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The Economic Case for Labor Standards: A Layman's Guide

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THE ECONOMIC CASE FOR LABOR STANDARDS: A LAYMAN'S GUIDE

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I. Introduction

The place of labor standards in the global economy has figured prominently in recent discussions of trade and globalization. Labor standards figured prominently in the Seattle meeting of the World Trade Organization (WTO) in 1999, and they promise to figure prominently in discussions about a proposed Free Trade Area of the Americas (FTAA). Labor standards represent a critical issue for both the American labor movement and the international trade union movement as they are central to making globalization work for working people.

At the analytical level, there are a number of different approaches that can be taken regarding this issue. These include a "human rights" approach, an "equal treatment with property" approach, and an "economic" approach.

The "human rights" approach makes a compelling case on its own. The argument is that work is central to self-identity, personal development, and personal fulfilment. Most adults spend a large portion of their time at work, and because work is so central to personal identity and development, people should have some core rights at work.

The "equal treatment with property" approach begins by recognizing that we have steadily enacted standardized global protections for property and investors through numerous trade and investment agreements. It then argues that if property and capital have been given such rights, then working people should also be given similar rights.

This paper details the "economic case" for labor standards which constitutes an affirmative self-standing case and adds another dimension to the debate. When it is joined with the "human rights" and "equal treatment with property" approaches, it means not only are labor standards the ethically right course of action, but they are also the economically right course of action.

The clear policy implication of the economic approach is that the International Labor Organization's (ILO) core labor standards should be a central element of the system of global governance now being constructed, and all countries should be given appropriate incentives to conform to these standards. The WTO and the international financial institutions (consisting of the International Monetary Fund (IMF), the World Bank (WB), and the multilateral regional development banks) should all officially promote labor standards as part of their "core mission." With regard to the

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international financial institutions (IFIs), their articles of agreement require them to adopt policies that are "economically justified." Therefore, the fact there is a robust economic case for labor standards is especially important.

All too often opponents of labor standards seek to present labor standards as standing in opposition to trade. This representation is a distortion. The question is not whether to trade, but what the rules should be that govern trade. Trade, like labor standards, should be viewed as an instrument for development. Viewed from this perspective, optimal development policy calls for trade with labor standards.

II. Labor standards: what they are

Before turning to the details of the economic case for labor standards, it is worth briefly describing the ILO's core labor standards. They consist of five core standards: three are prohibitive in character and two are affirmative.[1] The three prohibitive standards ban: (1) labor market discrimination including discrimination by race, religion, ethnicity, gender, or political opinion; (2) forced or compulsory labor, with limited exceptions for military service and national emergencies; and (3) exploitative child labor.[2] The baseline minimum working age is set at fifteen, though if a country is insufficiently developed or only light work is involved, the age can be lower. For hazardous occupations the minimum working age is raised to eighteen.

The two affirmative standards grant: (1) the right to freedom of association, giving workers the right to form and join organizations of their own choosing, including unions.[3] Though the focus is clearly on unions, this right is more extensive and includes other social activities. Also, governments may not dictate the form, affiliations, or internal operations of these organizations. (2) Also included is the right of workers to engage in collective bargaining with employers who cannot discriminate against workers who join trade unions.[4] Moreover, governments must encourage voluntary collective bargaining.

It is important to recognize that these five core labor standards are "qualitative" in nature, and almost akin to rights. There is widespread misapprehension that core labor standards are "quantitative" in nature, and that they set regulations such as a global minimum wage or a global standard work week. Such quantitative standards clearly depend on a country's level of economic development, and therefore have to be set by reference to specific national conditions. Core labor standards are qualitative in nature, akin to economic rights, and should apply regardless of a country's stage of development. Unfortunately, all too often in the debate labor standards are misrepresented as involving requirements such as a global minimum wage.

III. Case for labor standards

In many regards the developmental histories of the industrialized countries provide the strongest evidence in favor of labor standards. Their histories make

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[1] *See* International Labor Organization, *About the ILO: Declaration on Fundamental Principles and Rights at Work* (June 18, 1998), *available at* http://us.ilo.org/aboutilo/declaration.htm (last modified June 30, 2000).

