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Labor Standards, Human Capital, and Economic Development

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Introduction

Labor standards have always been very controversial because they are at the center of the clashes between strong political, economic and ideological interests. Building consensus on labor standards therefore could help improve the rules governing an open and expanding global economy. I believe labor standards and associated economic and social policies can cause globalization to do more than it has to benefit people everywhere.[2] I also believe, however, that the development of sound standards and policies requires objective analyses, as much agreement on the facts as possible, and separating important from unimportant issues.

This paper will discuss the nature and importance of human capital, present an overview of human capital-labor standards linkages, and the rationale for making core international labor standards a part of the rules governing the global economy, and evaluate some of the criticisms of those rationales; I conclude with an elaboration of the human capital-labor standards linkages.

Human Capital

Human capital (education, health and motivation) has always been an extremely important determinant of individual and social progress, but is even more important in an increasingly competitive and knowledge-intensive global economy. As Theodore Schultz and others have demonstrated, the main source of improvements in productivity through time has been the substitution of ideas, skills and knowledge for physical resources and manual labor.[3] But the acquisition of human capital requires resources that poor people everywhere have difficulty acquiring. Because there are limited resources for human capital formation, especially in poor countries, ways must be found to enable people to acquire these resources and to use them efficiently in the production of knowledge and skills. It would be hard to imagine a more important challenge for international policy.

Fortunately, we have considerable knowledge about how to create efficient learning systems, though this too is a controversial subject as learning systems everywhere seek to adjust to the more demanding education requirements of the globalizing information economy. There is, however, considerable knowledge and experience about effective learning that is creating a science and engineering of education that enables professional educators to take responsibility for improving learning. Standards that define what students should know and be able to do at different stages of learning are very important for creating assessment and supportive learning systems to maximize learning efficiency.[4]

Human capital formation is necessary for improving labor standards, but not enough. Learning does not take place in isolation from societies, polities and economies, all of which either improve or diminish incentives and opportunities for learning. Indeed, families, workplaces, and civic organizations are all important learning systems and all of these other systems influence the learning that takes place in school. From an economic perspective, overall economic policies and strategies condition the nature of the demand for human capital. In societies where the demand for skills and knowledge is weak, the returns to education are likely to be lower than where demand is strong.[5] This is one reason there are no consistent relationships between national education expenditures and economic achievement. Clearly, schooling is more focused and efficient if there is strong demand for knowledge and skills and the standards required for work and life are clear.

Human Capital-Labor Standards Linkages: Overview

Labor standards can play important roles in strengthening human capital producing systems. This can be illustrated with the core labor standards (CLSs) adopted by the International

Labor Organization (ILO) in its 1998 Declaration of Fundamental Rights at Work. The prohibition against the worst forms of child labor can help improve the education, health and motivation of children. But to be successful, the child labor prohibition must be accompanied by policies to prevent the adverse consequences to children and families from the loss of children's income. If families depend on these incomes for survival, either the earnings of adults must rise (through work or subsidies) or there will be pressure for children to take even less desirable jobs in informal or illicit labor markets. The ILO's International Program on the Elimination of Child Labor (IPEC) is designed to deal with these adverse consequences by providing education and helping improve family incomes without child labor or by combining less damaging child labor with education.[6]

The ILO's antidiscrimination standards can improve opportunities for women and members of other groups subject to educational, economic and political discrimination. The elimination of discrimination provides opportunities for these groups to improve their incomes and accumulate human capital. Antidiscrimination standards therefore can form part of a process to break the self-perpetuating cycles of poverty.

The forced labor standard plays an obvious role in this virtuous cycle because family incomes and human capital formation are likely to be depressed by the forced labor of children and adults.

Freedom of association and the effective right to collective bargaining are empowering standards as well as learning systems in themselves but also can cause the other standards to be more effective. By providing an organized voice for workers, these standards make it possible for workers' views to be included in national and international economic policies as well as in the work place. It can be demonstrated that all of these policies are much more effective and sustainable if they include the voices of workers along with those of business, financial and other interests.[7] Of course, workers' organizations also can inflict damage on society and other groups (e.g., rigidity, inefficiencies, discrimination, corruption and resistance to change) which is why joint and pluralistic processes as well as competitive markets are required to balance interests.

Labor participation in economic policy making can do a number of things to make those policies more effectively support human capital formation:

1. Workers are likely to be the primary advocates of high-road development policies to emphasize competing by increasing productivity and quality and not mainly by reducing wages or other direct costs. High road competition requires greater attention to human capital formation at every level—individuals, family, enterprise and society. By contrast, low-road development strategies deemphasize and even block human capital formation.
2. Workers' organizations can counteract the tendency for capitalist markets to generate and perpetuate inequalities in wealth and income. Inequality impedes human capital formation because it: perpetuates poverty, which can create a vicious self-generating cycle of poverty and low rates of human capital formation; impedes the development of trust required for social capital formation; and causes the rich to resist human capital formation for the poor as well as to support policies that shift the costs of adjustment and economic crises to lower income groups, thus providing weak buffers to policies that permit or exacerbate inequality.
3. *Assuring* workers' voices in the work place can greatly improve joint learning between workers and managers and therefore enhance both human capital formation and economic performance.
4. Freedom of association and the effective right to collective bargaining strengthens democracy, which is not only an increasingly important human value, but also has significant instrumental value in supporting sustainable development strategies, forcing political leaders to address famines and other avoidable catastrophes, and recovering from crises more effectively when they occur. Democratic institutions are themselves important learning processes. A fundamental requirement for democracy the inclusion of

the independent organized voice of workers in political and economic decision making to make these processes more effective.

The rest of this paper examines the rationale for labor standards as they evolved in domestic economies, explores the applicability of these standards to the global economy and concludes with some additional evidence with respect to the human capital-labor standards linkages.

Labor Standards

Labor standards are designed to protect workers from specified abuses or to guarantee certain fundamental rights. Standards may specify norms or they might define actual conditions of work. They also might be voluntary or mandatory and specify outcomes or processes.

The rationales for domestic labor standards in the United States and other industrialized democracies were based on the practical experiences of workers, employers, and governments as articulated by the empirical and historical studies of influential scholars like Sidney and Beatrice Webb in Great Britain and John R. Commons in the United States, and by the ILO, formed in 1919 as part of the League of Nations.[8] A unique feature of the ILO is its tripartite governance by representatives of employers, workers and governments.

The ILO has adopted many labor standards, but for our purposes the most important are the core standards embodied in the 1998 ILO Declaration of Fundamental Rights at Work, which stated that the following rights are “fundamental”: (1) freedom of association and the effective recognition of the right to collective bargaining (conventions 87 and 98); (2) the elimination of all forms of forced or compulsory labor (conventions 29 and 105); (3) the effective abolition of the worst forms of child labor (conventions 138 and 182); and (4) the elimination of discrimination in respect of employment and occupation (convention 111). These conventions have had broad-based acceptance, though the United States has ratified only those on child and forced labor.

