

# The Difficulties of Imposing Universal Labour Standards

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The Western World is generally considered to be modern and progressive. One manifestation of this is its desire to impose universal labour standards. Graham Stull highlights the difficulties associated with the imposition of such labour standards and finds it to be inefficient and illogical.

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## Introduction and Definitions

The term 'Labour Standards' is being used to refer to minimum codes of employment relations, prescribed by legislation and enforced by sanction or through rewards which apply within an industry, a country, or between countries. Before identifying what labour standards are, it is first necessary to explore their intent and explain the theoretical justification behind them.

There are two theoretical justifications for the existence of universal labour standards in the global economy. The first is that the existence of high standards in some countries and their absence from others may give rise to unfair trade practices through competition from firms that allegedly base their comparative advantage on low labour standards.

It is thus a plea for a 'level playing field' in the labour markets of countries that trade. Following this argument to its logical conclusion, we might expect labour standards to assume many forms, such as:

- International Charters on hiring and firing practices;
- Trans-industry global pay agreements, including minimum/maximum wage requirements;
- Prescribed working time and overtime charters;
- Equality of Opportunity;
- Health and Safety regulations;
- Minimum/maximum age requirements.

The problems, both in terms of efficiency and equity, which this absolutist approach to labour standards presents, will be explored in the next section. It should be immediately evident though, that although much support for the International Labour Organisation (ILO) and labour standards in general can be traced to thinking along these lines, there are few, and none in the school of economics, who would be prepared to stand behind an argument of this nature, once it had been unveiled in all its flagrant incongruity.

The second theoretical justification for the existence of universal labour standards, which is more widespread, is the theory that focuses "on the basic human rights dimension of certain labour standards" . Part XIII of the Treaty of Versailles, which provides the constitution for the ILO, expresses these sentiments:

*"The High Contracting parties, moved by sentiments of justice and humanity...agree to the following..."*

The OECD Report of Trade Work and Labour Standards has, on foot of this, selected four labour standards which they term as 'core' labour standards, which "embody

basic human rights as exemplified in the Declaration of the World Social Summit". They are:

- Freedom of association;
- Elimination of exploitative forms of child labour;
- Prohibition of forced labour;
- Non-discrimination in employment.

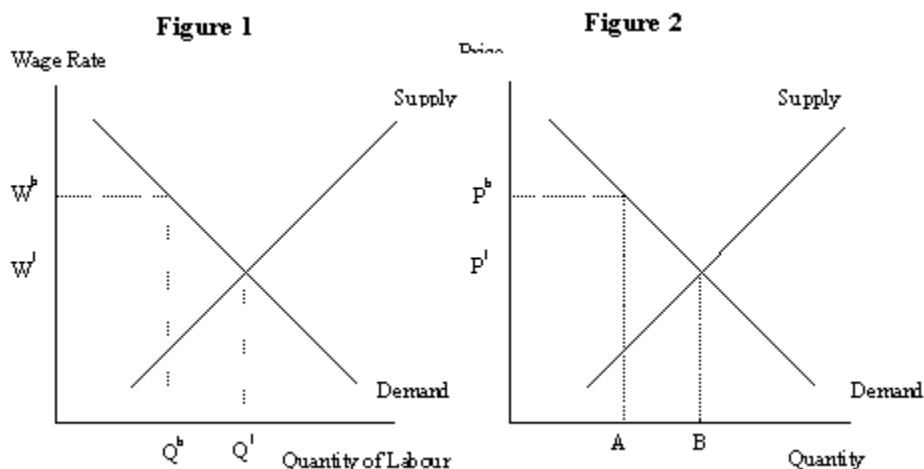
It distinguishes these from other labour standards, such as minimum wage laws and legislation governing working time, which they regard as unrelated to basic human rights. In the third part of this essay I shall examine the humanitarian aspect of labour standards in terms of general welfare criteria and economic efficiency. I will use the OECD core standards as benchmarks.

