the setting of legal minimum wages designed to protect workers in periods of recession. Again, the necessity of a legal minimum wage is not clear. In some cases it is not even relevant. In Honduras, for example, nearly 40 per cent of wage-earners received amounts below the legal minimum wage in 1990-92.

In some Latin American countries where hyperinflation occurred in the 1980s and 1990s, legal minimum wages could not stop the tremendous decline in real wages. From this experience, it is clear that in periods of hyperinflation, the theory that the labour market sets endogenously its own minimum real wage is empirically false. There may be other situations as well in which the theory does not work successfully.

Why is not unemployment in the Third World covered by insurance, as is the case in advanced countries? Clearly, other adjustment mechanisms are applied. One is legislation to restrain labour displace-
ment, or increase the cost of displacement. The other is overemployment in the public sector, through an increase in the size of the bureaucracy or through public works. (Hence, the size of the bureaucracy is endogenous). But this mechanism is limited by the fact that government revenues also fall with economic recession. Economies in recession simultaneously increase the demand for unemployment protection by the State and decrease its ability to respond. Under a fiscal crisis, the adjustment comes through lower real wages in the public sector together with some displacement of workers.

A common argument is that self-employment in the subsistence sector is the basic adjustment mechanism. But, as argued above, this sector has a limited capacity to generate income and employment. In the end, the adjustment comes through lower incomes per worker in the subsistence sector together with higher rates of unemployment. State intervention in the labour market thus has a logical inconsistency. It tries to protect real wages but does nothing to protect the larger number of workers who, as a result, will be excluded from wage employment. The first measure will increase the need for the other.

In sum, in periods of economic recession, all workers in the Third World lose. No trade-offs arise.

By now it is clear that markets need institutions. As Coase has said: "... without the appropriate institutions no market economy of any significance is possible" [1992, p. 714]. This proposition implies that the way in which labour markets operate depends, among other factors, upon the prevailing institutions. But the arguments presented here suggest that the relationship may go in the other direction as well: labour institutions may be the result of the manner in which labour markets operate. The nature of the labour market is such that wage employment will always be below the quantity supplied. According to the recent theoretical developments, this excess supply is logically necessary for the functioning of the capitalist system. So interventions directed to protect workers from excess supply are endogenous.

Some people argue as if interventions in labour markets were purely exogenously determined; that is, independently of how labour markets operate, policies could be designed and applied, and governments could decide the labour standards they want. The argument of this essay challenges that view. Clearly, a more balanced approach would recognize endogenous and exogenous components of labour standards. But we need to know more about the way labour markets and labour institutions interact. The wage and unemployment rates we observe in the Third World are, undoubtedly, the outcome of this interaction. So are labour standards.
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The importance of international labour standards in a more competitive global economy

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I. Introduction

The internationalization of global economies has increased the importance of labour standards as a component of national and international economic policies for those countries that wish to maintain democratic institutions and prosperous economies. This essay will first examine the nature of the economic and technological changes that have eroded the effectiveness of traditional economic policies and then make the case for labour standards as a component of high-wage national and international economic policies.

Changes in the nature of markets and production systems significantly alter the conceptual underpinnings for economic policy. Failure to acknowledge these changes leads to important policy confusions, as policy-makers and economists attempt to apply theories and policies rooted in earlier conditions to a different reality. For example, discussions of international economic agreements are based largely on the theory of comparative advantage, which considered international transactions mainly in terms of the sale of final goods and services. However, comparative advantage is a static short-run concept based on voluntary exchanges of goods and services. Such transactions are naturally plus-sum processes: all parties gain or the transactions would not take place. Since the principle of comparative advantage assumes technology and other
factors of production to be relatively immobile, it cannot readily assess
the impact of international economic strategies where all factors except
labour are highly mobile. As discussed later, the principle of competitive
advantage — a more dynamic, long-run concept — is more appropriate
for this purpose.

Similarly, competitiveness discussions often equate "competitiveness"
with international trade, and therefore minimize the extent to which it
is a problem [for an example, see Krugman, 1994]. However, interna-
tionalization has increased competitiveness in domestic markets, not just
in international trade. And, far from being "a dangerous obsession", it is
absolutely essential to maintaining and improving incomes. Internationali-
zation undermines the whole basis of domestic governance systems, and
combines with innovations in information and transportation technolo-
gies to produce less regulated, more competitive, markets. The future
development of information technologies and integrated networks has
profound implications for economic activity.

II. Global competition

_and high-performance work organizations_

By the end of the 1960s, there were growing signs of trouble in the
traditional economic systems in the developed countries. The main forces
for change were technology and increased international competition,
which interacted to weaken the mass production system and its sup-
porting institutions. These changes also dramatically altered the
conditions for economic viability. In a knowledge-intensive global
economy, the keys to success are human resources and effective pro-
duction systems, not natural resources and traditional economies of scale.
While economies of scale are still important, they must be considered in
a global context and are needed to recoup more extensive research and
development costs. Although no consensus has formed for a new eco-
nomic policy paradigm, two things are clear: the policies that supported
the old economy are obsolete and human capital must become the centre-
piece for economic success. Since effective theories or conceptual
frameworks are necessary for sound economic policies, we must develop
new paradigms to replace those that no longer fit economic realities.

Technology makes possible new organizations of production, but
competition makes them essential to maintain and improve incomes
[Piore & Sabel, 1984; Zuboff, 1988]. For public policy purposes, the most
significant changes brought about by internationalization are that
national governments have less control over their economies; national companies have less control over markets; and labour organizations and traditional industrial relations systems have less control over working conditions. A country no longer can maintain high wages and full employment through traditional combinations of monetary-fiscal and international trade policies, administered wages and prices, and fixed exchange rates. Keynesian policies, which had contributed significantly to prosperity in the industrialized countries, were inadequate for dealing with inflationary pressures induced by external supply shocks during the 1970s. They also had almost nothing to say about productivity, the main determinant of economic success in a more competitive global economy.

Thus, with the internationalization of economies, countries, companies and people must yield to the imperatives of global competition. The most basic imperative is that we can compete in only two ways: by reducing wages and income; or by increasing productivity and quality. We can no longer rely on natural resources and economies of scale by oligopolistic firms in domestic markets insulated from international competition and sustained by macro-economic policies.

Most high-income industrial countries have either implicitly or explicitly rejected the low-wage option because it implies lower and more unequal wages — which is exactly what most United States workers have experienced in the last 20 years. According to United States census data, the median hourly wage of men was 14 per cent less in 1989 than it was in 1979. Only college-educated workers' incomes have increased since 1979, while young male high-school graduates' earnings dropped 26.5 per cent from 1979 to 1991. Among all male four-year college graduates, earnings increased only for those with advanced degrees; young male college graduates actually earned 5.1 per cent less in 1991 than in 1979, with most of the drop coming after 1987 [Mishel & Bernstein, 1992].

The United States experience illustrates why most other industrialized countries have rejected the low-wage option — they see that lower and more unequal incomes threaten their political, social and economic health. The only way for those following this option to improve total incomes is to work more, a reality that clearly limits economic progress. The high-wage, high-productivity option, by contrast, could create very steep learning and earning curves, thus rapidly increasing personal, organizational or national advancement.

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1 According to Juliet Schor, the average American worker works about one month more now than in the 1960s for about the same real wage [Schor, 1991].
What must we do if we want to pursue the high-productivity option? Worldwide experience suggests that we must first develop national consensus to follow that option and then support policies and strategies to achieve it. National policies should encourage companies to organize for high performance and discourage the low-wage alternative.

In general, high-performance organizations stress quality, productivity and flexibility rather than economies of scale achieved through large bureaucratic organizations where work fragmentation requires most workers to have very limited thinking skills. High-performance organizations develop lean, participative governance structures that decentralize decision-making, develop and use leading-edge technology, and stress continuing education and training for all workers — not, as was the case in the mass production system, almost entirely for managers and professional workers.

One of the most controversial aspects of high-performance production systems is the role of labour organizations. My own view is that, because of the fundamental nature of the employment relationship, the right of workers to organize readily and bargain collectively is an important requirement for a high-performance system. It is difficult to forge cooperative relationships between parties of unequal power. Cooperation is weakened when the stronger party makes unilateral decisions, forcing the other party to seek countervailing power. And workers are unlikely to go "all out" to improve productivity and quality unless they have an independent source of power to protect their interests in the process. Moreover, the relationships between workers and managers are inherently adversarial as well as cooperative. Indeed, adversarial relations are functional because they provide processes to resolve differences. The challenge, of course, is to maximize common interests and prevent conflicts from becoming "functionless" by making all parties worse off. That challenge is unlikely to be met unless workers have an independent source of power to protect and promote their interests in these adversarial relationships.

III. Labour standards and economic performance

Internationalization has undermined the ability of trade unions, governments and workers themselves to protect traditional labour standards from competitive market forces. New policies and institutions are consequently required, though whether or not — and how — workers should be protected in international transactions is very controversial.
I believe, however, that labour standards are critical components of more effective economic policies, just as they were vital elements of the policies and institutions industrialized democracies adopted to produce the longest period of relatively equitably-shared prosperity in history between 1945 and 1973. Labour standards (whether enforced by government regulations or collective bargaining) improved economic efficiency by removing worker (or public) subsidies to firms that could not provide acceptable working conditions. In forcing companies to compete by increasing efficiency rather than by reducing labour standards, this, in turn, shifted resources to more efficient uses and allowed countries to protect and develop human resources — their most valuable assets.

Similarly, while it has become very difficult to stimulate demand within a country through traditional macro-economic policies, a global expansion of demand is absolutely essential to the restoration of an open, expanding, sustainable and just world economy. It is highly unlikely, though, that adequate aggregate demand will come entirely from an expansion of trade or development in or between the developed countries alone [Sewell & Tucker, 1988]. With the right policies and arrangements, major opportunities for global expansion could come from a restoration of growth levels in the developing countries achieved in the 1970s. Indeed, the slowdown in the developing countries’ growth during the 1980s was an important reason for economic stagnation in the developed countries [Marshall, 1988].

This means, of course, that global policies are needed to maintain sufficient economic growth to prevent rising unemployment in both the developed and developing countries. In the developed countries, joblessness will result from economic rationalization as companies and economies restructure for a more competitive global economy, while at the same time maintaining adequate social safety nets to support high-wage development strategies and prevent the costs of adjustment from being borne inordinately by the low-income workers or families. Countries can lower unemployment by reducing income support systems, but only at the cost of lower real wages and more unequal incomes.

This does not mean, however, that traditional social support systems should be continued. In the developed countries, these systems were partially justified by Keynesian policies when the main economic problem was to stimulate enough demand to overcome massive cyclical unemployment. The main challenge today is to maintain aggregate global demand and to improve flexibility and productivity growth to maintain high and rising incomes and relatively low unemployment rates. These objectives require social programmes which are developmental as well as supporting those who cannot or should not work. For example, labour
market policies should emphasize education, training, labour mobility and job creation, and not just income support. In other words, social programmes should be coordinated with economic and labour market programmes, all of which can be made more efficient through the use of information technology and high performance organizations. More efficient labour market, social support and education programmes can improve the performance of macro-economic policies by overcoming product and factor market bottlenecks and achieving a better balance between demand and supply in labour markets.

Developing countries increasingly need to provide sufficient economic growth to offset rapid increases in working-age populations. If they are to pursue high-wage economic policies, as I think they should, developing countries need to rationalize industries they have protected from import competition. Industrial rationalization will, however, create less employment in industries where demand is insufficient to absorb displaced labour.

These changes in many developing countries are unlikely to generate enough growth to prevent rising joblessness, thus leading to emigration pressures which will create additional problems for high-wage developed countries. Without labour standards, immigrants with limited skills, low wage expectations and limited legal protection will not only displace workers and suppress wages in the developed countries, but will also perpetuate marginal industries that can only compete with low wages.

What is required, of course, are policies to foster complementary and cooperative relationships between developed and developing countries. If, for example, the developed countries have adequate adjustment and human resource programmes, relatively full employment, legal protection for immigrants and high and rising wages, there will be less opposition to eliminating trade barriers that prevent low-wage industries from shifting to the developing countries.

Achieving complementarity, growth and high-wage economic policies will require the elimination of trade barriers and the creation of coordinated international policies to stimulate global growth. These policies, in turn, must include labour standards in rules for international transactions. Clearly, we are unlikely to achieve an open and expanding global economy without rules, but they must be expanded beyond trade in goods to include basic labour standards, among other things.
IV. The labour standards debate

Policy-makers in the United States and other developed countries therefore should work with the developing countries to strengthen the basic international labour rights that have been overwhelmingly accepted by the international community. There is no legitimate objection to such basic labour standards as freedom of association and collective bargaining or restrictions on trade in goods produced by forced labour, under discriminatory conditions, by the exploitation of young children, or under unreasonable working conditions (especially violations of minimally acceptable health and safety conditions or wages limited only by market forces). These standards therefore should be included in international economic rules and enforced in the same manner as trade, investment or other rules.