The International Labor Conference regards these core labor standards to be so important that all member countries are obligated to comply with them, whether or not they have ratified the underlying conventions. According to the Universal Declaration

> All members, even if they have not ratified the Conventions in question, have an obligation arising from the very fact of membership in the Organization to respect, to promote, and to realize, in good faith and in accordance with [the ILO] Constitution, the principles concerning the fundamental rights which are the subject of those conventions…

Although the United States has adopted only two of the underlying conventions, it was an enthusiastic supporter of the 1998 Universal Declaration.

The Rationale for Standards

The rationale for labor standards, as they evolved by the middle of the 20th century, had a number of components:

1. The equity rationale is to provide a balance of power for workers in the work place, economy, polity and the society. A common defense of collective bargaining is that individual workers are at a disadvantage in bargaining with employers, especially in large companies. A common defense of collective (compared with individual) contracting was that it was unjust to enforce contracts entered into by parties of vastly unequal bargaining power.
2. The human rights rationale is that work is so important in the lives of human beings that it should contribute positively to the creation of workers' self identity, personal development and fulfillment. This rationale recognizes the centrality of work in the lives of people; it is the way most adults identify themselves and contribute to the community.
3. Labor standards have several efficiency rationales. Standards can:
    - Contribute to *economic efficiency* by forcing managers to compete by improving productivity and quality instead of by reducing acceptable labor standards. A common purpose of what the Webbs called the "common rule" was to remove labor from competition through collective bargaining or legal enactment.

- Contribute to *regulatory efficiency* by internalizing the costs of such protections as safety and health to firms, which have the greatest ability to understand and minimize these risks. In the absence of legal or collectively bargained standards, individual employers in highly competitive markets are inclined to shift these costs to workers or society. As the Webbs emphasized, in highly competitive markets employers are powerless to avoid passing these costs to the workers at the bottom of the competitive bargaining chain.
- Contribute to improved *industrial efficiency* by inducing workers, unions and managers to think collectively about solving problems.[9]
- Contribute to *long-run economic efficiency* and *human capital formation* by protecting the safety and health of workers and preventing the employment of children under conditions that threaten their intellectual development and physical and mental health.

It should be emphasized, however, that standards have value to workers and society whether or not they promote economic efficiency and that to be effective standards must be considered as components in production, economic, learning and other systems.

Are These Rationales Valid for a Global Economy?

Commons, the Webbs, and other labor economists emphasized the importance of having the scope of the standards coincide with that of the market. Proponents of labor standards argue that the logic for domestic labor standards now applies to the global economy. For example, Commons thought the damage to labor standards was caused by the "competitive menace" defined as "…the marginal producer…with the lowest standards of living and cost and quality of work, he is the producer whose competition tends to drag down the level of others toward his own." Commons found that the "generalissimo" in expanding markets was the "merchant capitalist" who sought out low-cost producers, thus "menacing in turn every part of the field from his strategic center."[10] Commons emphasized that this low-cost producer did not have to be very large or to supply much of the market: "His effect on others depends on the extent to which he can be used as a club to intimidate others. He is a menace rather than an actual competitor."

Contemporary analysts see multinational corporations (MNCs) as modern "merchant capitalist generalissimos" who depress labor standards by subcontracting in places with low standards and retailing globally.[11]

The Critics

The intensification of competition has elicited the same controversies that surrounded the introduction of domestic labor standards in every advanced industrial country. Unions, church groups, non-governmental organizations and policy-oriented institutional economists defend labor standards with much the same arguments as those advanced by Commons, the Webbs, and the ILO, while neoclassical economists and business groups generally oppose linking labor standards to the rules governing the global economy. And just as some early neoclassical economists defended labor standards, some contemporary mainstream economists like Nobel laureate Joseph Stiglitz defend these standards and question such restrictive neoclassical assumptions as perfect knowledge, the unimportance of income distribution, zero transaction costs and no agency problems.[12] In particular, economists who defend standards recognize the problems caused by the restrictive neoclassical assumptions and the imbalance of bargaining power between employers and individual workers, as well as the absence of uniquely determined welfare functions which require non-market mechanisms to balance conflicting interests in the work place and in economic policy making. Stiglitz notes that these tradeoffs are political and therefore beyond the competence of neoclassical economists.

Critics advance a number of arguments against international labor standards:

1. Some, like Paul Krugman, oppose labor standards to eliminate sweatshops with the argument that "Bad jobs are better than no jobs at all."[13] This argument assumes that sweatshops

are a necessary precondition for economic development by the developing countries, just as they were earlier in developed countries like the United States and the United Kingdom. Defenders of labor standards point out that Krugman and others create a false dichotomy: sweatshops are not the only alternatives to no jobs. The best alternative for children is education and non-sweatshop work that does not interfere with education. Of course, programs like the ILO's IPEC carefully structure programs to minimize the negative effects of the elimination of child labor while providing higher quality education and various kinds of family subsidies and promoting income-earning opportunities for poor families in agriculture and formal and informal labor markets.

It also is a mistake to assume that what was required for economic development during the early days of the industrial revolution is applicable to 21st century conditions. MNCs do not have to exploit workers in order to create employment in the developing countries. And domestic enterprises in the developing countries have international sources of capital and therefore do not have to exploit workers to accumulate capital or to compete. And, as noted earlier, the need for children to have more formal education is much greater today than it was at the beginning of industrialization.

Of course, there is a difference between having low wages because of labor surpluses during low levels of economic development and gaining a competitive advantage by exploiting workers through unsafe conditions, long hours, the worst forms of child labor, forced labor, discrimination, or denial of the right to organize and bargain collectively. It also is hoped that our knowledge about the detrimental effects of sweatshops would encourage governments everywhere to seek alternative ways to develop.[14]

Labor standards are sufficiently important that the international community is willing to contribute to the ILO and other international organizations to help developing countries eliminate sweatshops. And modern information and communications technology enables labor rights groups both to focus attention on sweatshops and reward companies for adopting internationally acceptable standards.

2. Critics argue that labor standards create market rigidities and inefficiencies by interfering with the operation of Adam Smith's invisible hand in the labor market. Defenders not only stress the weaknesses in the neoclassical assumptions but point out that standards can cause external labor markets to be more stable and internal labor markets to operate more effectively.[15] Some note that in labor markets, Adam Smith's invisible hand is all thumbs. Labor rights advocates contend, in addition, that an overemphasis on price and wage competition can damage relations between workers and managers and between companies and suppliers and therefore prevent joint learning to improve productivity, quality and flexibility. High performance internal labor markets improve internal and external flexibility based on skills, leading-edge technology, and worker participation as more effective ways to gain greater employment security in an increasingly competitive global economy. In short, labor rights advocates believe labor standards counteract market deficiencies and cause producers and policy makers to focus on high-road development strategies that are beneficial to workers in all countries as well as to high performance companies and consumers interested in both quality and price competition. An implicit assumption of neoclassical economics is that anything that interferes with managerial discretion diminishes productivity; the explicit assumption of labor standards advocates is that standards and worker participation can improve productivity, quality and productivity.[16]

3. Critics argue, in addition, that labor standards are detrimental not only because they interfere with free market economic development, but also because they are unnecessary since economic development will automatically improve labor conditions. To some extent, of course, development does improve conditions for workers, but those of us who advocate high-road economic development strategies contend that labor standards can be components of high value added (HVA) economic development that would be much better for workers, employers and societies. There also is no certainty that economic development will automatically improve labor standards or do so in a reasonable time. Much depends on development strategies. CLSs can encourage development strategies that will be mutually beneficially. Moreover, the ILO's core

labor standards are applicable to all stages of development and would not prevent low wages but would equalize them over time by raising wages with development instead of suppressing wages or other standards in developed and developing countries.