## The Level Playing Field Argument for Labour Standards

Enshrined in this approach "is a concern about the terms of trade, that is, whether disparate environmental and labour standards allow fair competition". Central to any such perspective is a conception of what 'fair' competition really means. The level playing field conception suggests that there is some immutable characteristic of labour, as a factor of production, which differentiates it from enterprise, capital, or natural resources. For example, it would be argued that the use of child labour in producing exports confers an 'unfair' advantage. On the other hand, it seems ludicrous to talk of Canada possessing an unfair competitive advantage over Saudi Arabia in the exportation of timber. Equally, no one would entertain the idea of imposing a legislative restriction on clever ambitious Americans because it was supposed that the USA had an unfair competitive advantage in the area of innovative entrepreneurship.

If we ignore for a moment what this 'immutable characteristic of labour' might be, it quickly becomes apparent that the list of labour standards in the first section can almost be extended to infinity. This is because almost every aspect of legislation impinges, in one way or another, on the demand and supply of labour, and hence has the potential to affect the comparative advantage of that country. Even where the ILO can succeed in regimenting international labour to a perfect degree, it will succeed only in eliminating that one particular form of competitive advantage. Trade between nations will remain unequal, as it always has been.

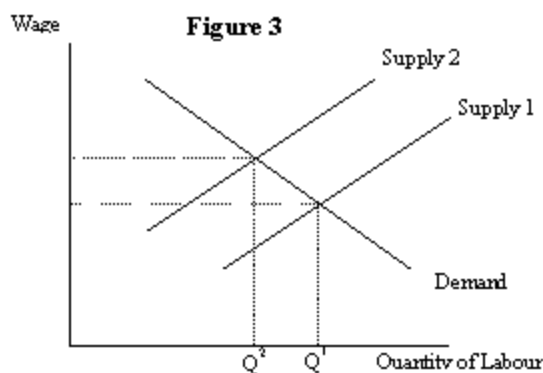
This works to the direct detriment of countries whose 'inferior' labour standards were a result of the need to foster competitive advantage where natural resources, economies of scale and other factors were lacking. Welfare losses occur to the



consumer in the high-standard country and low-standard country alike, as when prices rise, quantity on the world market falls. The situation can be summarised in the above graphs.

Figure 1 shows the labour market for the low standard country in equilibrium at  $W_l$ . The ILO imposes a minimum wage at  $W_h$ . This creates unemployment of  $Q_h Q_l$ . Figure 2 shows the world market for the good produced. The contraction in employment and the higher wage in the low-standard country cause the supply curve to shift upwards.  $AB$  is the loss of total product; triangle  $CDE$  is the welfare loss to world consumers.

As this simple graph shows, the imposition of a universal minimum wage represents a net loss to the low-standard country where the market equilibrium wage is above this, and a loss to the consumers in the high-standard country as well. If we consider the case of a universally imposed maximum work week, the analysis is similar, except that the supply of labour in the low-standard country contracts, as expressed by the movement from  $Supply_1$  to  $Supply_2$  in Figure 3. Here, at least, no unemployment occurs directly, but the world consumers still suffer from higher prices, and the low-standard country still loses its competitive advantage. This may cause unemployment. In addition, it can be argued that workers in low-standard countries are suffering a welfare loss, as they would, *ceteris paribus*, choose to work longer than the maximum working week hours. This 'underemployment' is expressed by  $Q_1 Q_2$  in Figure 3.



Another facet of the level playing field argument is that there is no logical requirement for the standards to be imposed across industries, rather only within them. Thus, it may be acceptable that, in agriculture, unskilled child labourers of all countries may toil away, but in manufacturing, a global minimum age requirement exists. The unequal imposition of standards within countries and between industries will in itself be the source of market distortion, for no two countries have the same proportions of industry within their economies.

Amsden looks at pegging real wage increases to the growth in labour productivity as a similar 'playing field' style standard. She concludes that this is also bad for low-standard economies.

Returning to the question of the immutable characteristic of labour, I feel there are two reasons why competitive advantage derived from labour is considered differently to competitive advantage derived elsewhere.