[2] *Id.*

[3] *Id.*

[4] *Id.*

abundantly clear, in concrete fashion, why there is a need for the type of rights embodied in core labor standards. No country has achieved successful democratic market development without giving workers these rights.

This argument is clearly illuminated by reference to American economic history. Over the course of the nineteenth century the United States was marked by the formation of an integrated national economy. The steamboat, the railroad, the telegraph, and later, the internal combustion engine, all contributed to fusing together the then existing separate regional economies into a unified national economy.

This process of national integration was marked by many of the same problems seen today in the global economy. Thus, workplace conditions were unsafe, wages were low, and employment conditions were marked by exploitation of the sort described in Upton Sinclair's epic novel about the meat-packing industry, *The Jungle*.[5] There was widening income and wealth inequality, and the shortage of demand generated by workers' inability to buy the things they produced contributed to periodic gluts. The economy was marked by periodic destructive cyclical fluctuations, the worst of which was the Great Depression of the 1930s. These conditions, combined with lack of representation of working people also made for political conflict. The history parallels today's process of globalization, which is breaking down barriers between national economies and forging an integrated global economy.

The United States' multi-faceted response saved the system from itself. The Sherman Anti-Trust Act of 1890 began the process of creating a body of law guarding against corporate abuse of monopoly power.[6] In 1913, the Federal Reserve System was established to manage and ensure the soundness of the banking system, and the Securities Exchange Commission was established in 1934 to ensure the probity and soundness of securities markets.[7] The resonance of these measures with today's debate over need for reform of the international financial architecture is striking. However, the creation of anti-trust laws and a system of financial regulation was but part of the solution. Another critical component was the introduction of national labor standards. The National Labor Relations Act of 1935 gave workers the rights of freedom of collective association, and enshrined the right to form and join unions and bargain collectively.[8] The Fair Labor Standards Act of 1938 went a step further and established both a national minimum wage and rules on overtime predicated upon a standard forty hour week.[9] In 1970, the Occupational Safety and Health Administration Act established a new agency to oversee the workplace environment, and in the same year the Environmental Protection Agency was established to oversee the broader environment.[10]

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[5] UPTON SINCLAIR, THE JUNGLE (Heritage Press 1965) (1905).

[6] Sherman Act, ch. 647, 26 Stat. 209 (1890) (codified as amended at 15 U.S.C. §§ 1-7) (1994).

[7] Securities Exchange Act of 1934, ch. 404, 48 Stat. 881 (codified as amended at 15 U.S.C. §§ 77(b)-(e), 77(j), 77(k), 77(m), 77(o), 77(s), 78(a)-(o), 78(o)(3), 78(p)-78(hh), and Federal Reserve Act, ch. 6, 38 Stat. 251 (codified as amended generally 12 U.S.C. and 31 U.S.C. §409) (1913).

[8] National Labor Relations Act, 49 Stat. 449 (1935), as amended; 29 U.S.C. §§ 151-69 (1988).

[9] Fair Labor Standards Act (1938), 29 U.S.C.S. §§201 et seq.

[10] Occupational Safety and Health Act, 29 U.S.C. §§ 651 et seq. (1970).

It is no accident that all of the above legislation was explicitly applied at the federal level to stop a race to the bottom amongst the states. Reviewing the history of interaction between U.S. inter-state commerce and national labor law, legislators have always been keenly aware of the problem of "social dumping" that can result if laws are applied on a piecemeal state-by-state basis.[11] In Europe, exactly the same story can be told, and a similar outcome has been achieved through the application of a "social clause" to the entire European Union.

The goal of this legislation was to improve financial markets and raise workplace standards. The changed nature of labor relations encouraged firms to enhance productivity by innovation rather than exploitation. It also ensured that working people received the income needed to buy what they produce, thereby solving the problem of demand shortages that underlay gluts and depressions. This in turn made for deep developments based on robust mass markets, and enabled us to harvest the benefits of mass production which requires mass consumption. Higher wages also reduced wealth and income inequality, which in turn reduced political conflict. Finally, the development of trade unions contributed to the emergence of healthy politics in which cronyism and monopolistic tendencies are largely blocked

National economic integration was the problem of yesteryear: global economic integration is the problem of today. However, the two share a common underlying economic logic, and it is for this reason that the family of policy responses that worked earlier remain relevant. The lessons of the past can serve as a useful guide for today's problems, but there is one enormous difference. National economic integration took place within a single national jurisdiction. Global integration is taking place across national jurisdictions, and this makes reaching solutions a far more difficult affair.