4. Critics likewise argue that the rationale for labor standards is wrong because there is no "race to the bottom" either in terms of foreign direct investment seeking out the lowest wage places or those that have ratified the fewest ILO standards. Indeed, there is credible evidence that many firms seek out the places with good labor conditions, in part because of pressure from the labor standards movement and in part because some companies have learned that it is good business, especially where quality and productivity are important.

All of these arguments are supported by empirical research, but they miss the point. The argument by Commons and others was not that the lowest cost places would attract investment, but that the lowest cost marginal *competitors* would weaken wage and other standards. Moreover, Commons argued that these "competitive menaces" would not have to supply a large part of the market: their threat would weaken the bargaining power of workers in extra-marginal firms. It also is generally conceded that there is no necessary relationship between ratified ILO standards and development or actual labor conditions, since some countries ratify conventions because it is politically correct and the ILO's standards are enforced mainly by moral suasion.[17]

The concept of competition contemplated by Commons and other labor economists was *within an industry*, not between unrelated industries. It also is assumed that the workers in the lower-standards countries have the knowledge and skills to do the work; it was never assumed that labor standards would be the only attraction to industry.

A variant of this argument is that low-wage competition is a false fear because wages tend to reflect productivity, the only ultimate determinant of the ability to improve real wages, and unit labor costs are determined by labor compensation and productivity. Dani Rodrik, for example, advises unions to distance themselves from "such broad condemnations" of trade as complaining about "low wage, low cost competition from developing countries."[18] Rodrik argues that the union charge misses the mark:

> They ignore the fact that much of the difference in labor costs is typically due to lower levels of productivity in the exporting countries. Wages in a poor exporting country that are one-tenth the U.S. level do not disadvantage workers in the United States when labor productivity in that country is also lower by a factor of 10.[19]

Rodrik argues, further, that lower wages are the "foundation" for the developing countries' gains in trade.[20]

There are several problems with Rodrik's argument. First, he presents no evidence that the wage differentials between the United States and the developing countries equal the productivity differential, as implied by his example. Indeed, most of the studies show that even average wages in a country are generally lower than average productivity in that country. However, the relevant comparisons are not broad geographical averages between the United States and the lowest-wage countries that are not immediate competitors, but wages and productivity in the same or closely related industries. Union leaders have growing familiarity with their industry counterparts in other countries through the international trade secretariats (international organizations of unions in the same or related industries) and other organizations. They therefore know, for example, that if the branch of a U.S. company in Mexico has the same technology and management systems and is able to hire labor of roughly the same quality because of labor surpluses in Mexico, then productivity is likely to be much closer to that of the U.S. plants than wages, especially if Mexican labor policies *suppress* wages relative to productivity.

When these relevant comparisons are made, U.S. workers are justified in being concerned about labor standards, not just wages, in Mexico, though wages are important outcomes and closely related to core standards. The relevant evidence supports the unions' charges: empirical research comparing related industries found that "productivity in Mexican export industries was 80 to 90 percent of that in similar industries in the United States and wages were 10 to 15 percent of U.S. levels."[21]

Rodrik is correct that labor costs are important competitive advantages, though proximity to the American market and high productivity levels also are competitive advantages in Mexico. Mexico therefore does not need to suppress wages and other labor standards in order to develop.

Note, however, that the wage standard is not one of the ILO's core labor standards. Unions and labor rights advocates agreed to exclude wages from the core in an effort to overcome objections, especially the Third World criticism that the campaign to make core labor standards part of the rules for the international economy was "protectionist." Advocates assumed, however, that freedom of association and collective bargaining would give workers some power to counteract the political suppression of unions and enable workers to promote high-road development strategies as well as to bargain for higher wages as productivity rises with economic development. It is highly unlikely that, in labor surplus economies, unions will acquire enough bargaining power to cause advances in wages to exceed productivity growth. A greater danger is that the suppression of freedom of association and the right to bargain will channel protest into more disruptive activities like Rodrik himself noted in comparing South Korea with Indonesia during the Asian financial crises of the 1990s (discussed below).

Of course, none of these critics address the argument that lower standards weaken countries' ability to maintain their labor standards, or that the inability of a firm to relocate because of the suppression of unions weakens the bargaining power of workers in places with higher core labor standards. Moreover, the leveraging analysis never argued that firms would immediately seek out places where labor costs were the lowest—ignoring all other factors. In the global economy, competition is most likely to be between places with similar conditions, not between those with the highest and lowest labor standards.

There is abundant theoretical and empirical evidence for the standards-weakening proposition in industries dominated by cost competition. Indeed, this proposition is even supported by standard neoclassical economics, though game theory analysis of the "prisoner's dilemma" is thought by some economists to be a more appropriate way to demonstrate that government interventions through standards can improve outcomes that would be established under unfettered competitive market conditions.[22]

There also is abundant historical evidence of the leveraging effects of labor standards in the work of Commons and the Webbs and in United States labor history. Indeed, there can be little doubt that the ability of American companies to move to low-wage states that suppressed unions was an important factor in industrial location or that this weakened the bargaining power of workers in the more industrialized states. In fact, the main explicit reason for “right-to-work” laws was to weaken unions and to attract industry from places with higher labor standards.[23] And there is considerable evidence that the absence of unions continues to be an important factor in industrial location.[24]

Critics’ contention that mechanisms to enforce labor standards would be captured by protectionists has caused labor advocates to stress the need to avoid measures that would weaken the legitimate competitive advantage of developing countries. As noted, wages are not part of the core labor standards in the ILO’s 1998 Declaration. However, it is not legitimate for developing countries to violate the core labor standards in order to gain competitive advantage. And the ILO has well-established—though imperfect—mechanisms to determine whether or not labor standards are being violated.[25] The main limitation of the ILO’s procedures is its weak enforcement power. This is why some labor rights activists propose strengthening the relationship between the World Bank, the International Monetary Fund, and the World Trade Organization, all of which have more power to enforce the ILO’s recommendations.

5. Opponents argue, further, that labor standards are “self-righteous” attempts to impose “American” or developed country labor standards on the developing countries in order to protect high wages or “rents” of workers in the industrialized countries. Critics rarely present evidence for this proposition. There is little doubt, however, that unionized workers in the North seek to do whatever they can to maintain the wages and working conditions they have fought so hard to achieve. Nevertheless, most unions recognize in a more competitive and knowledge-intensive

economy they must compete more by improving productivity and quality, not by "taking labor out of competition," which is harder to do in globalized industries. This does not mean, as many critics allege, that labor rights advocates are not genuinely interested in closing the gaps by improving the conditions of workers in the developing countries. And labor rights advocates understand that much more needs to be done for a HVA or "high road" strategy than to make CLSs part of the rules for international transactions.

