

# Public Policy and Labor Standards

**L**ABOR MARKETS ARE DIFFERENT FROM MARKETS for commodities. The wages they set and the employment conditions they determine profoundly affect the quality of life of workers and their families, often in ways that may seem harsh or unfair. Not surprisingly, societies, and the governments that represent them, are heavily involved in labor markets the world over. Nearly all governments set workplace standards, such as minimum wages and special protections for working women and minorities. Standards differ in their objectives (Table 11.1). Some aim at protecting vulnerable workers and eliminating injustices, others at helping the market work better. Not all legislated standards achieve their objectives, however. Some end up protecting a group of relatively well-off workers at the cost of limiting employment in the modern sector. In transitional economies some standards introduce rigidities and hinder the redeployment of labor. In many developing countries with limited administrative capacity, standards are often unenforced.

How should governments determine workplace standards? And is linking standards to international trade an efficient way of improving enforcement in low- and middle-income countries? This chapter analyzes the rationale for government intervention in labor markets, the costs and benefits of different types of legislated standards, and the case for international action to improve enforcement.

## Why do societies intervene in labor markets?

Societies intervene when unfettered labor markets fail to deliver the most efficient outcomes, or when they want to move market outcomes into line with their preferences and values. Four reasons are often given for intervention: uneven market power, discrimination, insufficient information, and inadequate insurance against risk.

All four reasons raise considerations of efficiency and equity. When market power is uneven, it is usually workers who find themselves in a weak position relative to firms, unable to protect themselves from unjust treatment. This also leads to efficiency losses as workers become less likely to invest in firm-specific skills. Uneven market power becomes an even greater problem for workers belonging to groups that traditionally have had little voice in society—children, women, and ethnic and religious minorities. Dis-

crimination leads to market outcomes that are not only inequitable but inefficient: it limits the contribution of women and minority groups to economic development. Inefficiencies increase when workers and some employers are poorly informed about their work environment, particularly in regard to health and safety hazards. Finally, workers and their families are typically unable to insure themselves adequately against the risk of income loss due to unemployment, disability, or old age.

Societies usually respond to these market failures or injustices in three ways: by establishing informal arrangements, by empowering labor unions to bargain on behalf of workers, and by direct government legislation or intervention. Informal labor market arrangements can be very effective. Although labor contracts rarely offset basic differences in wealth and power between employers and employees, in traditional societies employers usually respect certain norms of justice and avoid exploitative behavior, or face social sanctions. Most informal employment contracts involve some form of risk sharing. For example, sharecropping, in which landless peasants share their output with the landlord, is a common risk-sharing arrangement in Asia and Africa. Informal arrangements can also help provide income security. Private saving is an important mechanism for dealing with risks, such as unemployment, that are not easily insured against. For the poor who have little or no savings, private transfers between households—within extended families or local communities—are often the recourse.

Informal arrangements are by far the dominant solution to labor market problems in low- and middle-income countries. As Table 11.2 shows, over 80 percent of workers in low-income countries, and more than 40 percent of those in middle-income countries are nonwage workers who typically operate in informal and rural labor markets, beyond the reach of trade unions and direct government intervention. Even these figures may overestimate the number of workers covered by formal sector employment protection. Weak administrative capacity and restrictions on trade union freedom mean that, in many countries, labor regulations are not enforced even in large urban firms. But informal arrangements are intrinsically limited. They tend to break down as enterprises grow and as the social and communal links between workers and employers diminish.

*Governments intervene in labor markets in a variety of ways.*

**Table 11.1** Types of government intervention in labor markets

Type of intervention	Specific guarantees and policies	Examples
Establishment and protection of workers' rights	Right to associate and organize Right to bargain collectively	Workers can form labor unions. Unions can negotiate wages and working conditions with employers.
	Right to engage in industrial action (strike)	Workers can strike or use other nonviolent means to achieve their demands.
Protection for the vulnerable	Minimum working age	Children under fifteen may not be employed; the minimum age of work is eighteen if the work is hazardous to health, safety, or morals.
	Equality of wages and employment opportunities	No worker can be paid a lower wage than others or be excluded from employment for reasons of gender, race, religion, ethnic background, national origin, or sexual orientation. Affirmative action may be used for disadvantaged groups.
	Special provisions for women	Women workers need to be provided with maternity leave; they may not be compelled to work during the night.
Establishment of minimum compensation for work	Minimum wages	Workers are to be paid a minimum hourly wage.
	Minimum nonwage benefits and overtime pay	Workers are to be provided with housing or medical benefits, a minimum number of holidays in a year, and specified overtime wages for work beyond the maximum hours.
Assurance of decent working conditions	Minimum occupational health and safety	Workplaces must have proper light and ventilation, and workers must have protection from hazardous activity.
	Maximum hours of work	Workers cannot ordinarily be required to work more than a certain number of hours in a week; they must have at least one rest day a week.
Provision of income security	Social security	Workers who are out of work because of disability, layoff, or old age are entitled to transfer payments based on their prior work experience.
	Job security and severance pay	Workers have some rights not to be dismissed at will, and a right to compensation when laid off.
	Public works	Temporary employment is provided for those willing to work in times of weak labor demand.