Labour standards should, however, avoid any suggestion of a universal minimum wage level. Wage differentials are far too great to make that idea practical. In the short run, low wages are the main competitive advantage of the developing countries. Low wages alone, however, rarely constitute the basis for economic development, as suggested by the fact that there is no correlation between international wage levels and rates of economic growth. While having low wages because of underdevelopment is legitimate, strategies to gain competitive advantage by suppressing wages and labour standards are not. Workers must be able to organize and bargain to improve their conditions on terms compatible with their countries' economic development.

It is commonly argued that free labour movements are incompatible with balanced economic growth, but this is a highly questionable assumption. Democratic societies are not likely without free and democratic labour movements. Moreover, free and institutionally secure labour movements in the developing countries would give at least as much priority to economic growth as other economic and political interests. There is, moreover, little risk that free and democratic labour movements will impede economic development, since joblessness (ordinarily 40 to 50 per cent) and international competition limit their ability to increase labour costs faster than their economies' ability to pay higher wages.

The moral and economic rationale for international labour and environmental standards is thus the same as for enforceable labour or environmental protection in domestic markets [Charnovitz, 1987]. This is to encourage enterprises to be more efficient, by internalizing costs and preventing health, environmental or safety problems and by shifting
resources to more productive uses. Critics argue that the campaign to make workers' rights a part of such economic compacts as the North American Free Trade Agreement (NAFTA) is an arrogant attempt by labour movements and inefficient industries in the developed countries to impose their labour standards on other countries or, to cite one particularly vitriolic critic, "little more than an attempt to justify protectionism under the guise of concern for workers' rights" [Stell, 1994, p. 14]. With respect to the first charge, it should be stressed that almost all countries, including the United States, Canada and Mexico, are members of the International Labour Organization and therefore subscribe to its purposes. Moreover, on paper Mexico's labour laws are in many ways superior to those of the United States, and Mexico has adopted more ILO Conventions than Canada or the United States. Actually, in a more competitive global economy, failure to adopt enforceable standards will, by default, allow countries that permit companies to exploit their workers to impose their standards on others. Put another way, we cede the right to set our own standards if we fail to regulate the goods coming into a country because a basic principle of highly competitive markets is that bad standards tend to drive out the good. Competitive markets make it difficult for employers who want to have good standards to do so, even though in the long run good labour practices enhance economic efficiency. Except for those who subscribe to laissez-faire trickle-down theories, the "beggar-thy-neighbour" threat in the 1990s is at least as likely to be low-wage economic strategies as international trade rules.

Some critics argue that labour standards are unnecessary because increased trade and economic development automatically will improve labour standards. In a general and long-term sense the evidence supports this case, but there are several things wrong with the argument. First, the costs of adjustment could be borne inordinately by low-income people who can least afford it and whose development would be stifled. There are important prerequisites for economic development in a global information economy that not even the staunchest free market advocates believe will be produced by competitive market forces alone; these include education, health, justice and basic scientific discoveries. Second, market forces operate slowly and unpredictably, as was clear from the wide variations in economists' estimates of NAFTA's impact on United States employment [Hufbauer & Schott, 1992; Faux & Lee, 1992; Marshall, 1993]. Enforceable labour standards therefore could improve market performance by helping to avoid negative outcomes and encourage positive ones. Moreover, it is fairly clear that NAFTA will accelerate wage inequalities in the United States — high-income groups
will gain and low-income groups will lose [Gutfeld, 1992; United States Congress, 1992; Hufbauer & Schott, 1992, p. 112, Table 6.3].

Economists who admit that relying on market forces alone will widen income distributions sometimes defend inequality as necessary for economic development. This idea was basic to “trickle-down” economics in developed as well as developing countries, especially during the 1980s. It was reasoned that inequality, whether induced by tax cuts like those in the United States during the 1960s, or “market forces” like those in Mexico and other developing countries, would stimulate investment by the wealthy which would trickle down to middle and lower-income groups. While this idea never made much sense to those who believe that the growth of income in low and middle-income groups is the best way to stimulate investment and economic development, a growing body of economic research demonstrates the fallacy of “trickle-down” policies. This research has noted that, in Asia’s rapidly growing economies, the incomes of workers and peasants have grown faster than those of executives and entrepreneurs. By contrast, in slower growing or stagnant Latin American and African economies, plunging incomes of low-wage workers have widened income inequalities, as have low-wage economic policies in the United States. The Asian countries also heavily emphasize universal education and human resource development. Research on Asian economies suggests that greater income equality “may actually stimulate economic growth”, a conclusion that surprises these researchers who found that “reducing by a third the gap between the richest and poor households... could add seven-tenths to the growth of per capita income. Most countries’ per capita income rises less than 2 per cent a year” [Nasar, 1994]. Not surprisingly, the way income inequalities are reduced makes a difference; it is much more effective to narrow the gap by boosting low incomes through human resource development and employment strategies than merely to transfer income from the more affluent to the poor. In their research on this issue, Nancy Birdsall, David Ross and Richard Sabot list three positive outcomes of greater income equality: it stimulates economic growth because low-income people can invest in education and health, investments as vital as those in machinery and plants; it increases the rewards for staying in school, working hard or taking risks; and it leads to political stability [Birdsall et al., 1994].
V. Labour standards and employment: The United States versus Germany

Another objection to labour standards, as well as to high-wage development strategies in general, is that these policies will lead to the high unemployment that has plagued Europe since the late 1980s. On this view, labour protection, by creating greater labour market rigidities and higher costs, has reduced competitiveness more in Europe than in the United States, which had much faster jobs growth in the 1970s and 1980s.

It is difficult, however, to compare one country with all of Europe, because of great differences between countries. It is more appropriate to compare the United States with major countries like Germany. Critics argue that Germany is suffering rigidities and high and rising unemployment because of its high income supports, especially generous unemployment compensation, rigorous labour standards and worker participation at every level in big companies.

However, the evidence shows the German case to be more complicated. Germany has slower jobs growth partly because its workforce has grown less rapidly than that of the United States. There is evidence, moreover, that jobs growth in the United States is related more to demographics than to economic policies (Barnet, 1993). Nevertheless, if we use the same definitions of unemployment, the latest US Bureau of Labour Statistics data show that West German unemployment was lower than that of the United States for most years between 1972 and 1993, and has been lower in every year since 1990:

<table>
<thead>
<tr>
<th>Year</th>
<th>West Germany %</th>
<th>United States %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>5.0</td>
<td>5.5</td>
</tr>
<tr>
<td>1991</td>
<td>4.4</td>
<td>6.7</td>
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<tr>
<td>1992</td>
<td>4.7</td>
<td>7.4</td>
</tr>
<tr>
<td>1993</td>
<td>5.9</td>
<td>6.8</td>
</tr>
</tbody>
</table>

There has been a gradual upward trend in German and United States unemployment rates, suggesting some common labour market developments. Economists do not understand these trends very well, but evidence suggests the following:

(a) Generous social benefits probably account for a small part of the increase in German unemployment. The main causal factors relate to labour market and economic developments, not social benefits. In
particular, the absorption of East Germany has created major problems for West Germany. And comparisons with the United States are distorted by the fact that West Germany is in a different phase of its business cycle. If social benefits were a major cause of unemployment, United States rates should be lower than Germany’s, which is not the case.

(b) Much of the recent rise in United States and European unemployment rates is due to the almost universal shift to tight macro-economic policy in reaction to the inflation caused by the second oil price shock in 1979. Germany has had stricter macro-economic policies than the United States because of its greater concern over inflation.

(c) Joblessness in Europe is different from that in the United States in that it is longer term, while most United States unemployment is of shorter duration. In Europe, over half of the unemployed have been out of work a year or more, whereas in the United States, following two years of unemployment rates which reached almost 10 per cent, the median unemployment duration in 1993 was only ten weeks. Robert Solow, MIT Nobel laureate, suggests that longer-term unemployment induced to fight inflation is converted to structural unemployment because:

... if higher unemployment is allowed to persist for any length of time, the bearers of that unemployment lose their connection with the labour market [Solow, 1994, p. 11].

Solow advocates, I believe correctly:

... a concerted steady expansion of aggregate demand in Europe, aimed at eliminating a substantial margin of unemployment, perhaps as much as 5 or 6 percentage points. In the course of that exploration, we would no doubt discover just how big that margin actually is. Europeans would be in a better position to think intelligently about the proper scope for the welfare state for guarantees of job security [ibid.].

Solow adds:

The... belief that the only good labour market is a dog-eat-dog jungle strikes me as both socially wrong and economically unproductive [ibid.].

(d) There is a correlation between long-term unemployment in Europe and the duration of unemployment benefits and the magnitude of severance payments, though causation is unclear [Bosworth, 1994]. Whilst correlations do not prove causation, it can be argued that longer-term income supports than are available in the United States
are a factor in the reluctance of European workers to take marginal low-wage jobs.

(c) Katherine Abraham and Susan Houseman, who have studied carefully the impact of German labour market policies and the adjustment process, discount the argument that these policies make the German labour market more rigid. They conclude:

In fact, US and German companies, faced with similar declines in sales, make very similar labour cuts. The difference is that US firms lay off workers immediately, while German companies reduce workers' hours [Abraham & Houseman, 1993, p. 35].

In fact, there is considerable merit in Abraham and Houseman's contention that the United States should move toward the German system. If we did, they argue:

... we can curtail excessive layoffs and strengthen workers' job security. Not only will such steps increase economic equity, they also will increase economic efficiency.

These scholars add:

Overall, we conclude that German policies have been fairly successful in giving workers more stable employment without inhibiting labour adjustment and without imposing burdensome costs on employers [ibid., p. 4].

(f) In Europe, as in the United States, there have been significant adjustment problems resulting from relatively rapid changes in technology and the organization of work to meet the needs of a more competitive, knowledge-intensive global economy. These trends have contributed to increased demand for more highly-skilled workers and a decline in demand for unskilled labour, especially in the United States and other developed countries [Sewell & Tucker, 1988; Bound & Johnson, 1992; Lawrence, 1994].

VI. Conclusions

It therefore is in the best interests of the United States and other countries to adopt high-wage economic strategies that incorporate labour standards. The European Community has done more than the United States to develop such strategies, and evidence suggests that it is achieving convergence, mainly by raising wages and working conditions in low-
wage European countries, not by reducing wages and working conditions in the high-wage countries.

There has, however, been considerable support for higher labour standards and a high-wage development strategy in the United States, which included labour standards in every major trade act of the 1980s, as well as in the NAFTA, which became effective in January 1994. The United States had, in addition, taken the lead to include labour standards in the World Trade Organization (WTO). Critics argue, I think correctly, that the NAFTA provisions do not provide adequate enforcement provisions. The major challenge of the 1990s therefore will be to strengthen enforcement processes in NAFTA and the WTO. Another challenge will be to overcome the fears of the developing countries that labour standards in international economic rules are designed to inhibit their development by protecting high wages in the developed countries.

The main thrust of a high-wage strategy should be macro-economic policies to reduce cyclical unemployment — as suggested by Solow — active labour market and adjustment programmes, policies to strengthen competitive markets and social safety nets, and improvements in worker education, training, and participation in workplace decisions. There can be little doubt, however, that labour standards can make national and international economic policies much more beneficial to most people everywhere.

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A hard-headed look at labour standards

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I. Introduction

The concept of labour standards — minimal rules for workplace conditions and outcomes imposed by legal mandate — typically invokes one of two reactions.

To some, standards are an institutional intervention in competitive markets that impairs the workings of the Invisible Hand. Standards, the argument goes, reduce efficiency, increase the cost of labour and lower the employment of those affected, to the benefit of higher-cost competitors. Adherents to this view stress that trade unions in advanced countries lead the fight for domestic or international labour standards not so much to benefit workers in non-union domestic firms or in foreign countries as to limit the ability of those firms/workers to compete in the market-place.

To others, standards lie at the heart of governmental or collectively bargained policies to preserve or raise living conditions and maintain social justice. Societies regulate many things, from food and drugs to security markets, and have developed international conventions to protect endangered species, be they turtles, owls, whales, rhinoceri, or such.\footnote{1} Why not apply standards to protect the working lives of our own species? Adherents to this view stress the danger that bad standards will drive out good standards, and thus the need for regulations that affect all

\footnote{1} In 1994, the United States Government has imposed trade sanctions against Taiwan for the sake of one such set of animals.
firms and countries: "the failure of any nation to adopt humane condi-
tions of labour is an obstacle in the way of other nations which desire to
improve the conditions in their own countries." (Preamble to the ILO
Constitution)

These reactions make the argument about labour standards one of
a set of running battles between those who believe the unfettered market
can do no wrong and those who believe governmental regulations can
make things better. If you like standards, trot out the (usual) arguments
about market imperfections, externalities, unequal bargaining power,
prisoners' dilemma or coordination games, etc. If you don't like
standards, trot out the (usual) arguments about the wonders of the
Invisible Hand, the ineffectiveness of governments to act in the public
interest, rent-seeking, etc. The debate is long on ideology and rhetoric
and short on analysis and evidence.