- Because it is the form of competitive advantage possessed by developing economies, and because labour and employers in developed countries are better organised, more powerful and in a better position to campaign for their interests, this difference is artificially fabricated in the ideology of trade to defend the latter's interests. One notes, for example, that the ILO was founded in Versailles, not in Delhi or Harare. As Bhagwati (1995) points out in his argument against the proposed Social Clause of the WTO, this manifests itself in its most extreme

form because "the choice of standards chosen for attention...is...clearly biased against the poor countries in the sense that none of the problems, where many of the developed countries would be found in violation, are meant to be included in the Social Clause";

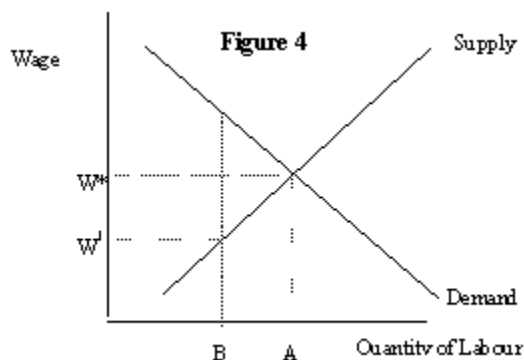
- Because human beings are motivated by a general concern for their fellow kind. Thus human compassion forms the distinction between this and other factors of production. This complex issue requires addressing within a multi-disciplinary framework. However, from an economic point of view, it seems fair to say that where this argument is to hold, it is necessary that the welfare gains to the low standard country arising from the enjoyment of the human rights embodied in the labour standard be greater than the welfare loss resulting from higher prices to consumers, unemployment, and the loss of competitive advantage. The only exception to this is where so-called 'basic human rights' are at stake. Thus, the denial of 'basic human rights' cannot be conceived of in welfare terms, it must rather be regarded as an absolute given. To deal with basic human rights, we will need to move into the second theoretical justification for labour standards.

## Basic Human Rights Arguments for Labour Standards

As mentioned above, the OECD has published a recent report in which four labour standards informed by basic human rights are alluded to.

The first of these is the right to free association and collective bargaining. To begin with, let us assess the extent to which free association affects wage equilibrium and hence competitiveness. Then, we will consider the nature of free association as a basic human right.

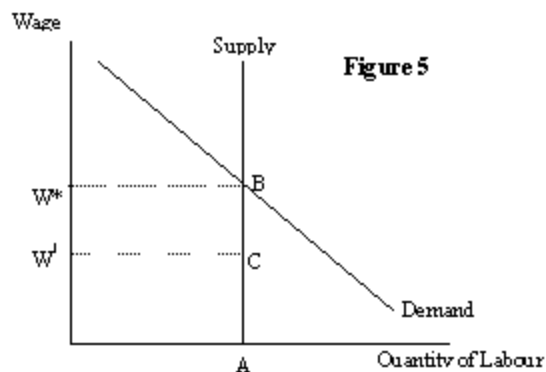
Taking as our point of departure the perfectly competitive labour market, our analysis tells us that the intersection of employers' demand for labour and employees' supply of labour will yield an optimal wage and employment equilibrium, quite without the need for free association or collective bargaining. However, this model depends on certain assumptions which do not always hold true. Specifically, it assumes all parties have access to perfectly correct information, it assumes mobility into and out of the industry, and it assumes a large number of buyers and sellers (of labour). Taking the last of these assumptions to task, we will assume an industry that is a monopsonist buyer of labour (i.e. where employers organise and cooperate to set wage rates and/or employee quotas). If employers exercise monopsony power and only buy labour at a lower wage rate than the market level, classical thinking suggests sellers of labour will shift to other industries; or simply choose to work less hours. This is represented by the movement from A to B in Figure 4, and embodies another assumption, that of mobility into and out of the market.