A key problem in modern firms is that of coordinating the actions of a large number of workers to bargain with employers and improve the quality of their workplace. The organization of labor, usually into trade unions, is a response to this problem of collective action. Collective bargaining by labor unions can help solve problems of unequal market power, discrimination, and insufficient information. Unions provide their members with important services, negotiating on their behalf for better working conditions, protecting them from unfair treatment, and dividing the cost of obtaining information among a large number of workers.

Governments have an important role even where there are worker organizations. They set the rules within which formal economic transactions are consummated. For infor-

mal employment these rules are usually implicit, flowing from social custom and the personal character of the employment relationship, whereas formal sector employment is governed by an explicit legal framework that provides the basis for either individual or collective contracts. The rules governing formal labor markets usually define the rights of workers, unions, and employers; the conditions for collective bargaining; and a system for settling disputes (see Chapter 12). Governments also intervene directly in the labor market to achieve particular social goals. Some of the more common interventions include bans on child labor, protection for women and minority workers, setting of minimum wages, and legislation on workplace safety and health standards.

**Employment for wages is a less important share of the total in poorer countries.**

**Table 11.2 Wage employment as a share of total employment, by sector and country income group (percentage of total)**

Sector	Low-income	Middle-income	High-income
Agriculture	3.6	25.6	38.2
Industry	29.8	76.7	89.1
Services	46.4	68.2	85.6
All sectors	17.1	57.4	84.4

**Note:** Data are projected from a sample of countries in each income group. See Appendix tables for countries and years.

**Source:** ILO 1986 with ILO data updates.

### Child labor

Most countries have laws against child labor. Yet perhaps 100 million or more children in the world below the age of fifteen participate in substantial economic activity at some point during the year. The United Nations Children's Fund (UNICEF) calculates that, in 1991, 80 million children between ten and fourteen years old were engaged in work so arduous for so much of the day that it interfered with their development.

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*A ten-year-old girl in rural Maharashtra State, India, attends primary school. Every afternoon after school she and her two brothers help their father with farm work. The work interferes with their studies, and her elder brother had to repeat seventh grade. Without their work, however, the family could not afford to send them to school.*

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*A thirteen-year-old boy working in a Bogotá quarry lives with his parents in a squatter settlement and has never been to school. His job is to separate rocks by size after they have been extracted by bulldozers and explosives and pulverized by mechanical crushers. His parents argue that without his wages the family would starve and that he is better off in the quarry than on the streets, where he would fall into a life of crime and other dangerous activities.*

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Some types of child labor are considered more harmful than others. The girl in Maharashtra and her brothers are representative of the vast majority of working children in the world. They are unpaid helpers on the family farm. Most people would not condemn such work provided the children continue to attend school. The boy in Bogotá is one of a minority of child laborers engaged in casual wage work in urban areas. But most people imagine a child like him when they hear the term "child labor," evoking dis-

turbing images reminiscent of the "dark Satanic mills" of the industrial revolution.

### Causes of child labor

A high prevalence of child labor is linked to poverty and to poor quality or availability of education. Children in poor families work because the family needs the extra income, especially if the parents' major source of revenue is uncertain. Surveys in rural India indicate that poor households, with no savings or current assets and unable to borrow, have no choice but to send their children out to work, to minimize the potential impact of a parent's loss of a job or of a failed harvest on the family farm. As parents' incomes rise they are able to send their children to school rather than to work. In Egypt a 10 percent increase in mothers' wages was found to result in a 15 percent decline in labor among children ages twelve to fourteen, and a 27 percent decline among six- to eleven-year-olds. In India the same increase would lower girls' labor force participation by 9 to 10 percent.

Low-cost schooling of good quality can reduce child labor. The Indian state of Kerala provides an example. Around 25 percent of the state's budget goes to education—compared with an average of 17 percent for other Indian states. The state has achieved excellent results. One hundred percent of pupils entering first grade complete the fifth grade, and the state has twice the national literacy rate. Access to education in Kerala is unparalleled in India. Anthropological research in a Kerala fishing village indicates that school attendance does not eliminate child labor, but it does prevent its worst forms, which can be found elsewhere in India. Work can often be coordinated with the school day. This research found that poor village children do attend school but continue to work part-time to help support their families. Their paid out-of-school activities typically include looking after smaller children, foraging, petty trading, domestic chores, and fishing.