To give the "hard-headed" look at labour standards promised in my
title, I step back from the debate to focus on the fact that, merits aside,
a sizeable proportion of citizens want some labour standards in their own
country and also want some standards in the production of goods
imported from other countries, just as they want TVs, doughnuts or per-
fumes. Treating labour standards as a normal consumer good rather than
as something extraneous to the economic system illuminates the under-
lying demand for standards; directs attention at the market and
regulatory mechanisms that can supply standards to meet this demand,
at the incidence of the benefits and costs of standards; and provides a
vantage point for assessing whether standards should be part of global
trade agreements.

II. Standards as an economic commodity

Everyone, or nearly everyone, wants some labour standards. Most
countries, including the United States, enact labour standards for their
citizens, and nearly every country has ratified some of the Conventions
of the International Labour Organization (6,000 ratifications of 174
Conventions at the latest count) [ILO, 1994]. Among the ILO Conven-
tions most commonly ratified are those on forced labour, freedom of
association and the right to organize, collective bargaining and dis-
tribution. The United States is a signatory to Conventions on hours
worked and occupational health and safety, though it has not signed as
many Conventions as other advanced countries. In the European Union
(Common Market) all countries save the United Kingdom at this writing accept the Social Charter, with its labour standards.

To evaluate your (mine, society’s) demand for standards, consider two T-shirts, identical in quality and with the same cool logo. One was manufactured by... Bosnian Serbs in an “ethnically cleansed” village... political prisoners in a labour camp... sexually harassed women in a free trade zone on a Caribbean island... Chinese convict labour... Indonesians whose efforts to unionize are suppressed by army brutality... Americans in a sweat-shop in New York or North Carolina or Los Angeles... whatever grabs you the most. The other was manufactured by Americans... Indians... Malaysians... Costa Ricans... Canadians... Dominicans... Chinese — name your favorite group — working under normal conditions with or without an independent union, whose employers treat them as human beings under “reasonable” standards, and whose government protects their basic human rights. The products are the same. The price is the same. Which would you buy?

Now, the vendor raises the price. The T-shirt produced by workers under better standards costs... 50 cents, $1.00, $2.00 — fill in the number — more than the T-shirt produced under poorer standards. Which would you buy? At the same price, most consumers would choose the shirt made under better working conditions. Most would pay a modest premium for that shirt. But as the premium rises, the number willing to do so will fall. This gives us the demand curve for labour standards — the additional amount consumers would pay for products made under “decent conditions”.

If this example does not convince you that there is genuine consumer demand for labour standards, consider slavery. Announce that the cheaper shirt is made by slave labour, and see what happens: sales will fall; stores carrying slave-produced products will be boycotted, and so on. In biblical days, in ancient Greece, in the early days of the United States, slavery may have been an acceptable form of labour arrangement. But no longer. Most, if not all of us, do not want to be part of a market transaction where the commodity is produced by slave labour, and would pay to avoid such.

Abolition of slave labour is a standard on which nearly everyone agrees. There are other labour conditions about which there is less unanimity: use of prison labour, child labour, hazardous work, freedom of association, hours of work, minimum wages. Some ILO Conventions reflect standards that involve basic human rights. Others may seem trivial or unnecessary interventions in labour contracts, or cost more in terms of reduced flexibility or lost jobs than they are worth in benefits.
Treating standards as a (by-)product for which consumers are willing to pay money parallels Alfred Marshall's treatment of working conditions as a product for which employees are willing to sacrifice pay, through compensating differentials. In *Principles of economics*, Marshall differentiated between the bricklayer, who cares whether he works in a palace or a sewer, and the maker of bricks, who couldn't care less if the bricks are used for the palace or the sewer. The bricklayer's concern creates compensating wage differentials in the job market: lower pay for palace work relative to sewer work [Marshall, 1982]. Consumers' concern with the conditions of production adds a product market dimension to the compensating differential story. The consumer who cares whether the worker makes products in palatial or sewer conditions consumes not only the physical good but the associated work conditions — an "extended product", as it were. This will create compensating price differentials in the product market analogous to compensating wage differentials in the labour market.

There is, however, an important difference between workers' assessments of workplace conditions and consumers' assessments. The brick-layer knows readily if he is in a sewer or in a palace. The consumer, by contrast, has no direct knowledge of the conditions under which a product is produced. For some products, she may rely on the "reputation" of the firm — "Coca Cola is a good company and must have good labour standards". But for generic products, like the T-shirt, and for companies whose names are not household words, the consumer has little, if any, information about the conditions under which the good is produced. How, then, might consumer preferences for standards be expressed in the market?

In principle, one way to determine preferences for labour standards is through accurate labelling of the conditions under which products are produced. Tell the consumer the product is made by slaves, convict labour, child labour, workers paid abnormally low wages under sweatshop conditions, and she'll decide whether to buy it or a substitute produced under better conditions, depending on the price of the two variants. Consumers will penalize or reward enterprises according to their underlying preference for labour standards, just as workers do so through compensating wage differentials.

But the product market will not produce accurate labelling of standards by itself. Low-standard producers will have an incentive to lie to consumers about the labour conditions in their workplaces. All firms will claim they produce goods under good conditions, and consumers will
be unable to express their demand for standards. From these considerations, I conclude that some external labelling organization, private (vide Consumer Reports) or public, would be needed to assure the accuracy of labour conditions labels. But that is the only “extra-market” force needed to produce the desired outcome. A society that gives consumers the information about labour conditions can step aside and let them determine an implicit “price” for labour standards.

Taking the argument a step further, the market price for standards should induce producers to improve conditions for workers. The market share of firms producing under good labour standards will rise when consumers shun products produced under poor standards. Some firms that initially produced under poor standards will find it profitable to improve standards, to avoid having to reduce their price to maintain customers.

This market-oriented way to produce a socially desired level of labour standards may strike some readers as unrealistic. When I presented it to an American union leader, he rejected the notion that people would pay attention to work standard labels. “They’ll buy the cheapest product in any case”, he said, “so only trade barriers or government restrictions on low-standard workplaces could enforce standards.” A similar criticism was made through private correspondence after I presented these ideas at the April 1994 Department of Labour Conference on Standards [Schweiger, 1994].

This criticism underestimates, in my opinion, the extent to which consumers value labour (other) standards of production. As evidence that people will sacrifice money for “standards”, I direct attention to: stock market funds that specialize in “good companies”; surveys that show that most Americans wanted to raise the minimum wage in the late 1980s even when they were reminded this would increase the costs of goods [Freeman, 1994]; consumer purchases of politically correct products such as Amazon Forest Crunch Candy at relatively high prices; the 1980s “Sullivan Conventions” on investment in South Africa; the 2 per cent or so of national income that Americans give to charitable causes; consumer boycotts, such as the 1980s’ boycott of grapes to support the United

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2 If firms advertised their standards, knowing that this would increase demand for their product, those with the lowest standards and lowest costs might have bigger advertising budgets, and gain market share.

3 I did not ask if he bought union-label products when such are available in preference to cheaper non-union products; but I do know that AFL-CIO officials fly non-union airlines, go to non-union hotels, and so on, if they find this sufficiently more convenient than patronizing a unionized competitor.
Farmworkers; and the efforts of companies such as Levi Strauss and Reebok International to apply standards in subcontracting arrangements with firms in developing countries. These firms voluntarily reject forced or child labour, set minimum wages and hours of work that are often better than those in the host country’s legislation, and guarantee workers freedom of association.

This criticism also overestimates the shift in demand for a product necessary to induce producers to raise labour standards. In many markets, changes in the behaviour of a small proportion of consumers may yield huge changes in profitability. A loss of 5 or 10 per cent of sales will cut deeply into the profits of retail stores and induce them to drop lines of goods from low-standard producers, pressuring those producers to improve conditions. My guess is that many standards — particularly those associated with decent personnel practices — are relatively inexpensive, and thus likely to respond to modest market pressures.

If I am wrong and consumers are unwilling to pay for a given set of labour standards, that set would have failed the market test. The burden would then fall on the advocates of standards to convince the rest of society that good standards are worth the price just as environmentalists have convinced many consumers that environmentally sound products are worth their price.

In pushing a market approach to labour standards, I do not claim that providing information is necessarily the best way for consumers to “buy” the labour standards they want: a labelling strategy may be hard to implement because of the ease of cheating on labels. I also do not deny that in addition to consumer demand for standards, there is producer demand, for the purpose of raising the costs of competitors. In some cases, moreover, concerned citizens may view some standards as moral imperatives that justify illegal activity: vides the anti-slavery movement in the 1850s, anti-abortion activity in the 1990s, etc. My point is that demand for labour standards is grounded in consumer preferences, and that a positive economic analysis of standards must begin with these preferences.

III. Purchasing (enforcing) standards

Given that consumers want labour standards, the next question is “what mechanism will best enable them to buy the desired amount of standards cum commodity?” In the domestic economy, two mechanisms are available: legal regulations and enforcement thereof, and accurate
labelling of goods. As Weitzman [1974] showed in his analysis of quantity versus price regulations, the choice of mechanism is situation-dependent. In some cases, the benefits and costs of directly regulating standards and enforcing such may be more efficacious than a “labelling” strategy. In other cases, the labelling approach may be cost-effective.

In general, societies rely more on legal enactment than informed consumer decisions in establishing labour standards. The United States ended slavery through constitutional amendment. We restrict child labour by law and enforce occupational health and safety standards by government regulators. We outlaw discrimination against workers for reasons of gender, race, disability and the like. In the world economy, ILO Conventions are legal agreements with a status similar to international treaties. One rationale for the use of legal enactment over labelling is the potential ease of mislabelling products. The higher the cost of obtaining accurate information, the less desirable is a market-based labelling strategy for obtaining desired labour standards.

But we should not exaggerate the effectiveness of legal regulation. A substantial number of workers are paid wages below the legal minimum in the United States — a country where laws are generally obeyed. Many workplaces do not follow national health and safety regulations. Some countries sign the ILO Convention on child labour but do little else. The Commission on the Future of Worker-Management Relations in the United States has noted the tendency for the American Congress to pass laws protecting workers but then to fail to provide the money for enforcement. The higher the cost of enforcing a law, the less desirable is a legal-regulation strategy for obtaining desired labour standards. Command and control modes of obtaining desirable conditions have many problems.

My assessment is that society can best obtain the standards it wants through a mixture of legal regulation and consumer information, with some standards more efficiently established through the latter and some through the former. Standards governing how the market works, such as those regulating labour contracts and guaranteeing freedom of association, may be more efficaciously set by legal regulation, whereas standards for actual market outcomes, such as wages and hours or occupational health and safety conditions, may possibly be more efficaciously determined through providing consumers with information about those outcomes. The “information revolution” has, in my opinion, created greater opportunity for a labelling-based strategy than in the past.
IV. Who benefits from standards? Who pays?

As with any other commodity, labour standards are costly. Resources must be spent to obtain standards. Someone has to pay for the production of safety, minimum wages, etc. And someone, possibly a different someone, benefits from those standards. A key issue is thus the incidence of benefits and costs of labour standards. Do employers pay for standards because they are legally obligated to provide them? Do the beneficiaries pay through lower wages or employment?

Opponents of standards often argue that the main beneficiaries are workers/firms in high-standard workplaces and that the low-standard workers/firms pay through reduced competitiveness. Proponents of standards argue that the main beneficiaries are the workers in low-standard workplaces or countries. Some labour standards operate like a minimum wage, reducing employment of some low-paid workers while raising the pay of others, including workers with the appropriate cross-elasticity of demand. Other labour standards operate like a payroll tax. If the supply of labour is zero-elastic, workers will pay for the benefit through lower wages. If supply is upward-sloping, the costs will be shared between workers and employers, and eventually consumers, depending on supply and demand elasticities. If workers value a given standard, the supply of labour will shift to the right when it is legally mandated, so that more of the cost will fall on workers.

Analysis of standards as a commodity desired by consumers suggests additional considerations in the incidence of benefits and costs. Consider a situation in which the consumer wants you to work in a safe workplace while you are indifferent. The consumer benefits from the standard and ought, therefore, to pay for it. In a market where standards are set through labelling of conditions, this will be the case. Indeed, consumers who want higher/lower standards will "buy" the amount they want, just as they buy higher/lower quality products. If the worker also benefits from the improved conditions, the consumer and worker will share the costs and benefits.

Legal enactment creates a different situation. If consumers have homogeneous tastes, they would vote to enact a single standard and pay for enforcement through taxes. But consumers are heterogeneous, so that a single standard will force some to buy a higher standard than they want while others buy a lower standard than they want. To the extent that consumers care about their link with products made under substandard conditions, this suggests that, other things being equal, we ought to give preference to an information labelling approach to determining standards.
But to the extent that consumers care about the existence of substandard conditions per se, regardless of whether they buy the goods so produced, legal enactment has an advantage.