Reflection upon the history of the industrialized economies helps make concrete the economic case for labor standards, but such reflection must be backed by abstract analytic reasoning. With regard to labor market discrimination, not only is it morally repugnant, but it is also economically inefficient. Discrimination means that society is failing to fully use the economic potential of all its members.

The issue of child labor is more complicated. In its most extreme form, child labor is abusive, but child labor also has a "stage of development" dimension that calls for a more nuanced discussion. Child labor has a long history of use in family owned farms, and it was certainly used at an earlier stage in American agriculture. That said, it is also clear that over the medium term, human capital accumulation is key to development. Having children in school, rather than earning a meager family income supplement, therefore constitutes good development policy. For this reason, rules that prompt developing countries to move in this direction are a good thing.

However, successful eradication of child labor requires more than just promulgation of laws banning this practice. It also requires three other interventions. First, governments must invest in education and provide schools and school teachers. If children are to be taken out of the workplace in the name of educating them, then they must have schools in which they can learn. Second, jobs must pay wages on which a family can subsist. This is why labor standards relating to freedom of association and the right to collective bargaining are so important. Child labor exists because it helps supplement family incomes. If policy makers act to stop children from

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[11] Bruce Elmslie and William Milberg, *Free Trade and Social Dumping: Lessons from the Regulation of U.S. Interstate Commerce*, Challenge, May-June 1996, at 46.

working, then adult workers must be able to support their families. Third, there is a need for jobs. Not only must jobs pay families supportive wages, but there must also be a sufficient supply of jobs so that adult workers can earn those wages. Once again this is where the rights of freedom of association and collective bargaining enter since, as argued below, these rights contribute to economic growth and development.

The above arguments illustrate the inter-dependent and synergistic nature of development policy. Policies often only work if implemented collectively, and there are also considerable synergies so that the whole is greater than the sum of the parts. It is tempting to view abusive child labor as a problem caused by a few bad actors, and that the passing of laws prohibiting it will make it go away. The reality is that child labor is a developmental problem that is linked to bad labor market conditions. Consequently, laws prohibiting child labor must be accompanied by policies that tackle underlying labor market conditions.

These reflections on child labor lead naturally to the consideration of the case for rights of freedom of association and collective bargaining. These rights are key, and absent them the other core labor standards – prohibiting discrimination, forced labor, and exploitative child labor -- are unlikely to amount to much in practice. Thus, it will be impossible to create both the labor market conditions needed to eliminate child labor, and the political conditions needed to bar discrimination and forced labor.

Paradoxically, despite their essential nature, it is the rights of freedom of association and collective bargaining that are usually viewed with the greatest hostility by critics of labor standards. Thus, some support a prohibition on exploitative child labor while opposing rights to freedom of association and collective bargaining. Yet it is only through these rights that effective prohibition can be achieved. Proponents of these rights are accused of being "hidden protectionists" and "promoting labor market distortions." Both of these charges are wrong and miss the point since these rights spur both economic and political development.

For the last twenty five years policy makers have been guided by what has become termed "the Washington Consensus." This has involved pushing a development agenda that emphasizes export-led growth, financial liberalization, privatization and fiscal austerity, and the elimination of labor market protections. Yet, it is now becoming clear that this agenda has not produced faster growth. Indeed, the opposite is true as is shown in Table 1.[12] World economic per capita Gross Domestic Product ("GDP") growth has been slower in the period after 1980, the period of globalization, and the slowdown has been sharpest amongst low income countries. There is also evidence that income inequality has widened both within and between countries.[13] If the history of the U.S. is any guide, rising wages and improved income distribution are key to deep development based on the growth of robust domestic markets. Yet, the Washington Consensus has promoted "enclave" development, as

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[12] *See* Appendix.