There also is evidence that under certain conditions, especially where firms follow high-road strategies and there are skill shortages, that labor standards can help attract investment.[26] This is especially true under modern conditions where the growing labor rights movement keeps pressure on companies and governments and poor working conditions generate labor unrest, all of which make it more difficult for sweatshops to continue to operate.

It also is not true that labor standards proponents are trying to impose U.S. or developed country standards on developing countries. Gary Burtless, for example, argues that "Insisting that other nations adopt American standards for a safe and healthy workplace means that they must also adopt our view of the appropriate trade-off between health and safety on the one hand and productive efficiency on the other."[27]

There are several things wrong with this argument. The ILO's safety and health standards are not "American" but were developed over many years of trial and error by representatives of workers, employers, and governments in the International Labor Organization. Indeed, the United States has not ratified any ILO safety and health conventions and did not even pass the Occupational Safety and Health Act until 1970. This was over 100 years after the industrial revolution in the United States, which is reason to question the speed at which "trickle-down" economic policies will actually improve workers' conditions. Moreover, the ILO processes do not require that standards be equalized. There are careful procedures to provide technical assistance and time to adapt standards to the conditions in each country. It also should be noted that occupational injuries and diseases always cost workers and societies even if they do not show up on company income statements. The appropriate policy question is how to prevent, and compensate for, these risks. Democratic countries everywhere have found that safety and health standards enforced through joint labor-management processes and government regulations are the most effective way to minimize these risks. In any event, there is little justification for Burtless' observation that "Interpretations devised in the drawing rooms of Paris or the recreation rooms of suburban Washington might seem out of touch with conditions in countries where half or more of the population lives on less than $2 a day."[28]

I expect the ILO understands the conditions in countries where people live on less than $2 a day at least as well as Burtless and other critics do.

6. Burtless also argues that there is more justification for an international trade rule on intellectual property rights than there is for labor standards. He believes that damage from a violation of intellectual property rights is easier to prove than injury to American workers from violations of labor standards in countries with low labor standards. Setting aside the ease or difficulty of proving any kind of injury from international trade—a more difficult undertaking than Burtless implies—it is possible to show that American workers have been damaged by the shift of industrial production to Mexico, where violations of labor standards have been documented by the International Labor Rights Fund, the Economic Policy Institute and others. Moreover, enforcement of international labor standards is through governments, not individual companies. It is the governments' responsibility to ensure that companies comply with these standards. The main reason intellectual property rights are included in the World Trade Organization (WTO) and labor standards are excluded is not because of the logic of the relative positions or the impossibility of enforcement, but because of the relative political strength of business and financial interests on one side and labor rights advocates on the other. Indeed, there is at least as much national and multinational experience with international labor standards as with protecting intellectual property rights. I also believe that the case for international labor standards is sufficiently strong and that political support is growing enough to make it likely that

the core labor standards will become integral components of the rules for international transactions, though I don't know how long it will take or what the enforcement processes will be.

7. In my mind, the most valid argument raised by the critics of labor standards is the difficulty of enforcing international standards in the absence of world government. While I think national and international experience demonstrates that enforcement processes can be developed for labor standards that would be mutually beneficial to people everywhere, much more work needs to be done on this point, which is why I think it was a mistake for the WTO to refuse to appoint a labor working group.

While outlining an enforcement regime is beyond the scope of this paper, several observations flow from my experience studying and enforcing labor laws:

1) The voluntary labor codes being adopted by companies, associations and NGOs at a rapid pace have many advantages. They can be more readily adapted to particular problems, industries, companies, and places. Voluntary codes are less controversial and therefore represent more effective learning processes than rules adopted through adversarial processes that magnify differences and impede learning. Moreover, voluntary processes can harness much latent energy not currently represented in trade negotiations—where powerful economic and political interests have been able to block labor standards or even to deny worker representatives a voice in these deliberations. Labor rights groups rely primarily on harnessing and translating moral power into labor protections. In the short run, moral power usually is less decisive than the economic and political power of financial and business interests and the economists who defend them. But in the long run moral power can be more decisive because people not immediately involved in these matters judge them mainly on moral grounds. And given enough time these moral forces can be more effective.

The main ways moral concerns influence political and economic events are through democratic political processes, the media and conveying or withholding economic benefits.

Modern information and communications technology greatly facilitates the exercise of moral power. For example, Kimberly Ann Elliott and Richard Freeman have demonstrated through careful empirical work that consumers are willing to pay more for goods produced under anti-sweatshop conditions.[29] Elliott and Freeman conclude that while anti-sweatshop campaigns by themselves are not likely to have big impacts and could even make matters worse for workers, this danger

> has not, as far as we can tell, been effectuated, in part because human rights vigilantes try to avoid these risks. Indeed, the wide range of groups in the activist community almost guarantees that if some group pushes demands that are counterproductive another group will modify them or take corrective action.[30]

These analysts cite anti-child labor campaigns to make their point. They note that the ILO's IPEC

> is specifically oriented toward replacing child labor with better opportunities. In the Bangladesh garment and Pakistan soccer ball cases, it was the joint initiative of industry, government and the ILO that required the provision of educational alternatives for the children and turned a potential harm into a positive outcome. Similarly, consumers buying Rugmark-labeled, child-free carpets pay a premium that, in addition to paying the costs of certification, goes to build schools for the affected children. Alternatively, in the absence of ready alternatives, the militant [National Labor Committee] campaigns that target child labor concentrate on increasing the pay for children, rather than on getting firms to produce goods child free. When groups seeking to do good are conscious of the risks, they develop both the means and the ends accordingly.[31]

There is some evidence that developing country employers are beginning to accept labor standards, sometimes as a result of prodding from the United States, labor rights advocates and the ILO. For example, Aaron Bernstein has noted that "in the absence of action by the WTO, the private sector is slowly drawing up the global economy's labor and environmental standards."[32] An Organization for Economic Cooperation and Development (OECD) survey found over 240 codes of conduct by companies in the United States and Western Europe, roughly half of which covered labor standards; 26 of these codes required member firms to permit independent inspections of their facilities and those of their suppliers.