These considerations bring to the fore a major issue about consumer preferences for standards: whether they are a private good or a public good. My analysis of differential prices for the extended product treats them as private goods, as does the analysis of compensating differentials in the labour market. If preference for standards goes beyond the commodities the individual consumes to standards in society or the world in general, a public goods analysis is needed.

V. Standards and trade

Establishing labour standards within a country is important, but what makes standards controversial today is growing sentiment for the use of trade to enforce standards across countries, particularly across countries with very different forms of government and levels of GDP per capita. To protectionists, standards offer a rallying cry to preserve or create trade barriers. To those who believe that free trade is the route to economic progress in developing countries, linking trade and non-trade objectives risks blocking the route. To those who care about human rights, trade is one of the few non-military tools for pressuring foreign countries to treat their workers decently and move towards more democratic practices.

I have three points to make about international labour standards.

First, I do not accept the premise of some that bad standards drive out good standards. Any country that wants higher labour standards for itself can have them... if it is willing to pay. A country can pay for standards that increase its cost of production in three ways: through exchange-rate devaluation, with all consumers bearing the burden; through lower wages of workers who gain the benefits; or through taxes on the general public. As a case in point, consider Canada and its major trading partner, the United States. Labour standards and welfare state benefits are higher in Canada than in the US. Does this force lower standards onto Canada? As long as Canada has a separate currency, a tax system and flexible wages, the answer is no: Canadian citizens can buy the standards they wish. Evidence on labour standards and flows of foreign investment in the OECD's 1994 Employment Outlook supports this analysis for advanced countries. The OECD data shows that foreign direct investment over GDP (an indicator of the attraction of a country
to international capital) is unrelated to whether a country has relatively stringent or flexible regulations on labour standards (see Chart 5.6 in Ch. 5 of the OECD report). The primary determinant of investment flows is the level of wages, as investment has favoured lower-wage OECD countries such as Portugal or Greece compared to higher-wage countries like Switzerland or Sweden. Within the US, with a single currency, states survive in the same economic space with different labour regulations.

Second, international standards must allow for differences in the level of development of countries. Historically, labour standards rise with development. Even the relatively laissez-faire Americans have enacted more laws protecting workers over time, with a burst of legislation in the 1980s (Commission on Worker-Management Relations). The effort of European countries in the 1980s and early 1990s to increase flexibility and reform aspects of the welfare state still leaves Europe with the highest labour standards in the world. Newly industrializing countries such as Korea and Taiwan have introduced higher minimum wages, various social benefits and increased rights of association. The general rule is that the higher national output per capita the higher the standards, at least in some range of variation of GDP. A country with low GDP per capita will not "buy" the same labour standards as an advanced country any more than it buys the same number of cars or telephones.

The International Labour Organization, which sets international labour standards, recognizes that standards must vary with national wealth: "The ILO has always held its standards to be universal, while at the same time accepting the inclusion of flexibility clauses that make allowances for different levels of development ... the ILO's practice has been to set benchmarks that each State is expected to adopt as and when its level of development allows." [ILO, 1994, p. 16].

Allowing for differing national abilities to pay for labour standards raises problems. On the one side, flexible standards may do no more than mirror existing conditions rather than inducing countries to improve conditions. On the other side, consumers and others in advanced

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4 In the OECD listing Canada and the United States are in the same group: countries with relatively flexible regulations on labour standards.

5 Among OECD countries, expenditures on social protection as a share of GDP and indices of labour standards (based upon OECD classification of regulations on working time, fixed-term contracts, employment protection, minimum wages and employee representation rights) show no apparent relation to GDP per capita. The United States, in particular, ranks low in expenditures on social protection or labour standards, while having the highest income per capita. See OECD [1994, tables 5.8 and 5.9].
countries may apply overly high standards to less developed countries — for instance in the area of child labour. Which standards should be flexible and which should be universal, without exception for levels of development? The distinction between standards that specify processes for determining labour outcomes (freedom of association, use of slave or convict labour) and standards that specify those outcomes (minimum wages, occupational health and safety) offers one rough rule of thumb for answering this question. Many process-related standards can be met without high levels of income and thus might best be viewed as fundamental social rights. Nearly all outcome standards, by contrast, depend on the nation's productive capacity, and must be scaled according to that capacity — for instance, by making them relative to income per head.

But this distinction still leaves open some difficult cases. While no one can object to different wage standards or minimum wages across countries, varying health and safety or child labour standards is more problematic. How should one view a multinational that invests in safe machines in an advanced country but in less safe, cheaper machines in a less developed country? Perhaps the firm would not make the investment in the LDC with the more expensive machines. Likely as not, the cheaper machines are safer than those used in the advanced country at a comparable level of development. Is this firm meeting international labour standards or not? And how flexible ought standards to be in the area of child labour? In some LDCs, children may have to work for family economic survival. Better that they work and eat than starve. The multinational which insists that its subcontractors fire all child labour may be doing those children more harm than good. But does the firm, or consumers of its products, want it to follow local customs to the extent of hiring 8-10-year-olds at subsistence wages? The salience of these concerns to businessmen operating in a global economy was highlighted in a 1993 Harvard Business Review article dealing with the conflict between child labour standards in the West and those in a poor country [Nichols, 1993].

The manager of the ILO's Programme on the Elimination of Child Labour made the following observations in 1994 on this difficult problem: “Abolishing child labour in one sector alone, such as the export sector, cannot eliminate child labour in a country — it may simply push it into other activities, including some more hazardous to children. There is no quick fix in child labour.” [Washington Branch of ILO, 1994, p. 9]. Citing cases in which the threat of trade sanctions led employers to dismiss children, who were then forced into more hazardous work in the informal sector, the author of the article drew the following lesson, “What these cases from the garment industry and other export industries
suggest is the need to transfer children away from the workplace in a planned and phased manner” [ibid., p. 11].

Analysis of standards as a consumer good suggests that the cost of the transfer ought to be borne by consumers in advanced countries. If you are opposed to child labour being used in the products you buy, you ought to be willing to pay a few cents extra for a programme to transfer those children into education or training. Part of the information label on a product ought to specify the amount of the purchase price that goes to such activities. Our demand, as consumers, ought to be that countries/multinationals develop programmes to maintain the living standards of children so they can go to school rather than that firms simply displace the children. If you want better standards in child labour and other areas in poorer countries, you should put your money where your moralizing is.

The third and most controversial issue is whether labour standards should be part of international trade agreements. Ought advanced countries to make standards an issue in world trade negotiations? Unlike trade economists who view any interference with free trade as the work of the Devil, I would be pragmatic in this area. The concerns and issues faced by working people are all too often missing from conferences on the world economy dominated by bankers, finance ministries and multinationals. If trade negotiations are the only way to raise forcefully the standards flag in an international setting, why not? If trade sanctions can improve labour standards, that benefit must be weighed against the cost of lost trade. If trade sanctions can overturn an evil dictatorial regime and save human lives, go for it. Perhaps the standards issue will induce international trading groups to consider innovative ways whereby international trade might be used to finance improvements in standards. As boycotts and sanctions have not in general been successful in altering country behaviour, though, I would proceed cautiously in those directions.

VI. Conclusions

The “take” on standards that I have adopted in this paper — analysing them as part of an extended product desired by consumers — has led me to the following “hard-headed” conclusions:

(a) There is a consumer market-labelling way to establish standards that has some virtues compared to government regulations.
(b) The choice between delivering standards through labelling or regulation depends on the costs of providing information; the costs of enforcing regulations; heterogeneity of consumer preferences for standards; and whether standards are more a private or public good.

(c) Countries can choose their own standards: bad standards need not drive out good standards.

(d) Outcome-related standards depend on the income in a country, but the level of some process-related standards should be independent of the level of income. Consumers in developed countries who want higher standards in LDCs, such as reduced child labour, must be willing to pay for them.

(e) Raising the issue of standards in trade negotiations may force the financial trading community to take standards seriously and develop new ways to improve standards in LDCs.

Perhaps the most radical (conservative?) notion in this essay is that policy-makers should give greater weight to a labelling strategy for determining standards: provide consumers with information about the labour standards under which products are produced, and then trust the market to reward products made with good standards and penalize those made with poor labour standards. I know that you, good reader, would not buy the T-shirt made by workers under poor conditions, and would willingly pay an extra nickel or perhaps a dime if the firm producing it used the money to benefit its impoverished workers, to reduce child labour, or for some other good purpose. I believe that if mechanisms were in place to help us express our demand for higher labour standards, enough other consumers would react similarly that standards would indeed be raised.

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Part 4:
Challenges for labour standards
from globalization
and economic interdependence
**Post-post-modernism and international labour standards: The quest for a new complexity**

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**I. Introduction**

The decade of the 1990s has already witnessed a process of change which is without parallel in world history. The scope and rapidity of that change have given rise to challenges which our past experience has not equipped us to answer with any confidence. This is primarily because so many of the assumptions upon which we have become accustomed to operating can no longer be taken for granted. As a result, whether we like it or not, many of the approaches which served us well in a post-Second World War era, dominated by the geo-political and ideological rivalries of the Cold War, must now be subject to fundamental re-examination.

The fact that this applies equally to approaches to social justice, including the ILO’s system of adopting, promoting and monitoring international labour standards, is amply demonstrated by a variety of recent critiques of those standards, at least some of which appear to be gaining acceptance among governments and other participants in the international process. In essence, this critique has, for the purposes of the present volume, been well summed up in the following terms:
Standards are viewed as an interference in the (natural) market process, leading to distortions in the price-setting and market-clearing mechanisms, impeding efficiency, creating sub-optimal allocation of labour, the waste of resources through rent-seeking, stifling of competition, deterrence of investments and constraint of growth, and the like. Consequently, labour market deregulation through the relaxation and elimination of standards should remedy the improper functioning of markets [Project outline for this volume, p. 1].

But while it is clear that the fundamental changes which labour markets have undergone in recent years necessitate the questioning of many of the assumptions upon which the international labour standards regime is based, it is by no means clear that the correct assumptions are being re-evaluated. The major problem has been a tendency to conflate the radical free-market agenda of a particular school of neo-classical economics with the much more nuanced and complex set of changes that would seem to be required in order to respond to the changing nature of the labour market. The failure to separate these two different dimensions risks leading some commentators to “throw the baby out with the bath water”.

II. The challenge to labour standards

The current challenge to labour standards derives from two related, but none the less analytically separable, developments over the past decade and a half. The first is largely ideological in nature and justification, while the second is a direct response to a range of global labour market trends. Although it is the second rather than the first of these developments that should frame the debate over the future of labour standards, it is nevertheless important to understand the relationship between the two. The ideological push for reform derives largely from the proposition that the best protection for workers lies in a highly competitive, unstructured labour market which is largely, and ideally almost entirely, unrestrained in its operation by artificially imposed minimum standards. Thus it is untrammelled competition among employers in a free labour market which will provide the best protection for workers. Those employers who offer low wages, unsatisfactory or unsafe working conditions, or inadequate leave or other benefits, will be unable to retain their workers and will, as a result, lose the skills, experience and other benefits of a stable workforce unless they offer improved conditions [Friedman & Friedman, 1979; Epstein, 1983].
Enthusiasm in the West for this neo-classical approach, beginning in the late 1970s, combined with the impact of the economic recession which followed the Wall Street crash in October 1987, encouraged the adoption of comparatively radical economic prescriptions in various countries, ranging from Mrs. Thatcher’s Britain, President Salinas’ Mexico, Prime Minister Mahathir’s Malaysia, New Zealand under Finance Minister Roger Douglas, post-Kaunda Zambia, and Chile under General Pinochet. In Eastern Europe, an attempt was made in the late 1980s to combine communist-controlled central planning with reliance upon a limited range of market mechanisms and a greater degree of openness to capitalist influences. But the apparent impossibility of exercising effective control over such a balancing act, combined with the collapse of the old regimes, led to the abandonment of such efforts in favour of often rather drastic free-market approaches. Third World countries in turn saw their patrons abandoning not only their previous political and economic systems but also their geo-political commitment to support regimes which were not following suit.

Although the extent to which free market policies were embraced differed very significantly from one country to the next, various commentators related those developments directly to the events symbolized by the fall of the Berlin Wall in November 1989 and managed to interpret them as representing the “end of history” or at least the “end of ideology”. In reality, however, what they and others seem to be celebrating is a perceived abandonment of post-modern scepticism about, and perhaps even the complete rejection of most, if not all, grand normative theories. Post-modernist approaches, which dominated international economic analysis for most of the century, involved a preoccupation with the perceived complexities of policy-making and the unavoidable need for carefully calibrated and tailored prescriptions to influence the outcome produced by the interaction of a range of competing factors and influences.

If pursued in an extreme form, such “social engineering” might have offended post-modernist assumptions as to the invalidity of meta-norms. For the most part it was not, however, and the social democratic approaches to which it gave rise were quite consistent with them. The 1970s and 1980s were dominated by efforts in both the capitalist and centrally-planned (communist) societies to moderate what were seen as the adverse side-effects of the basic economic philosophy being pursued. The result was a determinedly hybrid approach in most, although not all, cases. Labour standards fitted conveniently into this context. They, or at least an acceptably restrictive selection of them, could be viewed as a convenient palliative to the worst excesses which would otherwise have been
produced by the system in place. They were also consistent with the quest to achieve a limited international politics of cooperation, through the ILO and other international organizations, which was compatible with the maintenance of what was seen as a desirable, even necessary, degree of ideological and geo-political competition.

