



“Summary of article by Eddy Lee: Globalization and Labour Standards: A Review of Issues” in Frontier Issues in Economic Thought, Volume 4: The Changing Nature of Work. Island Press: Washington DC, 1998. pp. 105-108

**Social Science Library: Frontier Thinking in Sustainable Development and Human Well-being**

## **“Summary of article by Eddy Lee: Globalization and Labour Standards: A Review of Issues”**

This article reviews the issues relating to the impact of globalization on labor standards. It examines political and economic aspects of this topic and concludes by assessing the current state of the debate.

### **BACKGROUND**

Questions concerning globalization and labor standards are not new. In fact, international labor conditions were the impetus behind the founding of the International Labor Organization in 1919. The ILO's constitution cites the motives of social justice and humanitarian concerns as well as a fear of labor unrest as a threat to national and international peace. Improved labor standards in one country were seen to be threatened by others that remained backward. Since its establishment, the ILO has adopted 176 conventions and now has 174 member nations.

Support for international labor standards has waned in recent years, for several reasons. First, a shift toward neoliberal economic policy in industrialized countries has questioned the value of labor regulation. This is part of a generally negative view of government action, wherein labor standards are seen as distorting the efficiency of markets, hurting growth and employment. In addition, economic globalization has changed the nature of competition. International competition creates pressure to cut labor and other costs, while increasing the need for greater flexibility in production. Furthermore, many governments are eager to attract foreign direct investment, so strengthening the bargaining power of employers.

### **THE POLITICAL AND ECONOMIC DEBATE**

The foregoing trends have been associated with other broad shifts in the emphasis of public awareness and concern. Increasing public awareness of exploitative labor practices, along with rising public anxieties over job loss, both support a call for a "social clause" that would inject labor standards into international trade agreements. This would mean that trade sanctions could be invoked when there are violations of agreed upon international labor standards "relating to the freedom of association, the right to collective bargaining, the prohibition of forced labour, equality of treatment and non-discrimination in employment, and minimum wage." [176] Such a clause would aim to eliminate unfair trade advantages accruing to countries that benefit from inhumane labor practices.

Opponents, mainly developing countries, perceive a linkage between trade and labor standards as a disguised form of protectionism. While the (mostly first world) proponents of a social clause in trade agreements stress the economic efficiency of trade sanctions, the opponents fear that higher labor standards would act as an economic drag. "Although the existence of child labour and other forms of labour exploitation is not denied, this is seen as the unavoidable side-effect of underdevelopment and poverty... Thus the appropriate response should be expanded access to industrialized markets in order to raise growth..." [177] These opposing positions have introduced yet another layer of mistrust between industrialized and developing countries.

The economic literature deals with these issues within three categories. The first concerns the question of whether harmonization of labor standards with other (e.g., trade) agreements is necessary to ensure fairness. Second is whether trade liberalization causes a "race to the bottom" with respect to labor standards. The third category asks whether there is a real need for a formal link between trade agreements and labor standards.

### **IS HARMONIZATION NECESSARY?**

"The broad case for harmonization rests on the argument that some domestic policies, such as rules relating to market entry for foreign investors and environmental and labour standards, have an effect on a country's international competitiveness." [179] Harmonization is viewed as a way to "level the playing field."

A standard response to this argument is that any country will gain from trade if it uses the differentials between its production costs and the costs of other countries to define its comparative advantage: it does not make any theoretical difference what causes these cost differentials. This argument, however, assumes certain ideal conditions of competition and undistorted markets. Lacking these conditions in the real world, there are "second best" arguments, as well as non-economic considerations, that support the idea of pushing for uniform international standards of human rights and humane economic treatment.

Fairness arguments that do not depend on economic theory start from the premise that practices such as child labour and forced labour are intrinsically wrong. When some groups of producers and workers find themselves disadvantaged -- as some inevitably will be -- by trade liberalization, their loss is especially hard to justify and accept if exploitative labor practices are known to undergird the successfully competing imports.

A more theoretical argument notes that "the impact of trade liberalization on the distribution of income in a given country is different depending on whether or not there is policy harmonization. Without harmonization the extra cost of unilaterally maintaining, say, a higher labour standard is borne by producers in the country concerned because the world market price of the good produced does not change." [180] With harmonization, which is intended to alter production practices throughout the world (presumably in the direction of higher costs), there will be a rise in the world prices, and the cost burden is then shifted from producers to consumers.

### **A RACE TO THE BOTTOM?**

A common view is that, without international action, increasing economic competition in an era of globalization will put downward pressure on labor standards. This pressure comes from need for firms to cut costs, as well as the possibility that governments will attract foreign direct investment by lowering labor standards. From this perspective, labor standards can be seen as public goods that can only be produced at the international level: isolated national action will not suffice because, without universal, enforced standards, defectors who choose not to comply will gain an unfair competitive advantage.

The counter argument is that producers who choose to adopt high labor standards can shield themselves from loss of competitiveness by shifting the cost to workers in the form of lower wages. (There is some evidence that this does commonly occur.) Similarly, on the national level, it is possible to adjust for the cost of higher standards by depreciating a nation's exchange rate (thus shifting the burden to consumers who have to pay more for imports), or by redistributing the burden through higher taxes. These solutions may, however, be infeasible on account of political or distributional considerations.

The arguments on this topic continue, due to a lack of empirical evidence that could support the theoretical positions. It is not convincingly evident that the incidence or intensity of labor exploitation has increased with globalization, either in low wage, low labor standard countries, or in the developed countries that complain of unfair competition.

### **SHOULD THERE BE A LINK BETWEEN TRADE AND LABOR STANDARDS?**

While there is wide acceptance of the basic principles that have been enshrined in the Constitution of the ILO and, more recently, in the Declaration of the World Summit on Social Development, there is continuing disagreement on whether such standards should be formally linked to trade agreements. One controversy concerns national and cultural sovereignty. It is argued that labor standards are culturally specific and therefore do not lend themselves to universal moral consensus. Similarly, on economic grounds it has been said that "Each country will arrive at its own optimum equilibrium point, given its level of development, resource endowments, path of institutional development, etc." [184]

A second area of controversy over a social clause concerns the relative costs and benefits of alternative instruments for achieving the objective of labor standards. Neoliberals argue that public intervention is distortionary and that higher standards can have unintended effects on their targeted beneficiaries, such as child workers and their families. From this perspective, economic growth driven by free trade will indirectly raise labor standards via rising labor demand and wages. Other alternatives include instruments such as consumer boycotts of goods produced by unacceptable labor conditions; these, however, are likely to be plagued by free-rider problems.

A number of responses have been made to these suggestions. Empirically, the evidence on growth retardation due to the spread of labor standards is mixed. The idea that better standards will follow economic growth is rebutted with the observation that "growth in undemocratic countries resolutely hostile to labour rights is unlikely to lead to any improvement. In countries with high inequality in the distribution of wealth and income the trickle-down effect from growth to improving labour standards is likely to be weak..." [187]

In fact, a case can be made on the opposite side: that labor standards enhance productivity, encourage cooperative work organization and higher investment in worker training, and push economic systems onto the healthy development path that depends upon high productivity rather than on cheap labor.

Widely applied labor standards are not only recognized as morally necessary; they also offer economic benefits to both rich and poor nations. The benefits to the latter were just mentioned. The gain to industrialized nations is in the removal of "international public bads." The remaining controversies are not about whether such standards should be implemented, but about how -- and how closely they should be linked to other policies.

Regardless of their findings, however, economic considerations cannot override the strong moral case in favor of observing the core standards that are basic human rights.