### Toward eradicating child labor

National legislation and international conventions banning child labor have symbolic value as an expression of society's desire to eradicate this practice. But they cannot deliver results unless accompanied by measures to shift the balance of incentives away from child labor and toward education. The most important ways in which governments can shift this balance are by providing a safety net to protect the poor, expanding opportunities for quality education, and gradually increasing institutional capacity to enforce legislated bans. Programs that provide income security for poor households, such as food-for-work or other public works programs, will have beneficial effects on child labor. Measures to reduce the cost of school attendance (subsidies, construction of schools closer to children's homes) and im-

prove the quality of education (changes in curricula, more and better teachers) could also help. As the incidence of poverty falls and education improves, child labor will decline. That in turn will make enforcement of legislated bans easier, starting with such universally abhorred forms of child labor as prostitution and hazardous work.

Cooperation between local communities, nongovernmental organizations (NGOs), and government can also help. An example of such cooperation involves the deep-sea fishing industry on the Philippine island of Cebu, where large numbers of young boy divers were being hired in an extremely dangerous occupation called Muro-ami fishing. The local community refrained from acting against this practice because parents had no other way to sustain their families. The initiative for change came from national civic groups based in Manila, which applied pressure on the government and mobilized the community. A special Muro-ami task force was created, including representatives of both government and NGOs. Under pressure, employers agreed not to recruit boys less than eighteen years old. To obtain the community's support, and especially that of the children's families, priority was given to creating alternative sources of income through the establishment of soapmaking, weaving, and pig-rearing projects, and the extension of soft loans and training to the boys' mothers.

### Standards affecting working women and minorities

Women and ethnic minorities are also protected by special regulations in many countries. Standards to help these workers can be divided into two groups. The first provide women with special rights and protections in the workplace because of their role in bearing and raising children. An example is maternity benefits. The second seek to end discrimination in the labor market by establishing equal pay for work of equal value or prohibiting the exclusion of women or minorities from certain jobs. The use of antidiscrimination standards is not limited to the protection of women workers—in many countries they also cover ethnic and religious minorities.

#### *Workplace protection for women*

Nearly all countries have legislation establishing standard periods of maternity leave and other special benefits for women. Typically, such legislation requires employers to provide these benefits to female workers, effectively increasing the cost of hiring them. So there is a risk that legislation aimed at protecting women will end up depressing their wages or discouraging their employment. Sometimes this type of standard has other unwelcome effects. For example, the ILO's committee of experts noted that many Austrian firms employ young women only on fixed-term contracts in order to avoid paying maternity benefits. Some garment manufacturers in Bangladesh hire young women only on a

daily, casual basis for the same reason. Some firms in Latin America take more extreme precautions, requiring women to produce medical certificates attesting to their sterilization before hiring them.

Women in developing countries are often overrepresented in the informal sector (Table 11.3) and are so eager for jobs in the modern sector that they willingly ignore an employer's failure to meet government-legislated standards. Many are not even aware that the standards exist: a survey of female garment workers in Bangladesh found that very few knew that they had a legal right to paid maternity leave. Yet these workers are much better off with jobs in the modern sector than without them—their wages, although low by formal sector standards, are more than double what they could earn in the informal sector or in rural areas. Perhaps more important, having a stable source of income can change their status within the household. Female rural workers in Bangladesh work 5 to 30 percent longer hours than do men, because they have household responsibilities in addition to their work in the fields. These women rarely have a say in the allocation of household expenditures. But surveys indicate that the husbands of garment workers contribute 1.3 to 3.7 hours a day to household work, and that 57 percent of female workers determine how their own salaries are spent. It appears, therefore, that women as a group gain much more from better access to modern sector jobs than from special standards to protect those who already have good employment.

One way to provide women workers with special benefits, without risk of reducing their wages or the number

### *Women workers tend to be concentrated in the informal sector.*

**Table 11.3 Shares of men and women workers in nonwage employment (percentage of total)**

Country	Year	Men	Women
Bolivia	1991	42	70
Cape Verde	1990	42	54
Egypt	1989	46	74
El Salvador	1991	28	48
Ghana	1989	69	92
Indonesia	1989	70	79
Korea, Rep. of	1991	38	43
Pakistan	1992	66	77
Peru	1991	39	55
Tanzania	1988	84	95
Thailand	1989	71	76
Tunisia	1989	36	51
Turkey	1991	55	80

**Source:** ILO, various years; World Bank data.

employed, is for society as a whole to bear the cost of those benefits rather than require those employers who hire women to pay the cost alone. This is the approach adopted in many of the former centrally planned economies. Under such a system maternity benefits are usually financed through a payroll tax—although they could also be financed from general revenues. Thus the link between hiring a female worker and paying the cost of providing her with special benefits is broken, removing an important disincentive to hiring women. As long as the payroll tax is the same for all workers, this arrangement in effect transfers resources from men to women. But it will often pose difficulties in practice, especially for low-income countries. Administrative requirements are high, and there are significant risks of abuse. Moreover, a scheme financed by general revenues would partly finance benefits for women employees in the formal sector at the expense of poorer men and women in rural and informal work.