The victory of free market ideology was seen to mark a fundamental departure from these approaches. In their stead a single, all-embracing, uncomplicated meta-norm is now assumed to be applicable. This represents a victory for simplicity over complexity and validates an approach in which social justice outcomes are best maximized through the (relatively) unfettered operation of the labour market. Labour standards are then no more than a distorting mechanism which will facilitate the achievement of results which are actually antithetical to those which their well-meaning but misguided proponents seek to achieve.

In fact this line of reasoning does not comport with either historical or current realities. Historically, labour standards were introduced in the ILO Constitution of 1919 both as a bulwark against the rigidities of communist ("Bolshevik") ideology and in order to facilitate free trade among nations. All that has changed in this regard is that centrally-planned, authoritarian socialism is no longer in contention as a viable means by which to moderate the unacceptable consequences of otherwise unfettered free market approaches. But the quest for alternative means of reconciling the imperative of protecting basic human dignity with the advantages of free markets continues unabated.

III. The changing context

What has changed, however, are both the global and rational contexts in which labour standards must now operate and the new trends to which they are compelled to respond. Ever-increasing global mobility of capital and labour, rapid technological innovation which knows no boundaries, the export imperative, and the elimination of many tariff and other barriers to trade have all led to increased pressures at the national level to be more "competitive", primarily through the reduction of labour costs. While increased productivity is the ideal means, this too usually involves greater "flexibility" on the part of labour, which in turn is usually seen to require a leaner workforce, lower minimum labour standards and the reduction of social programmes premised on contributions by employers and governments. It is these factors which compel a re-examination of international labour standards. Their scope is well
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designed to give enterprises greater flexibility, to establish a direct relationship between the productivity of a particular group of workers and their employment conditions, and to make wages more responsive to market fluctuations — has a clear and strong potential to exacerbate existing inequalities. The reasons for this include the predominance of women in those sectors making the most use of casual or part-time employment and the tendency for these sectors to be the most "flexible" in terms of wages and conditions. The use of productivity as a basis for wage outcomes also disadvantages those sectors (particularly the female-dominated service sectors) in which improved productivity is more difficult to measure or prove, and there is a male bias in defining "skills" that are to be rewarded [see, generally, Campling, 1994]. Such factors led the Australian Industrial Relations Commission, a strong proponent of enterprise bargaining, to acknowledge that this approach "places at a relative disadvantage those sections of the labour force where women predominate" [Tully, cited in Campling, 1994, p. 37]. The conclusion to be drawn from this example is not that the new approach should be abandoned, nor is it that gender-based inequalities must be accepted. Rather, it is that new ways must be found within the evolving system to ensure respect for the non-discrimination norm embodied in labour standards.

It is clear, therefore, that labour market changes will not only bring forth new challenges for the international standards regime but will also make many of the existing standards even more relevant and urgently in need of application than before. Indeed, the process of globalization of economic activity also necessitates an equivalent globalization of social policy. Ironically, however, recognition of this fact has led a number of commentators, particularly in the context of the March 1995 World Summit for Social Development, to call for the adoption of a new "global social charter" and other such instruments [United Nations Development Programme, 1994]. If such calls were premised on the overt rejection of labour standards or of the International Covenant on Economic, Social and Cultural Rights, it would be appropriate to ask exactly what the shortcomings of those two reference points were perceived to be. But since that issue does not appear to have been addressed by such visionaries, there would seem to be no reason to reject the existing framework. Rather, our energies should be devoted to improving the effectiveness of what already exists.
IV. Responding to change

The most important changes that are required would seem to be essentially procedural in nature. The most pressing need is to respond to the transformation of the labour market which has been accelerating in recent years. From the ILO’s perspective, these changes have several very important ramifications. The first is that labour policy, per se, is diminishing in importance in relation to overall social policy at the national level. Indeed, many of the labour market reforms which have won strong support within inter-governmental settings, such as the Organisation for Economic Co-operation and Development [OECD, 1994], have the potential to move the principal locus of social protection away from the labour market through which so much of it has traditionally been pursued and into the far broader context of an overall national social policy. Moreover, the latter concept risks degenerating eventually into an emergency social-safety-net-type approach which bears little resemblance to the overall social security or social welfare-based models which have long been accepted.

The second is that the labour ministries, one of the traditional mainstays of the ILO’s tripartite approach, are less in control of labour policy than they used to be. One of the consequences of the growing internationalization of the determinants of domestic economic policies has been a shift in power from the traditional industrial relations setting to other settings. Labour market policies have become a central and direct focus of finance ministries and treasuries, as well as of presidents and prime ministers. Yet, these groups are not part of the ILO’s established constituencies and its influence, along with the relevance of its labour standards, are diminished accordingly. Moreover, it must be acknowledged that even those key decision-makers are much more constrained in their options than they or their labour ministry colleagues were before the onset of the full range of late-twentieth-century pressures to comply with global economic policy exigencies. Finally, the decentralization and “flexibilization” of the bargaining process have endowed a much wider and more disparate group of employers and employees with influence over the de facto labour standard-setting process at the local, and ultimately national, levels.

The need for a number of changes in the ILO’s approach would seem to flow from these developments. In the first place, there should be a greater effort to distinguish, within the overall corpus of labour standards, between those that lay down essential goals of labour and social policy and those that address the means by which to achieve these
ends. The basic standards must then be much more widely disseminated
than is presently the case and educational activities at the local level need
to be encouraged and facilitated. This is also linked to the need to recog-
nize that labour market policy has now come to be located even more
squarely within the broader context of overall social policy, which in
turn has potentially major implications for the ILO. The ILO has to
develop its appeal and openness to what may be termed its secondary
constituencies; it can no longer afford to be as closed as it has been to
these broader interest groups, whether they be social welfare, women’s,
children’s, human rights or other important non-specifically labour-
focused groups. This does not mean that such groups should be made full
partners in the ILO enterprise or, for example, that individuals should be
able to petition the ILO complaints procedures directly (as the Commit-
tee of Experts on the Application of Conventions and Recommendations
seems, by implication at least, to have suggested in its 1994 report).
Rather, the Organization must strive to combine on the one hand its dis-
 distinctiveness in orientation and its tripartite partnership with, on the other
hand, new initiatives designed to reach out to other groups which are
now important players in what was previously a more closed and mana-
geable domain.

A second need is for the ILO to be more willing to re-evaluate the
continuing validity of those of its means-related standards that are under
attack. This does not mean that any of its basic goals should be opened
up to re-negotiation; on the contrary, a clear ideological position in
favour of basic human rights can be the Organization’s only viable
raison-d’être. But, by the same token, the rapidity and extent of recent
labour market changes have created a different context from that in
which some of the earlier standards were designed. While the principal
burden should clearly be on those advocating revision to show how and
why change is needed and how this is compatible with basic labour rights
principles, the Office itself should also become more discerning and criti-
cal in its analyses of key issues. In particular, there is a pressing need to
seek to achieve a closer integration of the legal and economic policy per-
spectives in the context of work done on international labour standards.

A good example of the deficiencies of current approaches is the 1992
report prepared by (or at least in the name of) the Committee of Experts
on minimum wages. This has been an especially controversial issue in
recent years and serious debate has occurred at the national level in most
industrialized countries over whether such wages are, either in general or
at a certain point, counter-productive. Yet in the course of a 200-page
report, only two paragraphs are devoted to this issue. Leaving aside the
delightfully circular nature of the conclusion reached (which is that the
obligation to set a minimum wage is less problematic than the level at which it is set), it is based upon a cursory review of only two studies [ILO, 1992]. Moreover, while neither of those studies was conclusive, both appear to have acknowledged either actual or potential problems with the minimum wage approach. As a result, the report combines meticulous technical analysis of existing standards and their application with an almost total neglect of the burning issue that would be of most concern to almost any general observer.

Finally, the ILO, like all United Nations specialized agencies, needs to re-evaluate its commitment to cooperate with and contribute to the work of the United Nations Committee on Economic, Social and Cultural Rights which is responsible for supervision of the International Human Rights Covenant of the same name. While the history of the relationship between the Committee (and its pre-1987 incarnation as a Working Group) and the ILO has been somewhat chequered, and while the ILO had good reason to diminish its cooperation almost to vanishing point in the mid and late 1980s, that approach is no longer viable. Given what seems to be the inexorably diminishing role being accorded to labour market policies as a means by which to promote specific social justice objectives, the ILO risks becoming gradually less relevant unless it concerns itself to a greater extent with the broader international effort to protect fundamental economic and social rights. In this respect, it has a central, perhaps even unique, role to play but it cannot do it in splendid isolation from the principal context in which United Nations rights-based activity is located. There is every opportunity for a full and rewarding partnership and the ILO needs to explore all of the possibilities. Without an appropriate entry point into that part of the work of the United Nations which overlaps directly with that of the ILO in relation to labour standards, the ILO forgoes a vital opportunity to develop a common agenda for the promotion of social justice. In the longer term, it also risks maintaining its much-valued independence, or separateness, at the expense of its own increasing marginalization.

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Contemporary challenges for labour standards resulting from globalization

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I. Introduction

In Africa, anyone aged 75 years is considered very old and treated with great respect. The attainment of 75 years by that respected and unique tripartite organization, the International Labour Organization, is a matter of great significance and joy for us in Africa, as for other parts of the world.

Of significance also is the 50th anniversary of the ILO Declaration of Philadelphia. The Declaration is as relevant to current socio-economic realities as it was 50 years ago. It can safely be affirmed that non-compliance with the principles contained in the Declaration is the major cause of the poverty, social instability and insecurity in the world today.

Have we any cause to celebrate these two anniversaries? The answer is yes. The ILO, in the exercise of its mandate and the application of the objectives set out in its Constitution, has made a positive contribution to mutual understanding, alleviation of poverty, human and trade union rights, standard-setting, social justice, peace and development.

Because of its tripartite composition, the ILO’s presence is felt in all the nooks and corners of the world. It is, in my estimation, the most respected of all the United Nations agencies in Africa. To African workers, the ILO is a friend in need, protector of the oppressed, defender, educator, standard-setter, judge and succour.
The ILO has contributed a great deal to the human resource development and capacity-building of its tripartite constituents, particularly in developing countries where this assistance is badly needed. The transfer of skills and competence by the ILO through its various technical departments has helped to enhance productivity, industrial harmony and development in Africa.

The principles enshrined in the Philadelphia declaration are the most quoted of all the declarations in the United Nations system. Article I(c) of the Declaration, "Poverty anywhere constitutes a danger to prosperity everywhere" is highly relevant: the political and social upheavals in many countries in Africa, Asia, Latin America, East and Central Europe are caused by the impoverishment of the majority of their people.

Article I(a) of the Declaration, "Labour is not a commodity" is one of the fundamental principles of the ILO, but it is being seriously challenged by neo-liberals and free-marketeers to whom profits come first. This negative attitude denies workers their humanity and the fruits of their labour. Unfortunately, this anti-humanity economic ideology is not only being preached but is also being pushed by some agencies of the United Nations. The result to date has been the extreme poverty of a fifth of the world's population, a high rate of unemployment worldwide (14 million in Africa) and social and political instability, especially in Africa.

Article I(b) of the Declaration, "Freedom of expression and of association are essential to sustained progress" is one of the basic human rights that is also being constantly violated both in the developed and developing countries. This freedom is one of the pillars upon which democracy is built. It is now universally acknowledged that there can be no development without democracy.

The Declaration adds the "war against want" to the fundamental principles on which the ILO is built. ILO tripartite constituents are morally, legally and constitutionally bound to respect and apply these and the other principles enunciated in Articles II-V of the Declaration of Philadelphia.

Lack of social justice and injustice in economic relations between and among nations, are the principal causes of the poverty, underdevelopment, unemployment and political instability in many parts of the world, particularly in Africa. It is therefore incumbent upon all the tripartite constituents of the ILO, in celebrating the 75th and 50th anniversary, respectively, of the ILO and the Philadelphia declaration, to uphold the principles upon which the organization was built in order to secure peace, prosperity and sustainable development. It will be the best tribute we can pay to our cherished organization.
II. Globalization: Genesis and social implications

With the collapse of communism in East and Central Europe in the late 1980s, the world became unipolar. There was no countervailing force to moderate the excesses of the powerful Western industrialized countries and the deteriorating economies of the Third World made the non-aligned countries less influential in world affairs. The election of Margaret Thatcher in 1979 as prime minister in the United Kingdom and of Ronald Reagan as president of the United States a year later, led to the return of what one might call “free-marketeering” in the world economy. These two politicians from the most powerful developed economies became the ideologues of “neo-liberal capitalism”. Their belief in the trickle-down economic theory, and in the ability of the market to solve all problems, influenced the economic policies of institutions like the World Bank and the International Monetary Fund. According to the neo-liberals, governments have no business running business. They should leave that to the private sector.