Bernstein also found evidence that as these codes proliferate, employers in low-wage countries are beginning to see competitive advantages in adopting labor codes. After enrolling about 70 percent of the Philippines' 1,000 garment factories in a labor standards program with outside inspectors, for example, the Employers' Confederation of the Philippines (ECP) attempted to enroll all industries in the program "as a way to compete with low-cost countries." According to the ECP's president: "We want to make it clear that if they buy Philippine products, they know they're not made in sweatshops."[33]

The Bangladesh Garment Manufacturers Association has reached similar conclusions and has allowed the ILO to monitor its 2,000+ member factories for adherence to ILO's core labor standards. This initiative built on the ILO's 1996 child labor program to remove Bangladesh children from work and help them enroll in school. Similarly, Cambodian employers agreed to ILO inspections to verify compliance with core labor standards in exchange for higher U.S. export quotas. Full compliance with an earlier agreement for a 14 percent increase in exports was not achieved, but enough progress was made that the United States awarded a 5 percent increase in quotas in 1999 in exchange for the ILO monitoring program. The United States also donated $500,000 to the ILO to defray the costs of monitoring. Submitting to monitoring as part of this agreement irritated Cambodian employers at first, but, according to the Secretary General of Cambodia's Garment Manufacturer's Association, while "It's hard to have people poking their noses into a private business…we have come to accept that labor standards are good for the economy and for the people of Cambodia."[34]

2) Voluntary programs are most effective when backed by sanctions. In fact, the most effective approach to enforcement probably would be a judicious combination of subsidies, technical assistance, and public exposure backed by a flexible arsenal of trade, fines, and other sanctions to enable enforcement authorities to adapt the remedy to the nature of the violations.[35] As with the passage of national labor laws, the adoption of standards will induce considerable compliance depending mainly on the extent of public support for these measures and the extent to which particular employers or political leaders are responsive to moral pressures. The voluntary campaigns focus mainly on compliance by companies while the ILO and various regional and national labor standards agreements are designed to influence companies indirectly through the

governments that have adopted these measures. However, where there is weak enforcement, labor standards are not likely to be very effective against resistant governments or companies.

The most important standards should meet the requirements for good rules: they should be transparent, fair and enforceable. In general the most powerful immediate enforcement sanctions are those related to international trade and finance. While the World Bank has started paying more attention to labor standards, and the International Monetary Fund has been a little less resistant, both institutions have started working more closely with the ILO, the organization with recognized competence in this area. Indeed, the IMF is reported to have pressured Indonesia to accept CLSs in the post-Suharto government following the East Asian financial crises of the 1990s. Any enforcement process should have the ILO as an active partner. Indeed, a very encouraging sign for international labor standards is the growing support for the ILO, no doubt as a result of pressure on other institutions to adopt labor standards.

The World Trade Organization has been the most resistant to a consideration of labor standards. However, the U.S. government should continue its efforts to have the WTO appoint a labor working group. Labor rights activists believe the U.S. government's efforts so far have been pro forma and that it has not fought very hard for trade-linked labor standards.[36] However, the growth of voluntary labor rights campaigns; growing employer support for labor standards; the ILO's more active involvement in international economic activity; and the stepped-up enforcement through unilateral and bilateral U.S. trade and investment mechanisms, the social clauses in the European Union agreements, the NAFTA labor agreement and other multinational activities, could erode WTO opposition to enforceable labor standards. The United States should encourage these activities through demarches to other governments and the provision of subsidies and other incentives to encourage countries to support enforceable labor standards. The fora already established have done much to solidify cooperation between labor rights groups from developing and developed countries.

Labor Standards and Human Capital

I will conclude by enlarging on the evidence for the linkages between the ILO's core labor standards and human capital outlined earlier

Freedom of Association and Collective Bargaining

Freedom of association and the right to collective bargaining are standards with important implications for human capital formation. Unions and other associations are themselves important human capital development institutions, but they also can strengthen democracy and support high-road policies that are vital to human capital formation.

Associations are important learning processes that encourage individuals to develop leadership and entrepreneurial skills. Through democratic discussion and debate people learn about the attitudes and interests of other people. Democratic processes also can cause people to be willing to compromise their interests for the common good. People in democratic processes likewise acquire interpersonal skills and learn the instrumental value of cooperation, trust and peaceful dispute settlement processes.

Associations also teach the instrumental value of democratic institutions as ways to deal with social problems. Economics Nobel laureate Amartya Sen responded as follows to the question of whether or not countries had to be made fit for democracy:

> This thinking changed only in the twentieth century, with the recognition that the question itself was wrong: a country does not have to be deemed fit *for* democracy; rather, it has to become fit *through* democracy. This is indeed a momentous change, extending the potential reach of democracy to cover billions of people, with their varying histories and cultures and disparate levels of affluence.[37]

Sen's insight is at variance with those neoclassical economists who argue that support for unions and other labor standards must await economic development. He adds that "…democracy has an important instrumental value in supporting [people's] claims to political attention (including claims of economic needs)" and "the practice of democracy gives citizens an opportunity to learn from one another and helps society form its values and priorities."[38] He notes that

> …the reach and effectiveness of open dialogue are often underestimated in assessing social and political problems. For example, public discussion has an important role to play in reducing the high rates of fertility that characterize many developing countries. There is substantial evidence that the sharp decline in fertility rates in more literate states has been much influenced by public discussion of the bad effects of high fertility rates on the community at large and especially on the lives of young women.[39]

According to Sen, a very significant indicator of the instrumental value of democracy is "the remarkable fact that, in the terrible history of famines in the world, no substantial famine has ever occurred in any independent and democratic country [with] a relatively free press."[40]

Other economists have confirmed Sen's conclusions about democracy. Dani Rodrik, for example, found that democracies have higher wages, controlling for productivity and other things, and handled the East Asian financial crises better than authoritarian systems.[41] The reasons for the superior performance of democratic institutions in the East Asian financial crisis, according to Rodrik, were: (1) they facilitated transfer of power from more authoritarian to more democratic governments; (2) participation, consultation and bargaining mechanisms fashioned consensus for more acceptable policies; and (3) "voice processes obviated the need for and undercut riots, protests, and other kinds of disruptive activities. . ."

In a number of articles and speeches, Nobel laureate Joseph Stiglitz has demonstrated the theoretical, empirical and policy mistakes made by the IMF, the World Bank and other financial institutions because of their failure to include labor and other non-financial interests in decisions that shift the costs and pain of change mainly to workers and their families and the benefits mainly to higher income and financial interests. Lack of participation by unions and non-financial interests denies these institutions the knowledge of workers' concerns and insights and obviates the need to support more effective policies, thus enabling them to adopt more easily taken "low-road" policies that limit human capital formation.

According to Stiglitz, there is

> growing recognition that the objectives of development go beyond simply an increase in GDP: we are concerned with promoting democratic, equitable, sustainable development. If that is our objective, then it is natural that we should pay particular attention to. . .how the plight of workers changes in the course of development; and that we should look not only to their incomes, but broader measures. . .their health and safety, and even to their

> democratic participation, both at the workplace, and within the broader political arena. Workers' rights should be a central focus of a development institution like the World Bank.[42]

Thus, a major role for unions is as a force for high value added economic strategies that increase the demand for educated labor.

Thomas Palley presents evidence that "improvements in freedom of association result in an increase in country growth rates in the period immediately after the reform is instituted. . . .if the reform's effect is permanent, improved freedom of association permanently raises reforming country growth rates by 1.91 percentage points."[43] Palley concludes, "If the goal is to increase developing country growth rates, the IMF and the World Bank should insist as part of the standard conditions attaching to loan assistance, that recipient countries recognize and enforce human rights and core labor standards."