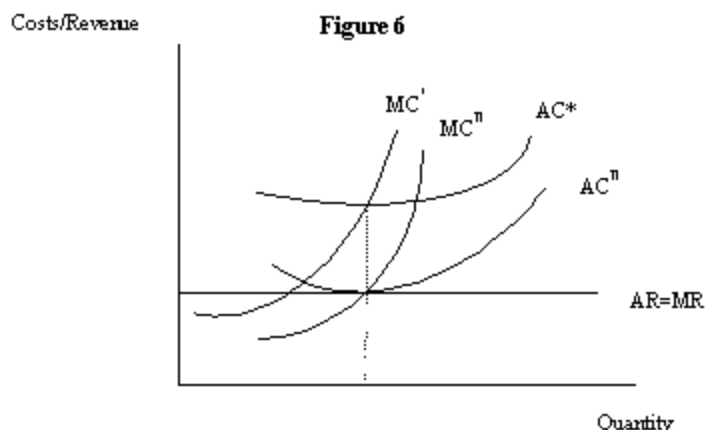
There are a number of good common sense reasons to challenge this assumption. In reality, one industry may dominate a whole geographic region or a whole lifestyle, making it impossible for an individual to conceive of alternative employment. Similarly, the prospect of trading labour for leisure at lowered wage rates - while fine

in an economics textbook - is less inviting to the large proportion of the world's population living below the poverty line.

All this suggests that in fact a vertical supply of labour curve is more appropriate in many economies with low labour standards. Figure 5 shows that in such a situation, employers can use monopsony power to purchase labour at a below-equilibrium wage rate, while quantity of labour employed remains constant at A.



The area  $W^*W^1BC$  is the monopsonist's rent enjoyed by the buyer of labour. Imagine now that the monopsonist, though also a local monopolist, trades the good he produces on a perfectly competitive global market. He is therefore a price-taker, represented by the horizontal Average Revenue/Marginal Revenue curve in Figure 6,  $AC^*$  and  $MC^*$  represent the cost functions which face the producer at market equilibrium wage rates. At this level, the producer produces at  $Q^*$ , where costs exceed revenues, and so goes bankrupt. But if he can buy labour at  $W^1$ , he may employ the monopsonist rent to lower costs and so faces the cost function  $AC^1MC^1$ , at which point his level of profit is sufficient to remain in business.



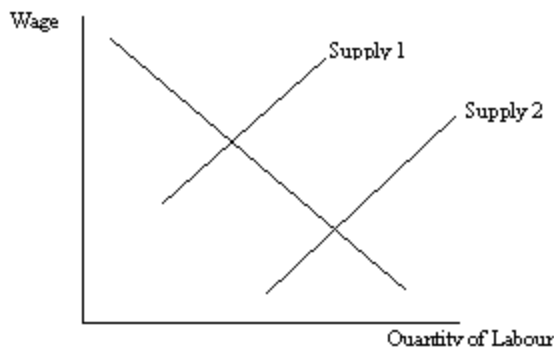
It is easy to see that the absence of free association, in this case, is what provides the local monopolist with his competitive advantage, without which he may well go under - taking with him all the 'unionised' workers. Clearly, this type of competitive advantage is being used in export processing zones in countries like Bangladesh, Mauritius, Pakistan and Panama, where 'special restrictions apply' to the rights of free association in those zones.

Having examined the way in which enforced freedom of association can damage low-standard economies, let us turn to the 'basic human right' aspect of the argument. The very fact that not all workers are considered eligible for this basic human right, even in the highest of high standard countries, suggests it may not be a basic human right at all. For instance, members of the US Marine Corps may never enjoy this basic human right, nor is the practice enshrined in the medical code of

ethics under which doctors function. Likewise, the unemployed and those outside the formal economy (black economy workers, housewives, etc.) are given no guarantee to enjoy this 'basic human right'.

2) The next 'basic human right' that the OECD refers to is the elimination of exploitative forms of child labour. Let us begin by analysing the detrimental economic effects on the low-standard country. If we assume some portion of child labour (and therefore of the total labour supply) is 'exploited', its elimination will cause a contraction in the supply of labour causing the real wage rate to rise, as in Figure 7. This in turn will affect the country's competitiveness internationally, while at the same time forcing those children into unemployment.