The main beneficiaries of this neo-liberalism have been the transnational corporations (TNCs) whose economic and political power has increased tremendously. The TNCs have suppressed all attempts by the United Nations to make them more transparent and socially accountable. The UN Commission on Transnational Corporations has been virtually dismantled following the pressure of powerful TNCs and their political backers.

In the Uruguay Round of GATT negotiations, Third World countries were sidelined. Or can one call a negotiation between a cat and a mouse a genuine negotiation? How else can one characterize the type of negotiation in GATT where a few rich and powerful nations negotiate and impose their decision on the majority? The call for social justice will ring hollow in the absence of economic justice.

To the people of the Third World, globalization is the cornering of world trade, economic resources and technology by the transnational corporations for the TNCs in the name of the powerful governments of the industrialized countries and against the present and future interest of humanity. This situation has made the TNCs laws unto themselves and uncontrollable, even by their own governments.

The lack of social conscience, greed and exploitation characteristic of neo-liberal capitalism has brought increasing poverty to the majority of the world’s people. In addition to poverty, there is the gross violation of the most basic of fundamental human, social and trade union rights. Social security funds that used to provide succour for redundant and
unemployed workers, pensioners and the aged in the developed countries are now being arbitrarily curtailed, while the needy in developing countries, especially in Africa, who are in worse circumstances, have no hope for social security.

Collective agreements are being unilaterally repudiated by governments and employers in many countries — North and South — in violation of ILO Conventions. Even for those in employment, monthly salaries may last only two to three weeks of the month, especially in Africa where inflation is rampant. People are existing rather than living in these countries.

A phenomenon not experienced in Africa until some ten years ago, graduate unemployment, is now common in most African countries. The frustration of articulate and highly-educated unemployed youth has led to violent protests in many African countries and the resurgence of religious fundamentalism in countries such as Algeria, Egypt and Senegal.

Political instability is also a consequence of current economic problems. This instability has led to the military take-over of governments, or the perpetuation of military dictatorships in countries such as Zaire, Sudan, Nigeria, Sierra Leone and Algeria, notwithstanding the democratization process that has been going on in most of Africa since 1990. Other countries such as Somalia, Liberia, Burundi, Rwanda and Angola have been engulfed in civil wars. As a consequence, Africa has the largest number of refugees of any continent. African countries are also suffering from crushing debt burdens and low commodity prices.

To us in Africa, globalization means:

(a) Loss of sovereignty: The economic policies of most African countries are determined by the IMF and the World Bank. Even some foreign donors take advantage of the poverty of African countries to dictate impossible terms as conditions for assistance.

(b) Marginalization: Africa is being consistently marginalized in world affairs. With commodity prices kept deliberately low and trade barriers against Africa's produce, especially processed and semi-processed commodities, in the markets of developed countries, Africa's share of world trade has slipped below 3 per cent.

(c) Underdevelopment: It is pertinent to ask whether any country or continent subjected to the same exploitation, economic injustice and financial rape as Africa could emerge from underdevelopment. The anti-people conditionalities the IMF and the World Bank are currently imposing on more than two-thirds of African countries are enough to keep Africa underdeveloped. This assertion is confirmed
by the latest report of the World Bank which says it will take 40 years before sub-Saharan Africa returns to average per capita incomes of the mid-1970s!

What should Africa do? For every ill, there is a cure. Africa does not need the "charity" of its trading partners and donor agencies. Africa needs rather understanding, market access and just prices for its commodities, investment and technology transfer.

For its part, Africa should implement to the letter the African Charter for Popular Participation in Development (Arusha, 1990). This Charter defines the path to genuine democracy in the continent through:

(a) popular participation;
(b) empowerment of the people;
(c) accountability;
(d) social and economic justice; and
(e) respect for human and trade union rights.

In other words, Africa has to establish in every country a popular participatory, people-empowered and accountable democracy that will promote social and economic justice, respect human and trade union rights and uphold the rule of law.

Africa also has to intensify the development and utilization of its human and natural resources. Finally, Africa has to integrate the economies of all its countries through the speedy implementation of the treaty establishing the African Economic Community.

III. Structural adjustment programmes and international labour standards

The term Structural Adjustment Programme (SAP) means different things to different people, North and South. To the industrialized North, it means the adjustment of economies to become more efficient and competitive so as to conquer more markets (and make more profits) worldwide. The adjustment in the North is not externally imposed on their governments and people but takes place, in most cases, after intense public debate and parliamentary approval.

In contrast, structural adjustment programmes in the south, especially in Africa, are externally imposed by the two Bretton Woods
institutions, the International Monetary Fund (IMF) and the World Bank and countries are blackmailed into acceptance by the London and Paris Club countries! The aim of these SAPs is to help collect debt from African countries to repay the developed countries. There is no consultation with the people, though it is our countries, not the IMF and the World Bank, which must face the social and economic consequences of SAPs.

SAPs in the North tend to maximize profits for TNCs at the expense of the workers and people of the North. Their high standards of living, social security benefits and higher wages and taxes compared with those of the South, where they are either very low or non-existent, mean higher production costs in the North. Thus, TNCs relocate their industries bag and baggage to the south to maximize their profits. Even before their arrival, these TNCs and/or their subsidiaries negotiate with governments of the South conditions of low wages, no unions, no social security benefits and so on, in violation of international labour standards and the fundamental human rights of their workers.

In other instances, polluting industries that are banned in the North are relocated to the south and continue their environmental destruction there! In a number of Export Promotion Zones (EPZs) of developing countries, workers are not allowed to join or form trade unions. Wages are often kept low, minimum wage laws are not respected and workers' social security is not guaranteed. Where trade unions are allowed to operate, instances abound in which, after negotiating a collective agreement, the company executives flee the country, leaving their workers stranded!

Because of lack of concern for safety and environment and the use of obsolete machinery and dangerous chemicals, accidents have occurred like that in Bhopal (India) some years ago. If the Carbide Company that owned the Bhopal factory had respected international labour standards, the accident could have been prevented and thousands of lives saved.

A look at the orthodox SAPs of the IMF and the World Bank in Africa will confirm flagrant violation of international labour standards. Some of the conditionalities imposed include:

(a) Massive retrenchment of public sector workers (about 25-30 per cent) without any negotiation with the public sector unions or civil servants' associations, which violates Convention No. 98 (Right to Organize and Collective Bargaining Convention, 1949). In some cases, the affected workers are not paid their gratuities and other entitlements until months, even years, after their forced retirement.
Some of the redundant have died before payment of their gratuities, including former employees of the Nigeria Railway Corporation.

(b) Removal of subsidies on food, health, education, housing, transport, etc. This makes basic necessities too expensive and beyond the reach of the poor, the aged and children, who constitute the majority of the population in most African countries. It also constitutes a violation of the fundamental human rights of these people, such as the right to education.

(c) Massive devaluation of national currencies, sometimes by more than 100 per cent at a time and between 500-1,000 per cent within a year, which automatically reduces people’s purchasing power and standard of living. Economists tell us that, when the national currency is devalued by more than 10 per cent within a year, that country’s economy will not receive the full benefit of devaluation.

The lowering of living standards cannot reflate a country’s economy, nor generate employment. But the most damaging effect of the SAPs is the segmentation of the international labour market. The world economic recession is the direct result of the deliberate impoverishment of the economies of the Third World. It is important, in conclusion, to recall the words of the Philadelphia Declaration, that “Poverty anywhere constitutes a danger to prosperity everywhere”.

For us in Africa, there is no United Nations institution that can replace the ILO. Despite the current socio-economic problems engulfing the world, the ILO will continue to be relevant in pursuing its basic principles and upholding international labour standards for the benefit of the world’s people and for self-sustaining development. Happy Anniversary!
The impact of globalization on labour standards in Latin America

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I. Introduction

Any study of changes occurring in labour relations in Latin America must take account of the main characteristics of the political, economic and social systems in place in the region and the new trends emerging in the 1990s. Such an analysis will not, of course, encompass all the characteristics of the various countries; the objective rather will be to identify the essential elements required to interpret the meaning, intensity and purpose of the structural changes now under way. Thus, the following aspects need to be taken into consideration:

(a) the political system;
(b) the economic situation;
(c) the social system and the role of the State in labour relations and social security.

All social systems are the product of a specific society and are based on political, economic and social realities. Any observations thus refer to a specific period and do not imply any historical assessment or prognosis with regard to future developments. In addition, account must also be taken of the “before” and “after” in determining the factors which condition the deep-rooted changes that are occurring, as well as the intensity and consequences of the transformation process. This requires a prior
consideration of methodology, since any study of our subject will necessarily be of a multidisciplinary kind.

II. The regional context

At the regional level, a constant characteristic of Latin American governments for a number of decades was (up to and including the 1980s) their pendular swing between democratic forms and authoritarian regimes. This feature has led Karl Loewestein to describe them as "intermediate configurations", since they do not fit the patterns of the Western constitutional democracies or the totalitarian regimes of contemporary history. Political instability is reflected in the discontinuity of respect for the constitutional principles of the separation of powers and for individual rights and guarantees, a process which has resulted in economic decline, a large internal and external debt, inequality and a lack of social development.

In recent years, the transition towards redemocratization in the Latin American countries has been characterized by:

(a) a need to restore basic rights and consolidate political systems based on respect for the law, freedom and democratic institutions;

(b) the adoption of a market-economy model to reverse the decadent trend, the spread of poverty in society and the inefficiency of the State machinery;

(c) a trend towards regional and global integration in line with world trends which are discouraging economic isolationism;

(d) a clear definition of the social objectives of the community so as to harmonize the need for growth, investment and increased productivity with the search for and achievement of the common welfare, improved living and working conditions for the population and the establishment of a social security scheme which provides adequate protection at a cost which is not detrimental to internal and external competitiveness;

(e) a social participation scheme consonant with the pluralism which should prevail in a politically democratic society and in models of open and competitive economies.

There is a need to formulate ground rules for the so-called "transition periods", since only the conviction of stability will lead to growth
and investment — the two prerequisites of genuine economic and social development. However, it must be emphasized that any proposal for change must recognize and preserve the concept of freedom. The temptation to try and reorganize the conflicting factors present in the economic crisis through authoritarian systems may — over and above the so-called political legitimacy of their motivations — rapidly become a recipe for "plebiscitary Caesarism" or markedly corporatist alternatives which inexcusably lead to a disregard of the fundamental values of the State based on the rule of law and compromise the essence of the changes under way.

Thus, any transformation to overcome the crisis must be carried out within a framework of full respect for constitutional institutions. Any alternative, as well as being a fallacy, would bring in its wake a return to the former disruptions of political institutions, which have always been accompanied by similar disruptions at the economic and social levels.

On the other hand, it is useful to remember that the economic problems which have generally affected the Latin American countries in recent decades are in fact the cause of the "pre-existing social debt". This has too often and too lightly been blamed on the adjustment processes — despite the fact that such structural adjustment was intended to resolve these imbalances.

Although the list is not exhaustive, these "pre-existing realities" can be characterized in the following terms:

(a) a smaller or larger degree of underdevelopment, reflected in a lack of up-to-date technology and increasing poverty, a labour market with obvious underemployment in some sectors, particularly the State administration, as well as rising structural unemployment;

(b) massive internal and external debt, which prevented countries from having a capital market to meet the need for growth in investment and technology;

(c) rapid inflation, with abrupt transfers of income between sectors, thus increasing the fight for distribution to the disadvantage of groups with less capacity to express or impose their views;

(d) State presence in the economy, not only as a regulator but as an actor and principal protagonist, to the detriment of private initiative;

(e) as a result of (d), a high degree of State regulation of labour relations, making them rigid and ill-suited to the dynamics of economic relations;
stemming from this high degree of regulation, the unbridled growth of the informal economy (de facto deregulation) as a means of avoiding legal and fiscal regulations and the bureaucratic red tape which impeded the free functioning of the factors of production. However, these marginal activities became a source of unfair competition for enterprises in the formal sector;

(a) a gradual deterioration in the educational system, and the complete mismatch of educational programmes (especially in the tertiary sector) and labour market requirements.

As regards labour relations in particular, the first point to note is the marked centralization of power, with the State acting as legislator, regulator, judge and jury of labour relations, thus reducing the opportunity for self-determination and negotiation. Indeed, legislation took precedence over negotiation and externally-imposed solutions over solutions worked out between the parties. The State acted as an infallible source of reference to which the parties resorted not so much for mediation but for a verdict which would relieve them of their reciprocal responsibilities. Disputes were settled by government decision rather than through harmonization and social and participatory dialogue within the framework of society, a process which reinforced the hypothesis that the community was the “victim” and the State was the “master”.