It would be a mistake to conclude that a free press and free elections alone would be adequate to give democracy its full instrumental potential. There is strong evidence that capitalist democracies can ignore the problems of workers unless these countries have effective independent unions or other organizations that represent workers' interests. While Sen is correct that a democratic society has never had a famine, they have had serious problems that governments have been unwilling to resolve. This was true of India, where it was reported in 2003 that starvation was widespread and that the Indian government was doing very little about it. Frances Stewart, a development economist at Oxford University, pointed out that democracies can be run by "ethnically based groups prepared to do terrible things to other groups. Or they can be very corrupt [and] dominated by elites. Capitalist democratic states put emphasis on the private sector, which doesn't always deliver on social goods. The free press is good on major disasters like classic famines, but it tolerates chronic hunger as much as anyone else." She therefore believes, I think correctly, that "To be fully represented the poor need institutions like trade unions and political parties that speak for them."[44]

Labor organizations not only are necessary institutions for fully functioning democratic states, they also have played important roles in facilitating orderly transitions from authoritarian to more democratic regimes, as was the case, for example, with Poland and South Korea.

Collective bargaining and worker participation

There is abundant evidence that collective bargaining and labor-management cooperation can improve learning and economic performance. Indeed, bargaining, joint labor-management problem solving processes, and on-the-job learning conform well with what cognitive science teaches us about good learning systems. This is true even of adversarial bargaining, but is especially true of cooperative bargaining and consensus building processes. Learning and problem solving can be greatly enhanced by benchmarking, standards, and participation focused on problem solving in high performance systems. Learning is facilitated by information sharing by all parties, especially information about company plans and problems and specialized knowledge from workers, who understand their jobs better than anyone else. Examples of problems workers and managers can resolve cooperatively that the parties could not solve at all or as well separately include:

1. Labor-management safety and health committees which have the power, information and incentives to detect and promote safety and health. Safety and health regulations internalize these problems to firms, which in the absence of regulations are motivated to shift these costs to workers or the public. Joint approaches combine the interests and expertise of workers and employers to prevent problems and can be much more flexible than regulations and government inspectors.
2. Joint apprentice training programs which reflect the interests of workers, companies and unions and overcome the underinvestment in training resulting from the "free rider" problem.

3. Peer assistance and review (PAAR) in public schools where teachers' unions assume joint responsibility for teacher quality, thus complementing the legal duty of fair representation which could cause unions to defend even incompetent teachers in disciplinary and discharge proceedings. These programs establish high standards for teachers, provide mentors to help teachers meet the standards and remove incompetent teachers. Peer review processes regularly remove many more incompetent teachers than had been done by administrators before the programs were created.

Child labor and antidiscrimination standards

The child labor standard has obvious implications for human capital formation. However, as noted above, this standard must interact with others to realize its full potential and avoid unintended negative consequences. Other policies include providing education for children and adequate incomes to enable families to support themselves. However, a combination of policies has significant potential to break self-generating cycles of poverty. Programs to provide jobs for adults, especially women, and education for children can improve both family incomes and the demand for education. More basic education, especially for girls and women, can improve the health and school readiness of children, reduce fertility rates, improve family incomes and reduce income inequality. However, these policies are most effective when accompanied by high value added growth policies which create a demand for education and an equitable sharing of the benefits and costs of change.

The interactions between education, child labor, antidiscrimination and growth policies can be illustrated by comparing the experiences of East Asia and Latin America between the 1960s and 1980s. At the beginning of the 1960s countries in both regions spent about the same proportion of GDP on education, but the East Asian countries spent relatively more on basic and less on higher education, where there were more private institutions. They also emphasized education for girls and women and coupled education expenditures with equitable growth policies that simultaneously reduced inequality, provided more resources for education, and increased the demand for educated workers. Providing more and better education for women reduced fertility rates and improved the health and education of children.

Latin American policies, by contrast, were tilted more heavily toward higher education, which was more beneficial to the rich. Latin American wealth distribution also was more unequal, which caused the wealthy to have less interest in improving education for the poor. Economic policy likewise favored the wealthy and disadvantaged the poor. And Latin American countries had a number of factors that suppressed the wages of low-income workers and limited the ability of these families to either educate their children or to break the self-sustaining cycles of poverty. These included the higher number of children to educate because of high fertility rates; the poor quality of schools because of neglect by policymakers and fewer resources available because of slow growth; trickle-down economic and educational policies; low returns to low-skilled workers in agriculture and relatively few opportunities for women outside the home; low expected returns to families from schooling; and labor market discrimination against certain ethnic, racial and linguistic groups in parts of Latin America.[45]

Thus, in order to eliminate child labor, or at least to limit its negative effects, policy makers must combine this prohibition with antidiscrimination policies. Moreover, these standards will be effective only if there are economic policies designed to promote equitable growth and high value added development policies. Broader application of the freedom of association and collective bargaining standards could generate support for such policies by increasing workers' participation in national and international economic policies.

Conclusions

The rationales for labor standards are as valid in the global economy as they were within countries, though the absence of a world government creates serious enforcement problems and labor standards must be adapted to the realities of a more competitive and knowledge-intensive global economy. The conclusions from analyses by John R. Commons and Sidney and Beatrice Webb find that standards must coincide with the scope of the market supports the need for international labor standards. The arguments against international standards are essentially the same ones advanced against national standards by economists and by most business and financial interests. These arguments are not likely to halt the international movement to include labor standards as components of the rules for the global economy, but they have served the useful purpose of causing labor rights advocates to be alert to the possible unintended negative consequences of adopting labor standards.

The absence of global government causes enforcement to be a major problem for international labor standards, as it always has been in domestic economies. Enforcement problems are created by ideological and political opposition and resistance by many companies, as well as the challenge of adapting standards to diverse conditions. These problems are mitigated by approaches that induce joint self regulation by workers and employers, reserving public enforcement resources for the most resistant situations. The enforcement difficulty is the most valid criticism raised by opponents. Those who support labor standards must therefore continue to carefully construct enforcement processes that will respect the legitimate concerns of all interests. This will require learning from experience as well as discussion, study and debate about the most effective approaches. It is fairly predictable that free markets complemented by freedom of association and democratic processes are the best ways to resolve differences and develop policies that reflect the legitimate interests of the parties and society. Enforcement also requires a judicious mixture of carrots, sticks, transparency and public exposure.

All sides of the labor standards debate can benefit from the NAS's active involvement, especially in exploring the links between labor standards and very important human capital development policies. In contentious areas like this, careful, objective analyses can play important clarifying and mediating roles.

This paper concentrated on the core labor standards embodied in the 1998 ILO Declaration of Fundamental Rights at Work, which are applicable to all ILO member countries, including the United States, which enthusiastically supported the Declaration even though it has ratified only two (forced and child labor) of the relevant conventions. It would be possible, of course, to expand the linkages to such other standards as safety and health or minimum wages, but the core standards are most important and have significant linkages with each other and with human capital development processes. It is especially important to note that particular standards are less effective standing alone and that combinations of standards must be considered in conjunction with other policies, which can themselves be more effective if labor standards are in force.

