

RESEARCH SEMINAR IN INTERNATIONAL ECONOMICS

Gerald R. Ford School of Public Policy
The University of Michigan
Ann Arbor, Michigan 48109-1220

Discussion Paper No. 542

**Review of Elliott and Freeman,
*Can Labor Standards
Improve under Globalization?***

Robert M. Stern

University of Michigan

July 1, 2005

Recent RSIE Discussion Papers are available on the World Wide Web at:
<http://www.fordschool.umich.edu/rsie/workingpapers/wp.html>

Can Labor Standards Improve under Globalization? By Kimberly Ann Elliott and Richard B. Freeman. Washington, D.C.: Institute for International Economics, 2003. Pp. xii, 179. \$25. ISBN 0-88132-332-2. *JEL*

This very well written book builds upon previous publications by the authors dealing with relationships of trade and labor standards and the potential for unions to act as a catalyst for enhancing the voice of workers in developing countries in shaping their conditions of work and remuneration. A number of inter-related questions are addressed, including whether: (1) enforcement of global labor standards can improve worker welfare in developing countries; (2) activism raises international labor standards or is protectionism in disguise; (3) corporate codes of conduct have any significant impact on international labor standards; (4) labor standards should be incorporated into the World Trade Organization (WTO) and what role the International Labor Organization (ILO) should play; and (5) international organizations, national governments, multinational firms, social activists, and unions can coalesce to promote higher labor standards.

The answers given to these questions are: (1) a cautious yes; (2) activism may be helpful in focusing attention on violations of labor standards in tradable sectors, but does little to address underlying domestic conditions in poor countries and is not disguised protectionism; (3) corporate codes of conduct are a welcome response by multinational firms but need to be monitored by independent groups; (4) the WTO should be redesigned or amended to deal with trade-related violations of core labor standards and work in conjunction with the monitoring and assessment role of the ILO; and (5) there has been a healthy synergy beginning in the 1990s among the various interest groups seeking improved conditions and welfare of workers in poor countries.

The authors view globalization and expanding trade acting in a complementary manner to bring about improvements in labor standards. But they are not altogether clear on how this complementarity is achieved. They emphasize in particular the role that consumers in rich countries may play in expressing their preferences by expenditures on imported goods that are produced under acceptably high standards in poor countries. They cite survey and experimental evidence and some empirical evidence suggesting that this behavior is catching on for some

imported products, e.g., “fair trade” coffee and environmentally-friendly-produced lumber products. However, these consumer-conscious expenditures appear to be directed primarily at niche products and account for only small percentages of total expenditures on the particular products involved. Thus, while increased consumer consciousness may create some benefits to producers and workers in poor countries, these benefits should not be exaggerated.

The authors provide an interesting characterization of the market for labor standards in which activist non-government organizations (NGOs) and student organizations play the role of “vigilantes” in identifying purported violations of labor standards and worker rights in poor countries. These groups exert pressure on importing-country governments, multinational firms, and academic institutions licensing clothing and other products bearing their logo to take measures to improve labor standards in supplying countries. For this agitation to be successful, it requires independent “verifiers,” whose role is to monitor compliance with core labor standards and acceptable conditions of work and remuneration. While there have been noteworthy accomplishments in designing and monitoring codes of conduct, the authors take care to note that there is a crucial element missing in this process. This is the voice of the workers themselves in the poor countries who face difficulties in protecting and enhancing their livelihood and working conditions because of barriers to establishing unions. While the authors’ emphasis on the importance of rights to organize and bargain collectively seems reasonable, unionism may not be a panacea in itself. There is a large body of empirical evidence showing that workers employed in manufacturing in poor countries earn wages on average that exceed those available in alternative employment. Furthermore, as production and trade expand, wages in poor countries may be bid up and conditions of work may improve as well. This market-driven process can thus yield significant benefits to workers even when unions are weak or discouraged by governments. The experiences of many of the Asian economies since the 1960s and China more recently are cases in point.

Activists in the United States especially have urged that labor standards be incorporated into the WTO, which would then permit trade sanctions to be threatened if unacceptable standards remained in place. Developing country WTO members have opposed linking trade and labor standards since they fear that WTO sanctions would be aimed particularly against them by protectionist groups in the rich countries. In this connection, the authors review at length U.S. trade actions directed at poor countries and find no evidence of disguised protectionism and therefore no cause for concern. I find this difficult to believe, however. For example, in discussing the U.S. Generalized System of Preferences (GSP), the authors note that most labor-intensive products were initially excluded from preferential treatment. Also, in reviewing the filing of petitions for alleged GSP violations and other U.S. preferential programs, the single most active complainant was the AFL/CIO. While it can be argued that organized labor in the United States may have benign interests in fostering unionism in poor countries, this belies their longstanding opposition to U.S. policies of trade liberalization. It thus appears likely that organized labor would actively pursue alleged violations of labor standards if there was a linkage in the WTO.

The United States has been unsuccessful in its efforts to include issues of labor standards on the agendas of the Uruguay Round and the current Doha Round multilateral trade negotiations. The consensus of WTO members has been that the ILO is the appropriate organization for dealing with these issues. However, the proponents of WTO linkage object to the ILO because it lacks sanctioning authority. Here, the authors seek a middle ground, which is that the WTO and ILO should work in tandem. They recommend that the ILO would document trade-related violations of core labor standards, and the WTO would then determine and follow up if there were actionable violations. But it seems doubtful that the developing country WTO members would accept this recommendation for the reason already noted. I find the recommendation questionable, moreover, because empirical studies of trade and labor standards have found no

compelling evidence that the exports of poor countries are enhanced due to their allegedly low labor standards.

The authors provide the reader with a series of recommended steps to foster more effective agitation for higher labor standards and to focus greater attention on the issues involved. While their advice and recommendations may have some merit, in my view more might be gained if the activists could redirect their efforts to promote the greater opening of markets that would benefit poor countries and to pressure the rich countries to increase their development assistance to target the needs and aspirations of families and children and improve the political and social infrastructure in poor countries.

Robert M. Stern
University of Michigan