This situation proved to be very convenient in that no-one was seen as responsible for the “crisis” or felt obliged to redress the situation. It was a system that reinforced inequality and injustice, not only because it was based on decisions not taken by the sectors in question — or, at best, which satisfied the interests of one to the detriment of the other — but because it often appeared to be determined by political favouritism. The balance would swing now towards the employer and now towards the workers, depending on the relative strength of these factors of production or, even worse, the mood or the tactical and political interests of the government authority. In addition, State activity accounts for a large part of the production sector, which makes the State both judge and jury. This has led to a high degree of unfairness and exacerbated conflict. Finally, the “omnipresent State” has encouraged workers’ representatives to make impossible demands and employers to refuse to negotiate or recognize trade union action.

The ills affecting the State machinery as a whole were also apparent in the social security system where the lack of modernization and adaptation of services on occasion resulted in virtual bankruptcy. In turn this led to a need for a full review of the philosophy of social security and the means of implementation. The lack of any link between the labour system
and social security needs to be emphasized. The State was creating a system of social protection which was more illusory than real, and at considerable cost (with funds being eroded by inflation or diverted to other purposes). Meanwhile, it was striving to remedy the situation by providing excessive levels of labour protection, based on a concept of absolute or life-long job stability. This was coupled with a set of benefits which employers were required to provide but which, by their very nature, should have been the responsibility of social security.

III. The world context

In our view there are a number of factors which will characterize developments in the next decade and which will have a marked impact on labour relations and the problem of employment:

(a) The globalization of markets is creating a high degree of interdependence between local and foreign production and giving countries and enterprises with higher levels of competitiveness and efficiency an increased social and economic role.

(b) However, we are entering a new era where the emphasis will be on man and the challenge facing him, namely the challenge of intelligence. That the challenge is a "soft" rather than a "hard" one is perfectly clear from the fact that modern technologies, machines and technically complex equipment respond differently depending on how they are operated.

(c) With the failure of State interventionism, self-sufficient economic policies and the concept of the welfare State, a new awareness has emerged based on the premise that there is no welfare without growth and that the latter is the result of private initiative, productive investment, efficiency and competitiveness.

In such a context, it is clear that these changes place new demands on the production sector and on labour. For enterprises, competitiveness is the first requisite of globalization; for the workers, it means a demand for greater productivity. At the same time, the traditional importance to workers of wages and status has now been replaced by the goal of obtaining and keeping a job. The classic structure of homogeneous levels of remuneration based on policies of general minimum wages (minimum living wage) or sectoral minimum wages (basic wages established by collective agreement) has given way to output or performance-related
systems of remuneration. In its turn, technology requires a higher level of training — something which is common to workers, employers and governments — while new forms of production organization are imposing geographical and functional mobility as well as flexibility of working hours. These priorities are replacing the preconceived patterns and pose a new challenge to production sectors: it would be naïve or suicidal to ignore them.

As a result, changes have occurred in the labour relations model and in the culture of work, that is, in motivations, behaviour and attitudes to work. At the individual level, the vicissitudes posed by a market economy mean that enterprises are constantly exposed to the challenge of competition and the need for technological and organizational changes. This, in turn, affects the level of employment and employment expectations, since no-one can guarantee “lifetime” work models. The formerly “atypical” or precarious forms of recruitment (temporary contracts, part-time work, combination of apprenticeship and work training, etc.) are returning to coexist alongside permanent work. From the collective viewpoint, a mass-oriented model must necessarily be replaced by a decentralized and individualized one. This gives preference to the direct relationship between the enterprise and the workers’ representatives and between workers and employers, since the main commitment is to output (performance) and productivity.

All these facts confirm that State regulatory activity in the labour sphere has become exhausted and that the legal guarantees provided should be based on reality, rather than the reverse. In short, society has to establish its labour rules within the single framework of its economic realities. Finally, the new labour relations model must be complemented by an efficient social security system to compensate for the labour market conditioning factors noted above.

IV. Change and the social actors

Without doubt the premise underlying this new scenario will give rise to different reactions. Over and above the comfortableness associated with a closed-economy model, the new situation means that, if an enterprise is to raise labour productivity, it must tackle jointly those aspects which determine labour costs, whether they be rigidities in standards or use and customs which are obstacles to adaptation. To this end, work organization methods must be reviewed or restructured in the light of technological change. At the same time, active policies must be
introduced to reduce the so-called “labour taxes” (which have traditionally been very high in Latin America and in general have provided very inadequate benefits), coupled with appropriate staff training policies.

It should not be forgotten that an open economy implies the presence of a “large market”, where imports compete with domestic products and where exports depend on an appropriate balance between quality and price. This requires a profound technological reconversion simultaneously with the development of tertiary processes in the economy and production segmentation — all of which will obviously affect the structure of enterprises and the employment market itself. Relocations illustrate that even decisions on production sites are determined by labour costs.

From the point of view of workers, these conditioning factors also lead to the emergence of a new situation. First, it is more difficult to obtain a job — and, in particular, a first job. Today’s high unemployment rates in the developed countries of western Europe are now being attained by the countries of Latin America, even the so-called “emerging economies”, as a result of State restructuring, industrial reconversion, the introduction of new technology and resulting automation. In other words, in a context in which there has been some reversal of the downward economic trends of recent decades in the region, the evolution of the employment indices is not very satisfactory.

On the other hand, from the standpoint of those who already have jobs, the need for labour adaptation to new work techniques and training for the use of state-of-the-art technology is also encouraging a re-deployment of labour which is reshaping the individual and collective attitudes of workers. This is inevitably leading to the individualization of contracts of employment and the decentralization of the labour relations model. These elements, as well as the account to be taken of economic realities and the need for high levels of competitiveness, require labour relations to be based on collaboration rather than confrontation.

The question arises as to whether this might lead to the demise of the trade union models which have prevailed to date. Trade unions have been fortresses grouping together all the workers in a given occupation and have enjoyed powers which have extended into the political sphere (as in Argentina, for example). In our view, trade unions must adapt to the new circumstances and there is no question of their being replaced by any pseudo-trade union movement. In this respect, account should be taken of the solidarity experience in Costa Rica. In any event, those who oppose change and adopt attitudes which are openly “conservative” in favour of a historical mass-oriented trade union model would appear to have been overtaken by circumstances. Such a model can provide no
solution to the new problems of unemployment or meet the demands posed by globalization and increasing competition.

As in Europe after the energy crisis in the 1970s, the current situation requires the transformation of the trade union movement. The first stage in this process is for trade unions to become more occupation-ally-oriented and less political, more concerned with the problems posed by the new methods of work organization and the training of human resources. The trade union movement must be more active at the micro-level (relations between workers and the enterprise and the discussion of production problems in the enterprise) than at the macro-level (relations between trade unions and governments and the discussion of overall policies).

Some countries embarked on industrial reconversion following the Second World War with the wholesale dismantling of their production structures (the countries of central Europe and Japan). In other countries, including some in Latin America, reconversion has involved a process of disinvestment and the scrapping of obsolete machinery and equipment, which in many cases has included a restructuring of the workforce. In general, there has been a marked cutback in unskilled labour and a sharp increase in the demand for skilled workers. This in turn has led to a process of training, particularly of young workers, placing them in a better position to enter a labour market which is highly selective and specialized. Of course, the training in this case is theoretical rather than on the job.

The erosion of the welfare State, the inability of States in inter-dependent and globalized economies to ensure the effective regulation of labour, and the demands of competitiveness requiring greater productivity and efficiency in the use of labour, have all led to the gradual withdrawal of the State from its regulatory role (deregulation of labour relations) and the decentralization of collective bargaining down to the individual production unit (abandoning of the above-mentioned activity agreements).

It is also clear that with the demise of the totalitarian system at the political level, there has been a move away from the concept of the all-present State (the "megalomania" State, as J.F. Revel put it) towards that of the efficient State. At the same time, the State can no longer bear the costs which it previously assumed. Mention can be made here of the risks which have been taken over when certain entrepreneurial activities have failed or the introduction of subsidies or other incentives which were eventually paid for by the community as a whole. The State is therefore playing a less active role in the economy, either through the privatization of public enterprises or the deregulation of private business. Society itself
is also rejecting State intervention and calling for the adoption of certain values and behaviour by the authorities consonant with the public interest.

An open economy implies competitiveness, globalization, segmentation, technological progress and training. In social terms, the challenges of the new era are bringing a sense of motivation but also uncertainties (both as regards adjustment as well as alternatives for workforce placement or redeployment). In socio-labour terms, the recognition of economic realities as the determinants of the labour model implies the relativization of the State’s role, the abandoning of policies which transferred on to the market risks to be assumed by employers and employees, and the acceptance of negotiation between the parties as the real driving force of labour relations.

Within such a framework, the State will have an active role to play in:

(a) establishing the necessary minimum regulations for resolving problems which might arise in individual and collective law and social security;

(b) exercising supervisory functions with a view to reducing the gulf between the formal and informal economies, promoting compliance with standards in general and in particular those regarding safety and health at work;

(c) mediating in labour disputes, with a view to promoting collaboration between the social partners;

(d) establishing efficient administrative machinery to resolve individual differences with a view to eliminating the litigious nature of labour relations in some countries in the region;

(e) arbitrating in labour disputes in the essential services or when requested by the social partners;

(f) promoting employment policies and social compensation mechanisms in periods of crisis (whether general, sectoral, regional or sporadic).

Special attention should be given to this last point, since we believe that the four classic functions of the State (education, health, justice and security) must be supplemented by a fifth function: social compensation. The definition of this role is based on the fact that the process of economic transformation and the adjustment of State structures leads to situations characterized by:

(a) a shedding of labour, in both the public and private sectors;
(b) a need for trained labour, without there being any suitable infrastructure for providing vocational training;

(c) a transformation of regional economies which may result in internal domestic migration;

(d) external migrations which must be properly addressed;

(e) problems of labour market access by young people and women or the labour market reintegration of workers over the age of 40-45, particularly given the probable extension of the pensionable age.

In the context of all these problems, the State must devise policies and implement measures for unemployment insurance, promoting employment, training and retraining as well as developing and monitoring the social security system.

V. Conclusions

This new dimension of labour relations, based on democratization and transition towards the opening up of State economies, the need for active employment policies and the demise of the concept of the welfare or paternalistic State, implies facing up to the challenge of a new vision of labour law and social security. It is not possible to move directly from a situation in which the State is all-present to one from which it is totally absent. This redefinition of the State must give vigour, presence and a sense of confidence to the social partners and the community as a whole.

There must, in any event, be a move away from the predominant and protagonistic role of the State towards the active participation of the social partners, who must themselves define the new ground rules for working conditions and wages, inspired by the goals of common development and within the context of the new conditions of globalization and competitiveness. At the same time, it will be their responsibility and right to demand levels of benefits from the social security services in line with the fiscal burdens placed upon them. In the final analysis, the protection provided by labour standards and that resulting from social security must not be the illusory product of a network of nominal and theoretical standards, but the actual result of this new social strategy.
Equality: A global labour standard

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Abstract

The effectiveness of international labour standards depends upon working with rather than against market forces. One of the results of globalization of the market system is growing inequalities in incomes and job opportunities. If a dynamic view of the market is accepted, then business organizations which build up efficient and diverse workforces, in close touch with their communities and potential consumers, will be most successful. Equality is the human right which, above all others, encapsulates the values of a democratic system. The early labour law was mainly concerned with vertical equality between employers and workers. In the new environment of the globalized economy, we should concentrate on horizontal equality between different groups which make up the workforce. The emphasis in future should be laid upon the special needs of disadvantaged groups.

I. International labour standards and globalization

The globalization of the market system is accompanied by growing inequalities in income and job opportunities between those who work and seek work. To the traditional explanations of structural inequality, such as class and family background, sex and ethnic origin, and the underdevelopment of certain regions, we need to add the new international division of labour. The protectionist walls of nation-states and
regional groupings offer no more than temporary respite from the inequalities produced by global competition.

The familiar argument of neo-classical economics is that, since markets are sets of unplanned spontaneous exchanges which reward individual efforts and so generate grossly unequal outcomes, they cannot be successfully manipulated through national, let alone regional or international, labour standards. Such standards do not increase, and may actually diminish, the aggregate welfare of workers. Inequality is simply the price we pay for a general level of prosperity in a market system.

Against this dismal, static and individualist model of the Chicago school, there is the real world in which successful national and multinational business organizations make use of labour standards as guidelines for recruiting, maintaining and developing the most efficient staff, and to build up diverse workforces. These reflect their local markets, so enabling them to make their organizations better informed, more adaptable and closer to their customers. In this dynamic approach to the globalized market, the role of labour standards is to create a framework, or floor of basic rights. Within this framework, enterprises can improve their efficiency and profitability by improving access, training and promotion on the basis of job abilities rather than arbitrary criteria like race or sex.

While the aim of social justice has “certainly been the most powerful driving force in the development of international labour law” [Valticos, 1984, para. 18], the effectiveness of such standards depends crucially upon their working with, rather than against, market forces. If managers believe that “international labour standards can result in substantially improved management practice” [Gladstone, 1986, p. 1], they will seek to implement them in their daily activities.