For example, child labor prohibitions require policies to provide quality education to the affected children and higher incomes to parents; these, in turn, require policies to combat discrimination and poverty and achieve a more equitable sharing of the benefits of the economy and the costs of adjustment and change. These high-road policies, as well as the specific programs, are more likely to be adopted when workers have freedom of association and the effective right to collective bargaining, which can promote democratic institutions, more effective labor relations, structural adjustment and job training programs, and national and international economic policies to promote high value added strategies that increase the demand for human capital and reduce poverty and inequality.

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[1] An earlier version of this paper was prepared for the National Academy of Sciences, Workshop on Labor Standards and Human Capital Policy, Washington D.C., February 27, 2003.

[2] There is considerable controversy over the extent to which globalization has benefited workers. Studies by Economic Policy Institute (EPI) economists have concluded that most workers in the North and South probably lose from international trade and investment. The World Bank and other international financial institutions, on the other hand, stress the positive and minimize the negative from globalization. For example, a 2001 World Bank report (*Draft Policy Research Report: Globalization, Growth and Poverty: Facts, Fears and an Agenda for Action*) concluded that globalization "reduces poverty because integrated economies tend to grow faster and this growth is widely diffused" (p. 1). An EPI evaluation of this study concluded that "…the empirical evidence suggests that reductions in poverty and income inequality remain elusive in most parts of the world, and, moreover, that greater integration of deregulated trade and capital flows over the last two decades has likely undermined efforts to raise living standards for the world's poor." (Christian E. Weller, Robert E. Scott and Adam S. Hersh, "The Unremarkable Record of Liberalized

Trade," EPI, October 2001, p. 1.) EPI economist Robert Scott presents evidence that "Globalization is a negative sum game for most workers." He contends: "The growing body of economic research showing that trade has had negative effects on distribution of income in both the North and many parts of the South in recent years suggests that trade is lowering the incomes of most workers in both regions." ("Our Kind of Trade: Alternatives to Neoliberalism That Can Unite Workers in the North and South," in *Workers in the Global Economy* [Ithaca, NY: Cornell University School of Industrial Relations, 2001], p. 106)

In a report published by the Institute for International Economics (IIE) (*Job Loss from Imports: Measuring the Costs*, 2001), Lori Kletzer "concludes that many American workers are concerned about trade-related job loss with good reason. Import-competing job loss is very costly. Vulnerable workers experience considerable difficulty regaining employment, and suffer large and persistent earnings losses upon reemployment." (IIE, "Wage Insurance Needed to Counter Larger Earnings Losses Experienced by Trade-Displaced Workers," News Release, October 11, 2001)

By contrast, another IIE press release the same day on a study by Howard Lewis III and J. David Richardson ("Why Global Commitment Really Matters," 2001), claimed "Globalization increases wages, productivity and growth of American firms, workers and consumers." The study actually showed that these benefits accrued to workers in "globally engaged" firms.

These studies obviously focus only on particular aspects of trade and do not present net assessments. The NAS therefore could perform a valuable public service by an objective assessment of research on the extent to which globalization has in fact benefited workers, along with an assessment of the factors that determine whether or not globalization benefits workers at different skill levels. The NAS likewise could develop an assessment of positive adjustment mechanisms, including wage insurance, that could offset the negative aspects of globalization and therefore provide greater support for an open and expanding global economy.

[3] See Theodore Schultz, *Investing in People: The Economics of Population Quality* (Berkeley, Cal.: University of California Press, 1991).

[4] See Ray Marshall and Marc Tucker, *Thinking for a Living* (New York: Basic Books, 1992); Jonathan A. Supovitz, Susan M. Poglinco and Brooke A. Snyder, *Moving Mountains* (University of Pennsylvania, Consortium for Policy Research in Education, 2001), and Marc Tucker and Judy Codding, *Standards for Our Schools* (San Francisco: Jossey-Bass, 1998); and Ray Marshall, *Reform by Design: High Performance Schools and Teachers Unions*, forthcoming.

[5] See Mark Rosenzweig, "Schooling, Learning and Economic Growth," in Ray Marshall, ed., *Back to Shared Prosperity* (Armonk, NY: M.E. Sharpe, 2000), pp. 229-237.

[6] See ILO, *A* Future *Without Child Labour*, Geneva, Report of the Director-General to the International Labor Conference, 2002.

[7] See Ray Marshall, *Unheard Voices* (New York: Basic Books, 1987); Joseph Stiglitz, "Democratic Development as the Fruits of Labor," keynote address, IRRA 2000, and "Democratizing the IMF and the World Bank," *Governance*, January 2003.

[8] Sidney and Beatrice Webb, *Industrial Democracy* (London: Longmans Green, 1920); John R. Commons, "American Shoemakers, 1648-1895: A Sketch of Industrial Evolution," *Quarterly Journal of Economics*, November 1909, pp. 39-84.

[9] The chairman of Dupont told me during the 1970s that employees and supervisors focusing jointly on safety and health improved learning, trust and productivity in all other company activities. Safety and health therefore had become an important profit center. A generally accepted proxy for the quality of safety and health programs was the quality of management systems. Similarly when the U.S. Department of Labor required companies to adopt vinyl chloride and cotton dust standards, but left it to the companies to develop more effective processes than required by the standards, companies improved their production efficiencies and reduced the cost of compliance far below even OSHA's pre-standard estimates, which were much lower than the industry's estimates.

[10] John R. Commons, "American Shoemakers," op cit.

[11] See Glen Atkinson, "Capital and Labor in the Emerging Global Economy," *Journal of Economic Issues*, June 1997, pp. 385-89.

[12] Sengenberger and Campbell note, with respect to the methodological roots of the conflict over labor standards, that "…a good deal of the criticism…against standards is derived from deductive economic theory built on a few abstract axioms, with poor empirical content and not proven in reality. Labour standards, by contrast, are founded on vast practical experiences of workers, employers and governments in many countries who, after thorough and prolonged investigation and discourse, have agreed that certain outcomes of labour and capital market processes are undesirable and call for corrective action…There is substantial, consensus-based economic wisdom inherent in standards which could never be matched by the empirical content of any theory." (Werner Sengenberger and Duncan Campbell, eds., *Creating Economic Opportunities: the Role of Labour Standards in Industrial Restructuring* [Geneva: ILO, 1994], p. 5)

These contrasting methodological approaches were very similar to those that have marked economic analysis from its inception. For example, Sidney and Beatrice Webb performed careful economic analyses of working conditions in the United Kingdom during the late nineteenth century. They had studied the orthodox economics of their day, which then, as now, generally opposed labor standards, but found it inadequate to understand working conditions, preferring instead to study organizations and documents, interview employers and workers, and be participant/observers by working at manual jobs. They explained: "We are loath to pin our faith on any manipulation of economic abstractions, with or without the aid of mathematics. We are inclined to attach more weight to a consideration of the processes of industrial life as they actually exist." (*Industrial Democracy* op cit., p. 653)