#### *Antidiscrimination policies*

**DISCRIMINATION AGAINST WOMEN.** Standards designed to protect women from job discrimination are often difficult to enforce. Enforcing a standard of equal remuneration for work of equal value, not merely work of the same kind, requires a sophisticated job evaluation system. This has proved very difficult even in industrial countries and is a virtual impossibility for many low- and middle-income countries with limited expertise and resources. In any case, unless accompanied by a prohibition on discrimination in hiring, equal-remuneration legislation is unlikely to have much of an impact. Governments should not give up efforts to end discrimination in the workplace. But the focus of those efforts will need to change, with greater emphasis on policies to improve women's access to modern sector jobs—for example, through merit-based hiring of more women in the public sector.

Egypt provides an example of how government employment policies can help improve women's labor market situation. Although Egypt's policy of guaranteeing employment for graduates has led to an unsustainable growth in government employment and overstaffing, it may have had a positive impact on the role of women in the labor market. Like their counterparts in many other countries, women in Egypt have very limited access to modern sector jobs: the unemployment rate for women with a secondary education or above was estimated in 1988 at 31 percent, compared with 10 percent for men. Moreover, their wages in the private sector are only about half those of comparable males. Public employment policies help offset the impact of this discrimination in two ways. First, government provides more employment opportunities for women than does the non-agricultural private sector. In 1986, 26 percent of all government employees were women, versus only 8 percent in the

private sector. Moreover, nearly 95 percent of female government workers have at least completed secondary school. Second, women in government jobs are paid the same as men.

**OTHER TYPES OF DISCRIMINATION.** Governments also set standards to eliminate ethnic and religious discrimination. Countries as different as the United States and India are attempting to eradicate discrimination from their labor markets. The U.S. Civil Rights Act of 1964 outlawed all forms of discrimination in employment, including discrimination based on gender or ethnicity. Enforcement depends upon lawsuits against discriminators, which can be quite difficult given the high cost of litigation and the fact that women or minorities excluded from certain jobs rarely are in a position to file a complaint or even know that they have been discriminated against. These difficulties have given rise to affirmative action plans, which focus on results and try to increase the proportion of minorities and women employed in certain positions. However, affirmative action is usually too costly and difficult to implement in the private sector. In the United States, affirmative action plans—generally specifying numerical targets and timetables for hiring—are required of firms with federal government contracts. The Indian government has an affirmative action program in the public sector favoring lower castes. The impact of affirmative action is still being debated. Opponents argue that it generates a backlash against minorities and enmity between social groups. Proponents, however, consider it useful for getting government and its private contractors to hire more women and minority workers.

#### **Minimum wages**

Whether or not to set a minimum wage remains one of the most controversial labor market policy dilemmas governments face. Proponents believe that, appropriately applied, minimum wage legislation can raise the incomes of the most poverty-stricken workers at little or no cost to overall employment. Opponents argue that minimum wages make things worse for poor workers by raising production costs in the formal sector and reducing employment. More workers are then forced to seek jobs in the unregulated informal sector, pushing the wages of the working poor lower.

Both sides are partly right. Whether minimum wages have an overall positive or negative impact depends on their effect on employment, which in turn depends on the market structure, the level at which the minimum is set, and government's ability to enforce it. In a fully competitive labor market a binding minimum wage will always reduce employment. But if employers have some market power, a small increase in the minimum wage could actually raise employment. Of course, if the minimum is too high, employers with market power will choose to hire fewer workers. In low- and middle-income countries, raising the mini-

minimum wage often increases employers' and workers' incentive to avoid it, so that there is little effect on employment—or on wages.