[13] *See* Branko Milanovic, True World Income Distribution, 1988 and 1993: First Calculation Based on Household Surveys Alone (World Bank 1999). *See* Jared Bernstein & Lawrence Mishel, *A Comparison of Income, Wage, & Employment Trends of Advanced Industrial Economies*, Beware the U.S. Model: Jobs and Wages in a Deregulated Economy (Lawrence Mishel & John Schmitt, eds., Economic Policy Institute 1995). *See* Lawrence Mishel, Jared Bernstein & John Schmitt, The State of Working America, 1998-99 (Economic Policy Institute 1999).

exemplified by export processing zones. Such zones are the modern equivalent of the earlier plantation economy.

The Washington Consensus approach to growth is now being discredited by development outcomes. At this stage there is need for a new model of development that is inclusive and rooted in robust domestic market development. The problem with the Washington consensus export-led model is that it fails to promote deep domestic development. Doing so requires growing wages and an improved distribution of income. This is the foundation of a virtuous circle of growth in which rising wages encourage market development, and market development promotes rising wages. Labor standards are key to this new model. Rodrik reports that democracies pay higher wages.[14] I have found that income distribution is more equal and wages are higher in countries with better rights of freedom of association.[15] These findings qualify Rodrik's arguments about democracy. Democracy matters because it promotes freedom of association, but it is freedom of association that actually generates improved income distribution and higher wages in labor markets. From an economist's perspective this makes sense since labor standards are the actual instrument of intervention which changes labor market outcomes. Finally, in another paper, I report evidence that improvements in rights of freedom of association correlate with faster growth.[16]

These arguments run counter to the thinking in the mainstream economics profession which maintains that unions are a market distortion, and that income distribution does not matter for development. Far from being a market distortion that lowers employment, unions are in fact a private sector solution to market failure -- and that market failure is the huge imbalance of power that exists between individual workers and business. Economic efficiency, according to the mainstream's own economic logic, requires the absence of market power. The reality is that labor markets are characterized by significant imbalances of power that favor firms over individual workers. Long ago, Adam Smith wrote in *The Wealth of Nations*:

> ..[T]he common wages of labor depend everywhere upon the contract usually made between two parties, whose interests are by no means the same. The workmen desire to get as much, the master to give as little as possible...It is not, however, difficult to foresee which of the two parties must, upon all ordinary occasions, have the advantage in the dispute...In all such disputes the masters can hold out much longer. Many workmen could not subsist a week, few could subsist a month, and scarce any a year without employment.

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[14] Dani Rodrik, "Democracies pay Higher Wages," QUARTERLY JOURNAL OF ECONOMICS, CXIV (August 1999, 707 - 38.

[15] *See* Thomas I. Palley, Labor Standards, Economic Governance, and Income Distribution: The Cross-Country Evidence, AFL-CIO Public Policy Department Technical Working Paper, T029, 2000.

[16] *See* Thomas I. Palley, The Economic Case for International Labor Standards: Theory and Some Evidence (1998), *reprinted in* AFL-CIO Public Policy Department Economic Policy Paper, E036 (1999), and CAMBRIDGE J. ECON. (forthcoming); *see also* OECD, TRADE, EMPLOYMENT AND LABOR STANDARDS: A STUDY OF CORE WORKER' RIGHTS AND INTERNATIONAL TRADE (1996).

In the long run the workman may be as necessary to his master as his master is to him, but the necessity is not so immediate."[17]

These conditions still hold in labor markets, and particularly so in developing countries where social safety nets are lacking. Moreover, the employer advantage has been increased by the growth of capital markets which gives firms enhanced access to capital, and by technological developments that have increased the mobility of business. Seen in this light, unions correct the imbalance of power and create a level playing field, and are a corrective to market failure.