Figure 7



Examining the 'basic human rights' aspect of child labour, two question marks hover over the OECD's formulation. First, what is exploitation? Second, what is a child? The OECD report makes no coherent attempt to answer the first question, though some vague reference is made to "heavy loads, physically demanding tasks, long hours, and work related hazards". If this is so, why is it only children who enjoy the basic human right of freedom from exploitation? Surely protection against health hazards is as much a basic human right - to be enjoyed by adults as well as by children? The second problem, of how to define a child, is equally as severe. Ultimately, there can never be a clear distinction between child and adult. It must always remain a function of a society's particular cultural orientation, and as such may never conform to an ILO international standard.

Finally, if the OECD report is only condemning 'exploitative' forms of child labour, then it is tacitly acknowledging that there exists such a thing as 'non-exploitative' forms of child labour. From the absolutist point of view of the humanist, this seems a hard position to defend.

3) Prohibition of Forced Labour is the least controversial of the OECD's four labour standards. From an economics perspective, the utility of workers can never be maximised where they are coerced into employment, as choice is itself an important form of utility, and because where compulsion exists, free will would de facto yield another wage/output position. From a humanitarian point of view, it does not seem difficult to defend the position that slavery is wrong. In addition, as Haggard argues, "standards such as freedom from forced labour...are unlikely to greatly affect the overall competitiveness of even the most repressive countries."

4) Non-discrimination in employment is the final labour standard that the OECD mentions. From the perspective of first economic principles, the abolition of discrimination on the basis of sex, race, and ethnic origin will always make sense where it can be shown that no real differences exist between such categories in terms of ability to do the job. At the risk of sounding sexist, racist, and xenophobic, I would venture to suggest that this will not always be the case. For example, a builder who requires workers to lift granite blocks may find the inability to discriminate against

female applicants a serious impediment to profit maximisation.

From a social or humanitarian perspective, it could be argued that the employer has a duty to work around these problems, even where profit loss is the result. But this is a normative decision, relying on a particular view of life prevalent in the West, but by no means shared by all cultures on the planet. It is as equally true to say that, where a particular society deems it appropriate, the exclusion of women from the workplace, though not strictly economically efficient, serves a valuable social function in the same way.

## Summary and Concluding Statements

There are two approaches that can be taken to the issue of universal labour standards. The first uses the level playing field argument. This in turn can be based on the desire of highly organised employers and workers in some countries to safeguard their interests, to the detriment of others. I have shown how such arguments make little sense and are inefficient.

Where playing field arguments are based on the desire to ensure increased welfare to workers in low standard countries for humanitarian reasons, I have shown that this will only hold true where the gains outweigh the losses. I have illustrated in the case of minimum wages, working week restrictions, free association and child labour laws how these losses can arise. It remains only to be said that where gains do outweigh losses, the country should normally be in a position to implement labour policies of its own accord, without the 'help' of the ILO. To the extent that non-democratic regimes impinge upon such political implementation, perhaps the international community could better expend its energy in addressing these democratic deficits. This would serve to tackle the root of the problem, instead of meddling in the local economy - which is only the symptom.

The final argument for labour standards derives from a belief in certain 'basic human rights' that informs a body of core labour standards which all humankind has the right to enjoy. To conceive of human rights as efficient, even where their existence reduces the welfare of those who 'enjoy' them, runs contrary to the doctrine of utilitarianism upon which many economic theories are based. I therefore reject this position. I have, also, shown how the OECD's attempt to wield such arguments results in certain contradictions and inconsistencies. This serves only to exemplify the fact that, as our Mary Robinson is discovering, there is no such thing as 'basic human rights'. As Bhagwati (1995) writes:

*"...the reality is that diversity of labour practice and standards is widespread in practice and reflects, not necessarily venality and wickedness, but rather diversity of cultural values, economic conditions and analytical beliefs and theories concerning the economic consequences of specific labour standards."*

We live in a world where multiple cultures flourish, each with its own conception of what human rights are. To impose the Western cultural mould on the world is yet another example of cultural colonization.

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