#### *Empirical evidence and country experiences*

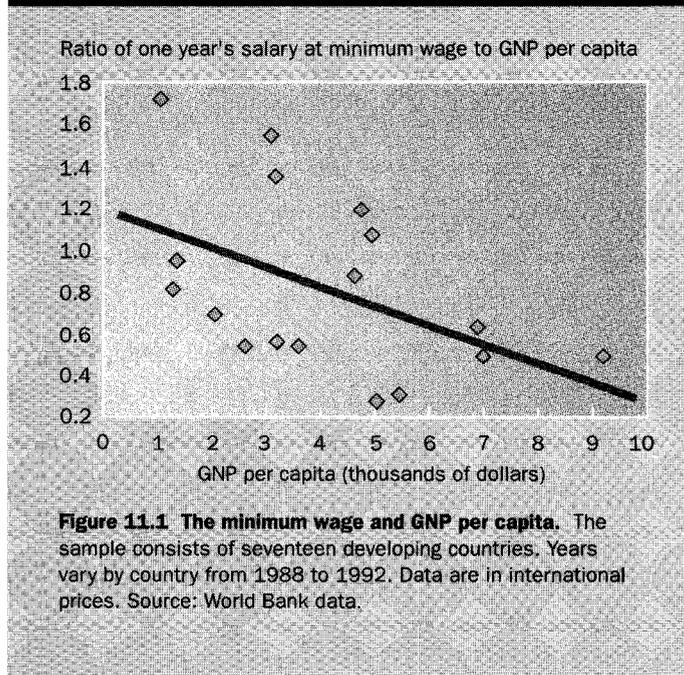
Evidence exists to support either side of the debate. High minimum wages for male workers in Mauritius's export processing zone prior to 1984 may have discouraged their employment. The government eliminated the male minimum wage in December 1984, after noticing that demand for female workers in the zone (for whom the minimum wage was lower) exceeded supply, while male unemployment was high. Male recruitment rose sharply, and more than 95 percent of workers recruited in January 1985 were paid less than the former minimum. On the other hand, recent evidence from the United States supports the view that small increases in the minimum do not hurt employment. The 1992 increase in the minimum wage in the state of New Jersey did not reduce employment in the fast-food industry. Similarly, a cross-state analysis found that the 1990 and 1991 increases in the federal minimum wage did not hurt teenage employment.

It is unlikely that increases in minimum wages would have the same impact on employment in low- and middle-income countries as in the United States. In many countries the minimum is already too high relative to the country's income and to other wages in the economy, so that even a small increase would lower employment. The level of the minimum wage relative to the average income tends to be higher in poorer countries, and to fall as national income rises (Figure 11.1). Some of Bangladesh's sectoral minimum wages are more than double GNP per capita, whereas in Canada, for example, the minimum is only one-fourth of GNP per capita. In Russia the ratio of the minimum wage to the average wage fell from more than 40 percent in 1990 to around 20 percent in 1993. In Kazakhstan the ratio fell from nearly 50 percent to around 20 percent over the same period.

#### *Distributional impact*

Minimum wages may help protect the most poverty-stricken workers in industrial countries, but they clearly do not in developing nations. Those affected by minimum wage provisions in low- and middle-income countries are rarely the most needy. Most of the real poor operate in rural and informal markets in such countries and are not protected by minimum wages. The workers whom minimum wage legislation tries to protect—urban formal workers—already earn much more than the less favored majority. Sometimes the differences are extreme—an urban construction worker in Côte d'Ivoire earns 8.8 times the rural wage rate, and a steelworker in India earns 8.4 times the rural wage (Table 11.4). And inasmuch as minimum wage

#### **The relative level of the minimum wage declines as income rises.**



**Figure 11.1 The minimum wage and GNP per capita.** The sample consists of seventeen developing countries. Years vary by country from 1988 to 1992. Data are in international prices. Source: World Bank data.

and other regulations discourage formal employment by increasing wage and nonwage costs, they hurt the poor who aspire to formal employment. Hence it is difficult to argue for minimum wages in low- and middle-income countries on equity grounds.

#### *Enforceability*

Whatever their potential impact, minimum wages in many countries are often not enforced (Figure 11.2). Household surveys indicate that 16 percent of Mexico's full-time male workers and 66 percent of female workers were paid less than the minimum wage in 1988. In Morocco half the firms surveyed in 1986 paid their unskilled workers below the minimum. Few low- and middle-income nations have the administrative capacity to police minimum wage regulations, especially when the minimum is set so high as to discourage hiring—creating strong incentives for employers and workers alike to ignore the regulations. Employers clearly benefit from a lower minimum, which reduces costs. Workers will also gain as long as the wage being offered is above what they could earn in informal sector activities.

When economic and financial crises hit the developing world in the 1980s, most governments let real minimum wages fall rapidly. Between 1980 and 1987 the real minimum wage in Mexico tumbled 43.2 percent and average real wages fell 43.3 percent; meanwhile Chile's real mini-

**Urban wages are much higher than rural wages in many developing countries.**

**Table 11.4 Ratios of wages in selected urban industrial occupations to rural wages**

Country	Iron and steel laborer	Construction laborer
Cameroon	1.52	1.52
Costa Rica	1.09	1.10
Côte d'Ivoire	3.95	8.80
Fiji	1.46	1.17
India	8.43	1.70
Indonesia	1.50	1.34
Jordan	1.32	1.23
Kenya	1.37	1.87
Peru	1.63	1.43
Philippines	1.96	1.67
Trinidad and Tobago	2.19	1.54
Tunisia	1.79	1.56

Source: ILO and World Bank data.

num wage plunged 42.4 percent, but its average real wage fell only 6 percent. In Kenya between 1980 and 1986 real minimum wages fell 41.2 percent and the average real wage 22.8 percent. Falling real wages have welfare costs, but since employers and workers ignore minimum wage regulation when jobs are at stake, attempting to hold the line on minimum wages would have been fruitless. Similarly, in most transitional economies minimum wages have fallen faster than average wages and are unlikely to have impeded labor reallocation. Discussions of minimum wages in transitional economies focus on their impact on the process of economic restructuring and the reallocation of labor from declining sectors to more dynamic ones. Minimum wage regulations could slow adjustments in relative wages and distort market signals during transitions. In practice, however, these regulations did not hinder the adjustment process, especially in the former Soviet Union, because all the transitional economies substantially lowered the real minimum wage.