Summing up the nineteenth century debate over the negative economic effects of trade unions from leading British orthodox economists of the day, the Webbs quoted approvingly from F.Y. Edgeworth, one of the Britain's leading economists, who defended unions and noted that: "…in the matter of [trade] unionism…the untutored mind of the workman has gone more straight to the point than economic intelligence misled by a bad method." (*Mathematical Psychics*, p. 5, cited in Ibid, p. 653)

Joseph Stiglitz writes that "If one didn't know better, it might seem as if the fundamental propositions of neoclassical economics were designed to undermine the rights and position of labor…If establishing…propositions that served to eviscerate the rights and positions of workers can be viewed as one of the great achievements of economics during the century from 1850 to 1950, one of the great achievements of the last half century has been to show the fragility of each of these propositions. Indeed, one might argue that the real achievement of neoclassical theorists was to find the singular set of assumptions—involving perfect markets, perfect information, etc.—under which the [neoclassical] propositions were valid, and then to dress this highly restrictive set of assumptions in the fancy clothes of mathematical generality." (IRRA keynote, op cit., pp. 3-4)

[13] Paul Krugman, "In Praise of Cheap Labor: Bad Jobs are Better than No Jobs at All," *Slate*, March 27, 1997.

[14] See John Miller, "Why Economists are Wrong About Sweatshops and the Antisweatshop Movement," C*hallenge*, January-February 2003, pp. 92-121.

[15] See Peter B. Doeringer and Michael Piore, *Internal Labor Markets and Manpower Analysis* (Lexington, Mass.: D.C. Heath, 1971).

[16] See Ray Marshall, "Work Organization: The Promise of High-Performance Production Systems," in Todd Schafer and Jeff Faux (eds.), *Reclaiming Prosperity: A Blueprint for Progressive Economic Reform* (Armonk, NY: M.E. Sharpe, 1995); Eileen Appelbaum, and Rosemary Batt, *High Performance Work Systems* (WDC.: Economic Policy Institute; 1994); Peter B. Doeringer, Christine Evans-Klock and David G. Terkla, *Startup Factories: High-Performance Management, High Quality and Regional Advantage* (New York: Oxford University Press, 2002); and Alan Blinder, *Paying for Productivity* (WDC: Brookings Institution, 1990).

[17] Robert Flanagan, "Countries with Low Labor Standards Do Not Gain Markets for International Trade and Investment, Study Finds," *AScribe Higher Education News Service*, May 20, 2002. Flanagan found that the ratification of labor standards lagged labor conditions by about five years.

[18] Dani Rodrik, "Has Globalization Gone Too Far?" WDC: Institute for International Economics, March 1997, p. 76.

[19] Ibid.

[20] Ibid.

[21] Jeff Faux, "The Failed Case for NAFTA," WDC: Economic Policy Institute, June 1993; Magnus Blomstrom and Edward N. Wolff, "Multinational Corporations and Productivity Convergence in Mexico,"

NBER Working Paper No. 3141, December 1994; Harley Shaiken, *Advanced Manufacturing and Mexico: The Auto and Electronics Sectors in U.S.-Mexico Trade and Investment* (San Diego: University of California, 1992).

[22] See Thomas Palley, "The Child Labor Problem and the Need for International Labor Standards," *Journal of Economic Issues*, September 2002, pp. 601-15. "Prisoner's dilemma" analysis explains how labor standards shift parties from a sub-optimal equilibrium to one that makes all parties better off. In the absence of labor standards, competitors could be tempted to lower labor standards for fear of losing business if they did not. With agreed upon labor standards, all competitors can be elevated to high road competition that is better for all involved. (Thomas Palley, "The Economic Case for International Labor Standards: Theory and Some Evidence," AFL-CIO Public Policy Department, n.d.)

[23] Ray Marshall, *Labor in the South* (Cambridge, Mass.: Harvard University Press, 1967). Nor can there be much doubt that lower labor standards in the South have weakened labor standards in other places. In fact, if we had been able to obtain more than one vote from Democratic senators in the South in 1978 we could have broken a filibuster and passed labor law reform legislation to improve workers' ability to organize; this legislation passed the House of Representatives with almost a hundred vote majority and had 59 votes for passage in the Senate, but we could not get 60 votes to break a filibuster by anti-union opponents. There was only one vote against the filibuster from the South—James Sasser of Tennessee.

[24] *Startup Factories*, op cit.
[25] As Kimberly Ann Elliott notes, the ILO "has the experience, the people, and the incentive to promote and enforce labor standards. That is its reason for being, not the WTO's." ("Dealing with Labor and Environment Issues in Trade Promotion Legislation," IIE Brief, July 2001)

[26] See Theodore Moran, *Beyond Sweatshops* (WDC: Brookings, 2002).

[27] Gary Burtless, "Workers Rights," *The Brookings Review*, Fall 2001, p. 11.
[28] Ibid, p. 12.
[29] Kimberly Ann Elliott and Richard Freeman, "White Hats or Don Quixote? Human Rights Vigilantes and the Global Economy," NBER Conference on Emerging Labor Market Institutions, August 2000.
[30] Ibid., p. 21.
[31] Ibid.
[32] Aaron Bernstein, "Do-it-Yourself Labor Standards," *BusinessWeek*, November 19, 2001, pp. 74-76.
[33] Ibid., p. 76.
[34] Ibid., p. 74.
[35] A Council on Foreign Relations Task Force co-chaired by Kenneth Duberstein and Robert Rubin (*Building Support for More Open Trade*, 2001) suggested that one element in "a reasonable compromise in labor and environmental issues" might be to "require that trade-related labor and environmental commitments be subject to an effective dispute settlement and enforcement mechanism that could comprise a range of possible instruments to increase compliance but that neither mandates nor forecloses the possibility of trade sanctions."
[36] See Pharis Harvey, Terry Collingsworth and Bama Athreya, "Developing Effective Mechanisms for Implementing Labor Rights in the Global Economy," *Workers in the Global Economy* (Cornell University School if Industrial Relations, 2001, pp. 1-60.
[37] Amartya Sen, "Democracy as a Universal Value," *Journal of Democracy*, July 1999, p. 14.
[38] Ibid., p. 10.
[39] Ibid., pp. 10-11.
[40] Ibid., pp. 7-8.
[41] See Rodrik's articles in *Challenge*, July/August 1999; *Quarterly Journal of Economics*, August 1999.
[42] Joseph Stiglitz, IRRA keynote address, op cit.
[43] Thomas Palley, "The Beneficial Effect of Core Labor Standards on Economic Growth," Technical Working Paper no. 10, AFL-CIO Public Policy Department, 1999.
[44] Quoted by Michael Massing, "Does Democracy Avert Famine?" *New York Times*, March 1, 2003, p. A-21.

[45] Nancy Birdsall, “Education: The People’s Asset,” CSED Worker Paper No. 5, September 1999; Nancy Birdsall, David Russ and Richard Sabot, “Inequality and Growth Reconsidered: Lessons form East Asia,” *Economic Review* 8, no. 3, 1995.