A second contribution of labor standards concerns the promotion of good governance and reduction of corruption. There is now growing recognition that development depends on good governance. The IMF now talks of a "second generation reform" approach.[18] First generation reform was predicated on a hydraulic model of economics which had the IMF asserting that all that was needed for growth and development was for countries to get their exchange rates, interest rates, and budget deficits right. Now there is awareness that institutions are essential for development. Transparency, accountability, and good governance help prevent misallocation of resources and guard against kleptocratic government.

Labor standards fit with this new approach. Freedom of association and unions can be viewed as creating the countervailing powers that can check such practices. The mainstream counter is that open markets can compete away the problem of corruption, yet the reality is that open markets simply get captured by corruption. The logic of capture can be understood by considering the problem of bribery which partakes of the prisoner's dilemma. In Figure 1, the problem is illustrated by two firms, each of which must make a decision whether to bribe or not bribe. If one firm bribes and the other does not, then it receives a pay-off of 7 while the firm that does not bribe receives 0. If neither bribes, each receives a pay-off of 5: and if both bribe, each receives a pay-off of 3. This pay-off structure captures the fact that bribery is wasteful, and allocating business on the basis of bribes promotes economic inefficiency. Despite this, a decentralized market will only sustain an equilibrium in which both firms bribe. The socially optimal equilibrium involves no bribery, but each firm has a private incentive to defect and bribe. Consequently, absent legal prohibition of bribery and enforcement of anti-bribery measures, the market will generate a sub-optimal equilibrium in which bribery flourishes. Political action is needed to deal with the problem of bribery. Labor standards and the promotion of the right of freedom of association – which extends beyond just the right to join trade unions -- can be viewed as fostering political conditions supportive of such measures. In this regard, cross-country evidence shows that countries with improved freedom of association are marked by lower corruption, greater economic security, and are more democratic.[19]

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[17] ADAM SMITH, THE WEALTH OF NATIONS, 1936.

[18] *See generally* International Monetary Fund, Conference on Second Generation Reforms, *at* http://www.imf.org/external/pubs/ft/seminar/1999/reforms/ (in Nov. 1999, the IMF held a conference in Washington, D.C. entitled Second Generation Reforms to explain their new philosophy).

[19] *See* Thomas I. Palley, Labor Standards, Economic Governance, and Income Distribution: The Cross-Country Evidence, T029, (2000) (unpublished paper, on file with the AFL-CIO Public Policy Department).

Another argument in favor of labor standards is that by promoting good governance, they draw on all elements of civil society which in turn facilitates economic crisis management. Such reasoning is supported by the experiences of South Korea and Indonesia in face of the East Asian financial crisis of 1997.[20] In many regards these two countries were similar in terms of stage of economic development, but South Korea had begun a process of democratization and implementation of improved labor standards. As a result, it was able to put together a coherent national response to the crisis, whereas Indonesia found itself politically divided and unable to craft a similar response. Furthermore, there is empirical evidence that countries with improved labor standards appear to be less susceptible to financial crisis.[21] A possible explanation for this finding is that financial markets recognize the benefits of sound civil society institutions and give economies with such institutions more financial space.

Not only are labor standards good for developing countries, they can also benefit the international economy. In this sense, they represent a win - win policy. Today, the international economy is afflicted by the contradictions of export-led growth. The export-led growth paradigm embodies "the fallacy of composition" whereby it works when just one country pursues such policy, but fails when all countries pursue export-led growth simultaneously. This is because one country's exports are another's imports, and all cannot therefore run trade surpluses. If all try to grow on the back of demand growth in other countries, the inevitable result is a shortage of demand and global deflation.[22] Recognition of this contradiction compels the need for a new development strategy that has countries grow their domestic markets. This in turn brings questions of wages, income distribution, and labor standards to the fore.

For developing countries, a particular manifestation of the contradictions of export-led growth is the problem of declining terms of trade. This is an old problem first identified by Hans Singer (1950) and Raoul Prebisch (1950).[23] The Singer-Prebisch findings concerned commodity prices, but today there is some evidence that the world economy may have entered a new era in which terms of trade for low end manufactured goods are also subject to secular decline.[24] Consequently, developing countries have

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[20]*See* Ajit Singh, *Asian Capitalism and the Financial Crisis*, *in* GLOBAL INSTABILITY: THE POLITICAL ECONOMY OF WORLD ECONOMIC GOVERNANCE (Jonathan Michie & John Grieve-Smith, eds., 1999).