**Safety and health standards**

Workers often encounter health risks on the job. The World Health Organization has estimated that nearly 3 percent of the global burden of disease is caused each year by preventable injuries and deaths in high-risk occupations, and by chronic illness stemming from exposure to toxic substances, noise, and hazardous work patterns. According to the ILO, the cost of occupational injuries and deaths in the industrial countries is between 1 and 4 percent of GNP. For low- and middle-income countries these costs are surely greater still, because occupational accident rates are higher. Rates of fatal occupational injuries among construction workers in Guatemala are six times those in Switzerland. Fatalities among workers in the transport industry in Kenya are nine times those in Denmark. And a manufacturing worker in Pakistan is nearly eight times more likely to die in an accident on the job than a worker in France.

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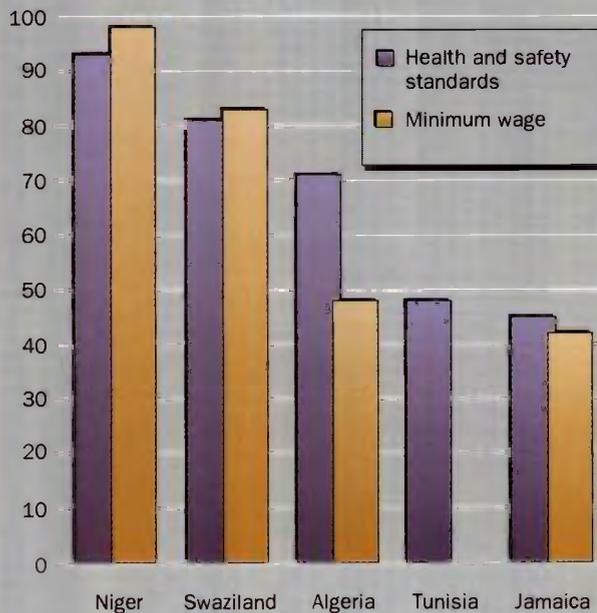
*In 1994 a lawsuit was filed in Texas on behalf of 16,000 farm laborers who claimed that exposure to a pesticide proven to cause reproductive problems had made them sterile. In Costa Rica banana workers and their families suffer from an array of medical problems ranging from cancer to higher than average rates of birth defects; health experts argue that these problems are caused by the potent pesticides used on plantations. The World Health Organization estimates that more than 1 million agricultural workers across Latin America are poisoned every year and that 10,000 die from exposure to chemicals.*

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*On March 25, 1911, a fire swept through the Triangle Shirtwaist Company in the Greenwich Village section of New York City. One hundred and forty-six workers, mostly women, died in a burning building whose doors had been locked to*

**Small firms often disregard labor regulations.**

Percentage reporting noncompliance



**Figure 11.2 Compliance by microenterprises with national labor standards.** Data on minimum wage compliance in Tunisia were unavailable. Source: Morrisson, Lecomte, and Oudin 1994.

keep employees at their work. A similar accident occurred eighty-two years later, on May 11, 1993, in a toy factory west of Bangkok. One hundred and two workers died, eighty-seven of them women.

#### *Agricultural and other informal sector workers*

Most workers in low- and middle-income countries operate in rural and informal markets where legislated labor standards are usually useless for dealing with their health and safety concerns. Societies try to improve health and safety conditions for agricultural and informal sector workers through general policies aimed at improving the overall environment within which they have to work, rather than through labor legislation. The use of dangerous chemicals in agriculture, for example, is usually best controlled by regulations affecting their import or production. Similarly, efforts at providing clean drinking water in rural areas and improving sanitary conditions in villages and urban slums can have a profound impact on the welfare of the majority of workers in low- and middle-income countries.

The Onchocerciasis Control Program in West Africa is one of the most successful programs ever implemented for improving the health standards of rural workers. Onchocerciasis, or river blindness, has long been described as a “plague upon the land” because of its devastating impact on rural workers’ health and well-being. Twenty years ago the sight of abandoned villages in West Africa often meant that river blindness had struck and the farmers had fled to unaffected areas. Eradicating onchocerciasis was viewed as the best way to improve rural workers’ health standards.