So, too, if national governments in developing countries come to understand international labour standards not as protective walls erected by advanced European and American States, but rather as a powerful weapon for motivating and developing their own workforces in the face of international competition, they will be active participants in the process of implementation. A strong state which ensures stability is essential for rapid economic growth [Nolan, 1994], but a democratic state which upholds the rule of law, supports freedom of association including the right to organize trade unions, and sustains freedom of expression, will in the long run be stronger and more stable than one which coerces its subjects.
II. Fundamental rights in democratic societies

If a dynamic view of the market, rather than a static economic model, is accepted then we need to look closely at international standards. Which of them facilitates growth by developing skilled and highly motivated workforces, and which impose unnecessary rigidity and inflexibility in the labour market? There has always been a tendency in the formulation of international labour law to confuse those global standards which are fundamental to all democratic societies with particular objectives or strategies which by their very nature are conditioned by the level of socio-economic development in a particular country.

The “methods and principles” enumerated in Article 427 of the Treaty of Versailles — “neither complete nor final” but of “special and urgent importance” — contains just such a ragbag of the universal and the particular. It embodies truly fundamental principles, but also very specific strategies. In the first category one would surely include:

(a) the guiding principle that labour should not be regarded as a commodity or article of commerce;

(b) the right of association for all lawful purposes by the employed as well as by employers;

(c) the abolition of child labour;

(d) the principle that men and women should receive equal remuneration for work of equal value.

Evidently under the influence of Roosevelt’s message of 4 January 1941 which promised a post-war world based on four “essential freedoms”, Article II(a) of the Declaration of Philadelphia of 1944 added the statement that: “All human beings irrespective of race, creed or sex, have the right to pursue both their material well-being and their spiritual development in conditions of freedom and dignity, of economic security, and equal opportunity”.

In the second category of admirable but by no means universal aims, since they reflected particular trade union concerns in Europe and America in 1919, we find mention in Article 427 of the Treaty of Versailles of matters such as:

(a) the adoption of an 8-hour day and 48-hour week;

(b) the adoption of a weekly rest of at least 24 hours which should include Sunday wherever practicable.
To these may be added the even longer list formulated by the International Trade Union Congress of 1919, including the exemption of women from work on Saturday afternoons, and a 36-hour weekly rest period [Ramm, 1986, p. 283]. These standards, while important in their particular context, have long since been overtaken in many advanced countries, but still reflect only aspirations in some developing regions. Some standards, like special protection for women, are no longer considered appropriate. The Conventions and Recommendations adopted over the past 75 years by the ILO reflect a similar mixture of the universal and the transient.

This suggests that there is an important distinction to be drawn between the global and the local, the permanent and the temporary, the fundamental right and the short- or medium-term objective of social policy. From this distinction important consequences follow. In particular, while global, permanent and fundamental standards need to be prescribed internationally, local, temporary and short- or medium-term objectives are best formulated and implemented at regional, national or lower levels. This is the well-known principle of "subsidiarity".

In its original guise in Quadragesima Anno, the subsidiarity principle was used to underpin the argument that State authority is stronger and more effective if limited to those essential functions which it alone can perform. In the European Union it has been used in various ways, most recently in Article 3B of the Maastricht Treaty to restrict the law-making powers of the European institutions to those situations in which the objectives cannot be sufficiently achieved by the member States and can, therefore, be better achieved by the Community [Vogel-Polsky & Vogel, 1991, p. 35]. It has also been used to justify the "social dialogue" between management and labour in the formulation and enforcement of European labour standards, a belated and hesitant step in the direction of the tripartism pioneered by the ILO [Hepple, 1993].

While the principle of "subsidiarity" rests upon the conception of a "common interest" or "common good", "it was never intended as a mechanism for resolving the debate about the nature of that good" [Adonis & Tyrie, 1991, p. 9]. That debate, in industrial relations circles, concentrates on the issue of "flexibility" in such contexts as pay, working time, new forms of employment, job content, and job security. To what extent, if at all, should legal rules at either national or supra-national levels determine matters such as these? A similar debate revolves around "deregulation" which, in its more extreme forms, means restoring the unilateral power of the employer to regulate the conditions of employment and at other times means allowing derogations from common minimum rules by collective agreement or by a labour inspectorate.
There is sharp debate throughout the world on the legitimate scope for flexibility and deregulation of this kind. The varying impact of globalization on wages and labour standards in firms operating in different product markets means that the responses will not be uniform. In a globalized market, anything goes so far as flexibility and deregulation are concerned. Attempts to prescribe detailed regulation at international level are bound to fail if these seriously interfere with the demands on management to survive and grow in the face of international competition. Even if lip service is paid to certain standards, the opportunities for avoidance or ineffective implementation are manifold.

This leads to the conclusion that, if international standards are to be congenial to the new environment of turn-of-the-century globalization, they will have to concentrate on those values of the labour market in democratic societies which are global, permanent and fundamental. I suggest that there is one human right which, above all others, encapsulates these values. This is equality.

III. Towards horizontal equality

In the formative period of labour law, during the industrial revolution in Europe, the kind of equality which was sought was that between the individual dependent or subordinated worker and the employer [Hepple, 1986, p. 11]. Once labour was viewed as “human flesh and blood” and not a commodity, and the insight was accepted that “capitalist property is domination over human beings” [Kahn-Freund, 1981, p. 79], the “special function” of labour law was to ensure some kind of substantive and not purely formal legal equality between employer and employee [Sinzheimer, 1910-11, p. 1237]. This was achieved by protective legislation, first for children, young persons and women, then for all workers, and also by guaranteeing freedom of association, the right to form and join trade unions and, in many countries, positive legal support for collective bargaining and other forms of workers’ participation. This may be described as the movement towards vertical equality between employer and employee.

Since the Second World War, another conception of equality has gained momentum. This is horizontal equality, or equal treatment of all workers and those seeking work. While protective legislation and collective bargaining achieved higher labour standards for some sections, and sometimes even a majority, of the employed workforce, it has become increasingly clear that this has often excluded other groups of workers,
or even been achieved at their expense. Once it is realized that there is not a single monolithic "working class", but instead a culturally diverse workforce of men and women, of permanent and temporary, full-time and part-time, skilled and unskilled, workers, the goal of equality assumes a radical aspect, one which may well subvert traditional forms of legal regulation and collective bargaining [Ben-Israel, 1992, p. 350]. If, as was said at the outset, globalization entails increasing inequality, with growing gaps between richer and poorer groups, then the right to equality assumes fundamental importance on a global scale.

The basis for this right can be found in Article II(a) of the Declaration of Philadelphia, together with the ILO Convention No. 100 concerning Equal Remuneration for Men and Women Workers for Work of Equal Value, adopted in 1951, ILO Convention No. 111 concerning Discrimination in Respect of Employment and Occupation, adopted in 1958, ILO Convention No. 156 concerning Equal Opportunities and Equal Treatment for Men and Women Workers: Workers with Family Responsibilities, adopted in 1981, ILO Convention No. 143 on Migrant Workers (Supplementary Provisions) adopted in 1975, and ILO Convention No. 169 concerning Indigenous and Tribal Peoples, adopted in 1989. The principle of equality can also be found in many national constitutions, such as the principle of Gleichheitssatz in Germanic countries and the Equal Protection Clause in the 14th Amendment to the Constitution of the United States.

The prohibited grounds of discrimination listed in Convention No. 111 are race, colour, sex, religion, political opinion, national extraction or social origin. But these are not exhaustive, and Article I(b) permits other grounds to be added by member States after consulting representative bodies. The field of operation of the equality concept is thus limited only by the willingness of governments, management and labour to apply it.

No doubt, the most important areas at present are equality between men and women, and racial equality. The rates of participation of women in the labour market have increased significantly over the past two decades, although with important regional variations. The tendency has been for most new jobs in the advanced economies to go to women. But gender segregation is, if anything, greater in countries with high levels of female participation, particularly if this is associated with high levels of part-time and temporary work. Changes are occurring, but pulling in two directions, with women increasing their representation in both high-level professional jobs and in low-level jobs [Rubery & Fagan, 1993]. In the rapidly expanding part-time female workforce in Europe, there is a high degree of occupational segregation [Hakim, 1993]. The increasing
inequality within the female workforce is due to factors such as class background, family responsibilities, the length and quality of education and training, and working time patterns.

A growth in inequality has also taken place between host populations and those groups which are variously described as “guest workers”, “migrants”, and “visible minorities”. Many of these workers were recruited when rapidly expanding economies were short of labour, and they did jobs which the host population did not want to do. They tend to be segregated in unskilled and semi-skilled jobs and concentrated in production and service sectors. They are likely to under-achieve at school and to have poorer access to training and promotion than host country workers. They face higher levels of unemployment than the host population, and they suffer widespread discrimination even if, as is increasingly the case, they were born and bred in the country [see, for example, Zegers De Beijl, 1990]. These are not the only groups which suffer from discrimination and disadvantage. One could mention older worker (40+) and those with disabilities.

IV. Giving meaning to the equality principle

The concept of equality is broader than a negative prohibition of "discrimination". The weakness of legal definitions of discrimination is that they usually turn on the "less favourable" treatment of one person than others are treated or would be treated in similar circumstances. The dependence on a white male norm of comparison not only ignores biological differences between men and women (for example, discrimination on grounds of pregnancy), but also reinforces the occupational segregation and labour market situation of women, racial minorities and other disadvantaged groups. The assumption is made that a woman or member of an ethnic minority must conform to an established norm.

The concept of indirect discrimination, which has been developed first in the case law of the US courts and then even more extensively by the European Court of Justice, does provide a potentially powerful challenge to apparently neutral criteria and practices which have a disproportionately adverse impact on these groups. However, even this concept suffers from two limitations. First, it depends upon a comparison between representative groups of people employed by the same employer. Thus, for example, it may not be possible for a woman to compare her pay with a "hypothetical" male, that is, what a man would have been paid had he been employed. Secondly, proof of significant disadvantage does
no more than raise a prima facie case of indirect discrimination. The employer may still provide evidence of objective justification. This involves a value judgment, and the impact the law on indirect discrimination has on the labour market will depend upon how sympathetic the court or enforcement agency is to the employer's business needs.

The overriding constraint on the principle of equality in a market system is that of cost. Although the ideology and prejudices which were once used to justify arbitrary discrimination may now be generally rejected, the cost of remedying discrimination is regularly used as an excuse for preserving the status quo. The transition from discrimination to equal treatment is likely to be expensive, and hence difficult to achieve.

A further limitation on anti-discrimination laws is that they are usually based on the premise that equality is an individual right. These laws have developed within the traditional forms of civil adjudication for the resolution of individual disputes, although sometimes unlawful discrimination is also a criminal offence. The weakness in this approach is obvious if one accepts that social disadvantage is suffered collectively by groups. The individualist approach inhibits the development of collective or group procedures and remedies, such as class or representative actions on behalf of a group. Individual remedies do little to change the underlying structures and practices which produce disadvantage.

One way in which these issues could be collectivized would be through trade unions and collective bargaining. However, equality issues present a major problem for unions. For example, traditional approaches to wage bargaining have tended to have an adverse impact upon women. Unions have fought hard to maintain differentials based on skills and grades, and have argued for a "family" wage which is based on the assumption that the breadwinner should be paid enough to support himself and his wife and children. As has been observed in the British context, this "has helped underpin male wages, yet it also serves to legitimate low wages for women, and helps justify the widely-held belief that women should not take up jobs when men are unemployed. Historically, faced with a choice of strategies based on wage-earner solidarity with women and their protection via collective bargaining, or exclusion of women and legal protection, the union movement has opted for the latter" [Dickens, 1993, pp. 111-112]. The implementation of the principle of equality is as much about removing discrimination from collective agreements as it is about doing so in the case of employers' pay structures. A key part of any programme to implement the principle of equality is raising the awareness of negotiators. This, in turn, requires
pressure on collective bargaining both within unions and from external agencies such as human rights commissions.

**V. Concluding remarks**

The argument of this paper is that market forces will produce grossly unequal outcomes unless business organizations are mobilized to make use of positive equal opportunities practices on the basis of their own self-interest and profitability. To do this, they need a broad global standard of equality enforced by effective national and local strategies. What is required is a new framework of international labour law — building on the experience of existing Conventions — which recognizes the collective or group character of social disadvantage and discrimination. The concept of "group" rights is problematical from a legal perspective [Lacey, 1993, pp. 112-119] but it has the benefit of focusing on the needs of disadvantaged groups.

Forceful arguments can be made that special treatment for disadvantaged groups is neither unjust nor immoral, nor is it incompatible with the principle of employing people on "merit" (itself a suspect concept) [Parekh, 1993, pp. 261-280]. An equality programme would include a wide range of measures, at both international and national levels, including contract compliance, affirmative action policies, and more precise targeting of cohesion measures. National systems could be guided towards more effective remedies which compensate and advance groups and not only individuals.

By concentrating on substantive equality of outcome for disadvantaged groups in the labour market, we can develop a response to globalization which marries the market success of organizations with social justice for all sections of the communities in which they operate.

**Bibliographical references**