[21] *See* Thomas I. Palley, Is There a Relationship Between the Quality of Governance and Financial Crises? Evidence from the Crises of 1997 (2001)(unpublished paper, on file with the AFL-CIO Public Policy Department).

[22] *See* Thomas I. Palley, *Applied Fix-Price Macro Models: A Reconstruction*, 18 ATLANTIC ECON. J. 1 (1990) (The economic logic of exporting deflationary conditions by poaching demand in other countries is very clear in Keynesian macroeconomic models of the international economy).

[23] *See* Hans W. Singer, *The Distribution of Gains Between Investing and Borrowing Countries*, 40 AM. ECON. REV. 473 (1950); R. Prebisch, THE ECONOMIC DEVELOPMENT OF LATIN AMERICA AND LATIN AMERICA AND ITS PRINCIPLE PROBLEM (1950).

[24] *See* Raphael Kaplinsky, *Export Processing Zones in the Dominican Republic: Transforming Manufactures into Commodities*, 27 WORLD DEVELOPMENT 1851, 1851-1865 (1993); Vito Antonio Muscatelli, Andrew A. Stevenson & Catia Montagna, *Intra-NIE Competition in*

to export ever more just to maintain existing export earnings. This exacerbates financial instability since countries need earnings to service their foreign debts, and the need for earnings then drives prices down further. Part of the solution must therefore have these countries consume more of what they produce, thereby reducing supply on the international market and driving prices up. But for this to happen countries will have to improve their patterns of income distribution.

In addition to creating deflationary international macroeconomic conditions, export-led growth is also marked by an incentive structure that encourages a race to bottom. This incentive structure parallels that of the problem of bribery -- which can be viewed as a race to the bottom in corporate business practice. In an export-led growth world every country tries to gain an international competitive advantage by exploiting every possible margin. Good competition focuses on productivity and quality; bad competition eats away at workplace safety, the environment, and income distribution. Labor standards can contribute to ruling out the bad competition equilibrium by blocking countries from gaining a competitive advantage by eroding standards. This logic is illustrated in Figure 2,[25] where the payoff structure compared to eroding standards gives each country an incentive to do so. Though all would be better off in a world with standards, the private incentive is to lower standards and, consequently, that is the equilibrium which the market supports when left to itself.[26] Interestingly, the race to the bottom has been widely viewed as an issue of North - South competition, but there is now evidence that it may be even more acute amongst southern countries. An examination of the Pakistani soccer ball industry which agreed to do away with child labor, only found that production then moved to India which had no restrictions on child labor.[27]

In sum, labor standards can help block-off the "race to the bottom" that export-led growth encourages. And by improving income distribution in developing economies, it can contribute to the promotion of domestic market-based development, thereby shifting the direction and dynamic of growth away from exclusive reliance on export markets. This will allow workers in developing countries to consume and enjoy more of their productivity.

IV. Labor standards and global governance

The above arguments explain why labor standards are good development policy, and this is why they should become a core part of global governance. The International Labor Organization (ILO) has a critical role to play in regard to the

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Exports of Manufactures, 37 J. INT'L ECON./ 29, 29-47 (1993); Prabirjit Sarkar & Hans W. Singer, *Manufactured Exports of Developing Countries and their Terms of Trade Since 1965*, 19 WORLD DEVELOPMENT 333, 333-340 (1991); David Sapsford & Hans W. Singer, *The IMF, the World Bank, and Commodity Prices: a Case of Shifting Sands?*, 26 WORLD DEVELOPMENT 1653, 1653-1660 (1998)

[25] *See* Appendix.

[26] Kate Bronfenbrenner, Final Report. The Effects of Plant Closing or Threat of Plant Closing on the Right of Workers to Organize (1996) (unpublished paper, Cornell University) (evidence of a race to the bottom in the context of NAFTA).