Started in 1974 by seven African countries—later expanded to eleven—with support from over twenty bilateral and multilateral donors, the onchocerciasis program has now succeeded in eliminating the disease-causing parasites in the human population throughout more than 60 percent of the eleven-country area. The program protects more than 30 million people from contracting the disease. Roughly one and a half million people who were infected but not yet blinded have completely recovered. It is estimated that by 1995 the program had prevented over 250,000 more cases of blindness; had freed 25 million hectares of land from the disease, making it available for resettlement and cultivation; and had made 1 million worker-years of additional productive labor available.

#### *Formal sector workers*

Nearly all countries legislate minimum safety and health standards aimed at protecting formal sector workers. They are usually justified on the grounds that employers are aware of workplace dangers but workers may not be, and even if workers are aware of occupational risks, they may accept dangerous jobs because they have few or no alternative employment opportunities. Some arguments for stan-

dards thus fall into the category of preventing workers from consciously doing harm to themselves by agreeing to dangerous work. Legislated standards are also defended on the grounds that there are externalities to the risks that workers take—for example, if the costs of medical treatment of those who are injured or fall ill are subsidized by taxpayers.

One difficulty in setting standards is how to determine their level or stringency. Reducing hazards in the workplace is costly, and typically the greater the reduction, the more it costs. Moreover, the costs of compliance often fall largely on employees through lower wages or reduced employment. As a result, setting standards too high can actually lower workers’ welfare, but setting them too low may fail to deal adequately with the risk that workers face. The appropriate level is therefore that at which the costs are commensurate with the value that informed workers place on improved working conditions and reduced risk. There is no magic formula. In many countries the determination of this level involves consultations between government, employers, and workers.

Enforcement of health and safety standards is often a problem, particularly in small enterprises in low- and middle-income countries (Figure 11.2). Employers sometimes try to avoid health and safety regulations, and workers in need of a job may accept the risk and tacitly agree to ignore the regulations. In a survey of health and safety conditions in the Philippines, 81 percent of inspected establishments violated one or more standards. In many countries enforcement is so weak that employers have little incentive to comply. Labor departments in low- and middle-income countries often lack the personnel and equipment for regular inspections, and when inspections do occur, they can be occasions for collecting bribes rather than enforcing the law. In 1984 there were only fifty staff members assigned to conduct inspections and enforce labor standards in all of metropolitan Manila, covering nearly 30,000 enterprises.

#### *Toward better enforcement*

As a nation’s income rises, it is able to devote more resources to building up administrative capacity to ensure that workplace standards are respected. Poorer countries will be unable to enforce labor standards at the same level as richer economies, so they usually need to focus their limited administrative capacity where it will do the most good. For example, standards on the accessibility of fire escapes are simple to develop and monitor. Recent tragedies in Thailand and China might have been avoided if those standards had been enforced. Providing information to workers—and to worker organizations—on the risks of certain toxic chemicals and other workplace hazards is also relatively cheap and can be very effective in helping workers negotiate for better working conditions.

**Labor unions in the United States play an important role in enforcing health and safety standards.**

**Table 11.5 Enforcement of health and safety standards in unionized and nonunionized firms in the United States, by firm size**

Firm size (number of employees)	Probability of inspection (percent)		Percentage of inspections with employee walkaround <sup>a</sup>	
	Union	Nonunion	Union	Nonunion
1-99	6	14	47.8	2.7
100-249	37	22	59.3	2.6
250-499	51	19	63.7	2.6
500+	95	16	69.8	3.7

**Note:** Data are for 1985.

a. In a walkaround, employees accompany government inspectors during a tour of the workplace.

**Source:** Weil 1991.

Trade unions and other civic organizations can play an important role in enforcing health and safety standards. Individual workers may find it too costly to obtain information on health and safety risks on their own, and they usually want to avoid antagonizing their employers by insisting that standards be respected. The benefits from compliance with standards are not limited to any individual but are enjoyed by all workers. A union can spread the cost of obtaining information on health and safety issues among all workers, bargain with employers on the level of standards to be observed, and monitor their enforcement without putting any individual worker at risk of losing his or her job.

Studies in industrial countries indicate that the role of labor unions in ensuring compliance with health and safety standards is often an important one. If trade union monitoring has a positive impact on compliance in industrial countries where public enforcement capacity is already high, their contribution could be even greater in low- and middle-income countries with weaker administrations. A 1991 study, using U.S. data, found that unions dramatically increased enforcement of the Occupational Safety and Health Act in the manufacturing sector. Unionized firms had a higher probability of having a health and safety inspection, and their inspections tended to be more probing, as employees exercised their "walkaround rights"—the right to accompany a government inspector during a workplace tour (Table 11.5).

### **Labor standards and international trade**

Some members of the international community argue that the present system of developing and monitoring labor standards is inadequate and needs to be complemented with linkages between labor standards and multilateral

trade or lending agreements. Countries that fail to meet a minimum set of standards would sooner or later face sanctions in the form of trade restrictions or reduced access to capital. This chapter has concluded that some standards do make sense within countries. But linking them to international transactions—trade or financial—raises two complex sets of issues: Which standards are basic, and which are a function of the stage of development? And what are the costs of such linkages, both for the economic development of the countries targeted by sanctions and for the workers whom sanctions are intended to help? These are important issues, especially since some of the pressure for sanctions comes from protectionist groups.