[27] Günseli Berik, *What Happened After Pakistan's Soccer Ball Industry Went Child Free*, Address at the Child Labor Conference at the Graduate School of Social Work, University of Utah (May 7-8, 2001).

monitoring of labor standards. Only it has the capability to monitor and advise governments on issues of enforcement, and for these reasons it should be strengthened.

More sunlight is always better than less, and the ILO can expose countries that fail to comply with labor standards. But the IFIs must also be brought in. The economic development benefits of labor standards and their positive impact on developing country financial stability mean that they are consistent with the Articles of Agreement of both the IMF and the WB. Both the IMF and the WB are in the "business of development," and that is why labor standards should be part of their standard policy agenda. To this effect, the IMF should make the following policy changes: in Article IV the country reviews should be an express report on country adherence to labor standards. Enhanced Structural Adjustment Loans (ESAFs) should be made conditional on a requirement that countries have in place plans to conform to core labor standards within a reasonable time frame, and the same requirement should hold for countries to have access to Special Drawing Rights (SDRs). The World Bank should ensure that Country Assistance Strategies (CASs), which guide all bank lending, should incorporate a program for implementation and enforcement of labor standards. All loans are already screened with regard to their environmental impact, and they should now also be made subject to a "Core labor Standards" screen. Finally, core labor standards need to be made part of the WTO's system of governance of international trade. Just as the WTO has in place global rules for the protection of intellectual property rights that are backed with legal sanctions, so to there is a need to design a system that protects labor rights.

V. Conclusion

Opponents of core labor standards view these standards as rich country imperial bullying, hidden protection for industrialized countries, and a distortion of markets. None of these charges stand up to close examination. The charge that labor standards are a form of hidden protection, aimed at giving unfair protection to workers in industrialized countries by taking away the comparative advantage of workers in developing countries, fails to recognize the benefits of labor standards both for developing countries and the global economy. The charge that labor standards are a form of market distortion is fundamentally wrong in that it fails to recognize the huge imbalances of bargaining power that exists between individual workers and employers. Market efficiency is predicated on the absence of power, a condition that manifestly does not hold in labor markets anywhere. Seen in this light, labor standards are in fact a corrective of market failure.

The reality is that labor standards are good economic policy: good for developing countries, good for developed countries, and good for the international economy. In this they resonate with Polanyi's classic insights of the need for successful market economies to be properly embedded into societies.[27] The IMF's Second Generation Reform approach embeds a new realization of the importance of good institutions for successful development, and represents a movement away from the "hydraulic" economic development policy which talked of simply getting prices and the budget deficit right. Labor standards fit squarely within this new paradigm, being an institution that promotes development. The world community has repeatedly

[27] KARL POLANYI, THE GREAT TRANSFORMATION (Beacon Press 1944).

endorsed labor standards at the Copenhagen Summit, through the Singapore WTO ministerial declaration, and at the ILO. Now, it is time for the world community to match these endorsements with actions that make core labor standards an integral part of the global system of governance. Labor standards are not a matter of left versus right: they are a matter of right versus wrong.

Appendix

		Firm A	
		Not Bribe	Bribe
Firm B	Not Bribe	A. Anti-Bribery Convention (5,5)	B. (0,7)
	Bribe	C. (7,0)	D. No Anti-Bribery Convention (3,3)

Figure 1. The problem of bribery as represented in terms of the prisoner's dilemma. Numbers in parentheses are payoffs (to Firm B, to Firm A).

		Country A	
		Maintain Standards	Lower Standards
Country B	Maintain Standards	A. Core Labor Standards (5,5)	B. (0,7)
	Lower Standards	C. (7,0)	D. No Core Labor Standards (3,3)

Figure 2. The race to the bottom as represented in terms of the prisoner' s dilemma. Numbers in parentheses are payoffs (to Country B, to Country A).

	1965-1980	*1980-1989*	*1990-1996*
Low and middle income countries	5.9	3.1	1.9
High income countries	3.8	3.2	1.7
United States	2.7	3.0	2.5
Japan	6.6	4.1	1.2
World	4.1	3.1	1.8

Table 1. Trends in GDP growth for developing regions and the industrialized countries, 1965 - 1996 (average annual % growth). Source: Singh, *supra* note 20.