Labor conditions, like poverty reduction and overall development, have always been important areas of international concern. Until now, international action to improve labor standards in the developing world has focused on support of domestic efforts, especially through the work of the ILO. Countries have adopted various ILO conventions and have set a wide range of workplace standards, whose implementation the ILO has monitored. But most low- and middle-income countries are unable to enforce all the standards that they have introduced into their legal systems. And in many cases the standards are set so high—at levels more appropriate for a rich country—that even if implemented they could have untoward effects on employment and economic growth.

Failure to ensure implementation of a minimal set of labor standards in poorer nations has prompted several groups to call for international sanctions, to force low- and middle-income countries to monitor compliance with their own labor regulations. Conclusion of the NAFTA accord depended on Mexico's agreement to better enforce its own standards (environmental as well as labor). The international labor confederations, many NGOs, France, and the United States all argued for linking labor standards to the Uruguay Round agreement and for addressing them within the new World Trade Organization.

Proponents of linking labor standards and international transactions distinguish between core standards, which they argue are basic rights and should be subject to linkage, and standards that should rise with development and need not be linked to international transactions. Core standards usually include freedom of association and the right to collective bargaining, the elimination of forced labor (the only area already addressed in GATT), exploitative forms of child labor, and discrimination. It is argued that these basic human rights are absolute moral concerns and that the international community should exert trade pressure on countries that violate them, because those violations reduce the legitimacy of the trading system. Standards whose level typically rises with development include minimum wages and health standards. Many advocates of linkage acknowl-

edge that using trade sanctions to raise this second group of standards could seriously reduce world trade and may actually hurt the very people it aims to help.

Countries that do not respect core standards pose a serious dilemma for the international community. Trade sanctions against them could be justified on moral grounds—and on economic grounds, for example because free trade unions bargaining collectively with employers can help ensure that labor conditions reflect the country's income level. However, such sanctions will hurt the entire global community and not just the country in question, and the cost to the rest of the world will rise with the offending country's size and importance. There is a risk that sanctions will only be applied to small countries, while large violators of basic rights go unpunished.

The real danger of using trade sanctions as an instrument for promoting basic rights is that the trade-standards link could become hijacked by protectionist interests attempting to preserve activities rendered uncompetitive by cheaper imports. The history of antidumping—the practice of retaliating against countries that sell their goods in another country's market at a price below their production cost, or below the price in other markets—shows that discretionary trade protection, even when both rational and well-intended, is highly vulnerable to misuse. Low-cost unskilled labor is the main comparative advantage of poor countries. Differences in endowments are the very basis of international trade and, as was argued in Part Two of this Report, are not a source of general declines in employment in richer countries—even though they may contribute to

changes in employment structure and contraction of employment in certain activities. Where jobs are lost, there is a case for public action, but trade protection is a blunt instrument, taxing others in the society and delaying the structural change that will be the foundation of future growth and jobs.

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Because the formal sector is typically very small and enforcement capacity weak, labor standards in many low- and middle-income countries apply either only to a fraction of the labor force, or not at all. Needy workers in those countries often are not reached by protective labor legislation. They benefit from public action that attempts to improve the working environment in the rural and informal sectors—for example, through the provision of drinking water, improved sanitary conditions, or eradication of infectious diseases. This does not mean that governments should not try to set standards for formal sector workers. But standards that aim at protecting the vulnerable or those who face discrimination—for example, bans on child labor or equal-pay legislation—need to be complemented by other actions such as subsidies for education or greater access for women to modern sector jobs. Health and safety standards can also improve workers' welfare, but compliance increases when it is monitored by labor unions or other civic organizations. Minimum wages may be useful under some circumstances in industrial countries, but they are difficult to justify in low- and middle-income nations. And the costs of trying to link national labor standards to international trade relations will almost certainly outweigh any benefits.

## CHAPTER 12

# The Role of Unions

**F**REE TRADE UNIONS ARE A CORNERSTONE OF any effective system of industrial relations that seeks to balance the need for enterprises to remain competitive with the aspirations of workers for higher wages and better working conditions. Unions act as agents for labor, organizing large numbers of workers into a single entity whose collective bargaining power matches that of the employer. Trade unions can also monitor employers' compliance with gov-

ernment regulations (Chapter 11), and they can help raise workplace productivity and reduce workplace discrimination. They have a noneconomic role as well—some unions have contributed significantly to their countries' political and social development. Nations that, usually for political reasons, limit the freedom of unions to organize and operate are left without a mechanism that allows workers and firms to negotiate wages and working conditions equitably. The result has tended to be excessive intervention and reg-